

Financial Accounting Standards Board

401 Merritt 7, P.O. Box 5116, Norwalk, Connecticut 06856-5116 | 203-956-5383

Fax:203-847-6030

e-mail:lfseidman@fasb.org



LESLIE F. SEIDMAN
Chairman

February 19, 2013

Mr. John Davidson
Mrs. Cynthia P. Eisenhauer
Co-Chairs, Standard-Setting Process Oversight Committee
Financial Accounting Foundation
401 Merritt 7
Norwalk, CT 06856-5116

Dear Mr. Davidson and Mrs. Eisenhauer:

Response of the Financial Accounting Standards Board

The Financial Accounting Standards Board (the FASB or the Board) is pleased to provide this response to the Financial Accounting Foundation's *Post-Implementation Review (PIR) Report on FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information*, dated December 21, 2012 (the FAF PIR Report or the Report).

The FASB appreciates that post-implementation reviews are an important feedback mechanism that provide insights into the effectiveness of our standards and opportunities to improve the standard-setting process. The PIR process has provided some important stakeholder feedback on the benefits and costs of Statement 131 in light of actual experience in using and preparing the information.

The FASB evaluates PIR Report findings following the review procedures in the *FASB Rules of Procedure* (Section IV.H.5) that lay out criteria for the review or reexamination of existing standards. Under those criteria, review of existing standards might be indicated if information is obtained that had not previously or adequately been considered by the Board, such as evidence that the transactions or the environment have changed significantly since the standards were issued, that there have been consequences or costs that differ significantly from the Board's expectations, or that investors and other users broadly do not find the information useful. Those criteria are designed to ensure that the financial reporting system is not unduly burdened by the cost of frequent changes to accounting requirements.

In summary, the Report comments that some preparers and practitioners may find additional guidance on certain operational aspects of Statement 131 to be helpful. The Report also finds that some users would like additional and comparable segment information. The FASB will consult with other parties to understand the significance of these issues and their priority in relation to other potential agenda items. We will discuss these matters with certain FASB advisory groups to gather feedback on the relative priority of these issues and we will meet with representatives of the U.S. Securities and Exchange Commission and the International Accounting Standards Board (IASB) in response to the Report's findings. We will report back to the Foundation's Oversight Committee as progress is made.

IASB review of IFRS 8 *Operating Segments*

It is noted that the IASB is also conducting a PIR of IFRS 8, *Operating Segments*, which is substantially converged with Statement 131. The IASB staff has presented and discussed the preliminary results from their PIR outreach at the January 2013 IASB meeting, and the IASB is expected to formally report on its findings later this year. The FASB believes that any plan to undertake a separate project to review or amend Statement 131 as a result of the PIRs should be coordinated with the IASB to maintain a converged approach to segment reporting.

Statement 131 has been effective in the United States for fiscal years beginning after December 15, 1997. This means that preparers, practitioners, and users have more than 15 years of experience with this standard. IFRS 8 has been effective since January 2009. It is possible that many of the original application and implementation concerns of U.S. constituents, which have been addressed over time through practice and convention, may be reported as issues identified in the IASB's PIR of IFRS 8.

Evaluation of the Findings in the FAF PIR Report

The FASB welcomes the overall conclusion in the FAF PIR Report that Statement 131 is working effectively. The Report states that Statement 131 provides more information about an entity's business activities than the previous segment reporting standard and that, generally, Statement 131 enhanced the relevance of segment disclosures. The Report notes that segment information is better aligned with an entity's internal structure and is more consistent with financial information reported outside the financial statements. This enables investors and users to better understand an entity's activities and prospects for future growth.

Notwithstanding the overall conclusion, the Report commented that some preparers and practitioners would find additional guidance on certain operational aspects of Statement 131 to be helpful. The Report also finds that users would like additional and comparable information to be presented by segment. These points are discussed further.

Determining Operating Segments

The Report indicates that additional guidance on the identification of operating segments may assist preparers and practitioners in applying the standard and may assist regulators who evaluate that application. Advances in technology since Statement 131 was issued allow the Chief Operating Decision Maker (CODM) to review operating results and financial information in a variety of formats. These technological advances may enable the CODM to access detailed information which makes it less clear at which level of financial information the operating segments should be identified. Consequently, it is difficult to identify which discrete information set, among a range of financial information, is used to make decisions about allocating resources and assessing performance.

The FASB acknowledges that technology has changed considerably since Statement 131 was issued. Notwithstanding this, paragraph 13 of Statement 131 states the following:

...an enterprise may produce reports in which its business activities are presented in a variety of different ways. If the chief operating decision maker uses more than one set of segment information, other factors may identify a single set of components as constituting an enterprise's operating segments, including the nature of the business activities of each component, the existence of managers responsible for them, and information presented to the board of directors.

The FASB appreciates that determining the discrete financial information that the CODM regularly reviews to make decisions about resources to be allocated to the segment and to assess its performance is an area of judgment. We acknowledge the Report's finding in this area and, as discussed in the next section commencing on page 5, we will consult with other parties on this matter as part of our future work plan.

