

PROPOSED FINANCIAL REPORTING STANDARD

ED/FRS

Exposure Draft

ED FRS OPERATING SEGMENTS

Comments to be received by 19 April 2006

This exposure draft (ED) is a proposed Financial Reporting Standard on *Operating Segments* which will supersede FRS 14 *Segment Reporting*.

This ED should be read in the context of the Preface to Financial Reporting Standards published by the Council on Corporate Disclosure and Governance.

This ED is issued by the Council on Corporate Disclosure and Governance for comment only and does not necessarily represent the views of the Council.

Since this ED may be modified as a result of comments received, the Council on Corporate Disclosure and Governance would like to hear both from those who agree with the proposals contained in the ED and from those who do not.

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explain the problem and provide a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by **19 April 2006**, preferably by email to: accounting_std@acra.gov.sg or addressed to:

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Amendments to other FRSs

IMPLEMENTATION GUIDANCE *(see separate document)*

Invitation to comment

The Council on Corporate Disclosure and Governance (CCDG) invites comments on any aspect of the Exposure Draft of its proposed FRS *Operating Segments*. It would particularly welcome answers to the questions set out below. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing so as to be received no later than **19 April 2006**.

Question 1 – Adoption of the management approach in SFAS 131

The draft FRS adopts the management approach to segment reporting set out in SFAS 131 *Disclosures about Segments of an Enterprise and Related Information* issued by the US Financial Accounting Standards Board.

Is this approach to segment reporting appropriate? If not, why not? What, if any, alternative approach would you propose?

Question 2 – Divergence from SFAS 131

The wording of the draft FRS is the same as that of SFAS 131 except for changes necessary to make the terminology consistent with that in other FRSs.

Do you think that the draft FRS should depart from the management approach in SFAS 131 by setting requirements for

- (a) the measurement of specified items or
- (b) the disclosure of specified amounts that might otherwise not be given?

If so, identify the requirements you would add and indicate what you see as the relative costs and benefits of any such requirements.

Question 3 – Scope of the standard

The existing standard FRS 14 requires entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity or debt securities in public securities markets to disclose segment information. The draft FRS extends the scope to include also entities that hold assets in a fiduciary capacity for a broad group of outsiders.

Do you agree with the scope of the draft FRS? If not, why not?

Question 4 – Level of reconciliations

The draft FRS requires an entity to provide, for specified items, reconciliations of total reportable segment amounts to amounts recognised by the entity in accordance with FRSs. It does not require such reconciliations for individual reportable segments.

Do you agree with the level of reconciliations required in the draft FRS? If not, indicate what you see as the relative costs and benefits of any other level of reconciliation.

Question 5 – Geographical information about assets

The draft FRS requires an entity to disclose geographical information about non-current assets excluding specified items. It does not require disclosure of geographical information about total assets.

Do you agree with the requirement to disclose geographical information about non-current assets excluding specified items? If not, for which assets would you require geographical information to be given?

Question 6 – Consequential amendments to FRS 34 *Interim Financial Reporting*

The draft FRS requires an entity to disclose more segment information in interim financial reports than is currently required, including a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss.

Do you agree with the consequential amendments made to FRS 34? If not, why not?

[Draft] Financial Reporting Standard X *Operating Segments* ([draft] FRS X) is set out in paragraphs 1-36 and the Appendix. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Definitions of terms are given in the Glossary for Financial Reporting Standards. [Draft] FRS X should be read in the context of its core principle, the *Preface to Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

Reasons for issuing the [draft] FRS

- IN1 [Draft] Financial Reporting Standard X *Operating Segments* sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers.
- IN2 The [draft] FRS arises from the consideration of FASB Statement No. 131 *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131) issued in 1997, compared with FRS 14 *Segment Reporting*.
- IN3 The [draft] FRS achieves convergence with the requirements of SFAS 131. The wording of the [draft] FRS is the same as that of SFAS 131 except for changes necessary to make the terminology consistent with that in other FRSs.