Aggregating Operating Segments

The Report indicates that additional guidance for interpreting the aggregation criteria could be helpful to preparers and practitioners. Determining whether two segments have "similar economic characteristics" is an area of significant judgment and generates continuing discussions between preparers, practitioners and regulators. The Report also states that some entities may be aggregating segments to reduce transparency because of competitive harm concerns or to mask poor performing businesses.

The FASB appreciates that implementing the aggregation criteria is a challenging area and acknowledges that Statement 131 is a principles-based standard. Paragraph 74 of the basis for conclusions of Statement 131 states the following:

The Board recognizes that determining when two segments are sufficiently similar to justify aggregating them is difficult and subjective. However, the Board notes that one of the reasons that the information provided under Statement 14 did not satisfy financial statement users' needs is that segments with different characteristics in important areas were at times aggregated.

The FASB acknowledges the Report's finding in this area and will consult on this matter further as part of our future work plan.

Decision-Useful Information

The Report indicates that segment information is not always sufficient for investors' decisions and that one-third of the user respondents to the PIR survey are somewhat dissatisfied with segment note disclosures. Users who think that Statement 131 should be improved would like more segment information, such as segment cash flows, segment gross margins, and working capital information.

The FASB notes the Report's finding in this area; however, the Board considers the information required to be disclosed for each reportable segment to represent a balance between the needs of users, who may want a complete set of financial statements for each segment, and the costs to preparers, who may prefer not to disclose any segment information. These views are reflected in the basis for conclusions in paragraphs 92–95 of Statement 131. In particular, paragraph 94 states that:

. . .the Board considered requiring disclosure of operating cash flow for each operating segment. However, many respondents said that disclosing operating cash flow in accordance with FASB Statement No. 95, *Statement of Cash Flows*, would require that they [preparers] gather and process information solely for external reporting purposes. They said that management often evaluates cash generated or required by segments in ways other than by calculating operating cash flow in accordance with Statement 95. For that reason, the Board decided not to require disclosure of cash flow by segment.

The FASB will discuss this matter with the IASB staff and compare the Report's finding in this area with the IASB's PIR of IFRS 8 as part of our future work plan.

Comparability of Segment Information

The Report states that some users might like more consistency across companies in the type and measurement of the segment information disclosed. Most investors indicated that it is important that segment information represent management's view of the business. However, some of these investors would like uniformity among similar segments in similar businesses to improve comparability across entities. Investors with this view might prefer that segments be determined using a management approach but that entities with similar businesses disclose consistent segment line items and measure segment information consistently using U.S. GAAP, rather than internal measures.

The FASB acknowledges the Report's finding in this area; however, the Board considered those issues when Statement 131 was developed. Those views are reflected in the basis for conclusions in paragraphs 59–70 and 81–91 of Statement 131. At the time, some respondents opposed the management approach and commented that operating segments based on the structure of an enterprise's internal organization may not be comparable between enterprises in similar activities and may not be comparable from year-to-year for an individual enterprise. The FASB acknowledged that comparability of accounting information is important. However, it also noted that improving comparability may weaken the *relevance* of the information. Paragraph 65 of the basis for conclusions states that "both relevance and comparability will not be achievable in all cases, and relevance should be the overriding concern." Notwithstanding this, we will discuss this matter with the IASB staff and compare the Report's finding in this area with the IASB's PIR of IFRS 8 as part of our future work plan.

Future FASB Work Plan in Response to the PIR Report

Because the findings in the Report indicate that, overall, Statement 131 has enhanced the relevance of segment disclosures and provided more segment information that is better aligned with an entity's internal structure, the FASB does not plan to undertake a comprehensive review of Statement 131. However, the Report's findings indicate that certain operational aspects could be improved with additional guidance. Addressing these concerns may require a significant investment of resources and preparer outreach. Accordingly, the FASB will consult with other parties to understand the significance of the issues raised and their priority in relation to other potential agenda items.

The FASB intends to provide the Report's findings to the Financial Accounting Standards Advisory Council (FASAC) in April 2013 and gather feedback from FASAC members and others on the relative priority of the issues raised. Additionally, the FASB staff will meet with representatives of the U.S. Securities and Exchange Commission to discuss the Report's findings and to further understand any regulatory concerns regarding the application of Statement 131.

As mentioned previously, Statement 131 is substantially converged with IFRS 8. It is the FASB's desire for the two standards to remain substantially converged. We will discuss the Report's findings in detail with the FAF PIR team and with the IASB staff to coordinate an evaluation of the issues in an attempt to maintain a converged approach to segment reporting. We will weigh the desire to remain converged with the FASB's other priorities and the demands on our resources.

The FASB will report back to the Foundation's Oversight Committee and the full Board of Trustees as progress is made.

On behalf of the FASB, I would like to thank the Foundation for undertaking this important process and all the individuals and organizations who gave their time to share their insights and experiences with the PIR staff.

Sincerely,

A handwritten signature in black ink, appearing to read "Leslie F. Seidman". The signature is fluid and cursive, with a large initial "L" and "S".

Leslie F. Seidman

cc: FAF Board of Trustees, Teresa S. Polley