Main features of the [draft] FRS

- IN4 The [draft] FRS sets out the way that an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to FRS 34 *Interim Financial Reporting*, requires an entity to report selected information about its operating segments in interim financial reports. It also sets out requirements for related disclosures about products and services, geographical areas and major customers.
- IN5 The [draft] FRS requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the basis that it is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.
- IN6 The [draft] FRS requires an entity to report a measure of operating segment profit or loss, particular income and expense items, and assets. It requires reconciliations of total reportable segment revenues, total profit or loss, total assets, and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements. It requires an entity to report information about the revenues derived from its products or services (or groups of similar products and services), about the countries in which it earns revenues and holds assets, and about major customers, regardless of whether that information is used by management in making operating decisions. However, the [draft] FRS does not require an entity to report information that is not prepared for internal use if the necessary information is not available and the cost to develop it would be excessive.
- IN7 The [draft] FRS also requires an entity to give descriptive information about the way that the operating segments were determined, the products and services provided by the segments, differences between the measurements used in reporting segment information and those used in the entity's financial statements, and changes in the measurement of segment amounts from period to period.
- IN8 The [draft] FRS is effective for periods beginning on or after 1 January 2007.

Changes from previous requirements

- IN9 The main changes from FRS 14 are described below.

Scope of the [draft] FRS

- IN10 FRS 14 requires entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity or debt securities in public securities markets to disclose segment information. The [draft] FRS extends the scope to include also entities that hold assets in a fiduciary capacity for a broad group of outsiders.

Identification of segments

- IN11 The requirements of the [draft] FRS are based on the information about the components of the entity that management uses to make decisions about operating matters. The [draft] FRS requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. FRS 14 requires identification of two sets of segments—one based on related products and services, and the other on geographical areas. FRS 14 regards one set as primary segments and the other as secondary segments.
- IN12 A component of an entity that sells primarily or exclusively to other operating segments of the entity is included in the [draft] FRS definition of an operating segment if the entity is managed that way. FRS 14 limits reportable segments to those that earn a majority of their revenue from sales to external customers and therefore does not require the different stages of vertically integrated operations to be identified as separate segments.

Measurement of segment information

- IN13 The [draft] FRS requires the amount of each operating segment item reported to be the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance. FRS 14 requires segment information to be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the consolidated group or entity.
- IN14 FRS 14 defines segment revenue, segment expense, segment result, segment assets, and segment liabilities. The [draft] FRS does not define these terms, but requires an explanation of how segment profit or loss and segment assets are measured for each reportable segment.

Disclosure

- IN15 The [draft] FRS requires an entity to disclose the following information:
- (a) factors used to identify the entity's operating segments, including the basis of organisation (for example, whether management organises the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether segments have been aggregated), and
 - (b) types of products and services from which each reportable segment derives its revenues.

FRS 14 does not require this information.

- IN16 FRS 14 requires the entity to disclose specified items of information about its primary segments. The [draft] FRS requires an entity to disclose specified amounts about each reportable segment, if the specified amounts are included in the measure of segment profit or loss or assets reviewed by the chief operating decision maker.
- IN17 The [draft] FRS requires an entity to report interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest and the chief operating decision maker relies primarily on net interest revenue to assess the performance of the segment and to make decisions about resources to be allocated to the segment. FRS 14 does not require disclosure of interest income and expense.

IN18 The [draft] FRS requires an entity, including an entity with a single reportable segment, to disclose information for the entity as a whole about its products and services, geographical areas and major customers. This requirement applies, regardless of the entity's organisation, if the information is not included as part of the disclosures about segments. FRS 14 does not require an entity with a single reportable segment to provide information for the entity as a whole about its products and services, geographical areas and major customers.

[Draft] Financial Reporting Standard X

Operating Segments

Core principle

- 1 This [draft] FRS requires an entity to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the types of business activities in which it engages and the economic environments in which it operates.

Scope

- 2 This [draft] FRS shall be applied by all entities that:
 - (a) have filed, or are in the process of filing, their financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or
 - (b) hold assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity.
- 3 If an entity that is not required to apply this [draft] FRS chooses to disclose segment information in financial statements that comply with Financial Reporting Standards, that entity shall comply with the requirements of this [draft] FRS.

Operating segments

- 4 An operating segment is a component of an entity:
 - (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
 - (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
 - (c) for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues.

- 5 Not every part of an entity is necessarily an operating segment or part of an operating segment. For example, a corporate headquarters or some functional departments may not earn revenues or may earn revenues that are only incidental to the activities of the entity and would not be operating segments. For the purposes of this [draft] FRS, an entity's post-employment benefit plans are not regarded as operating segments.
- 6 The term 'chief operating decision maker' identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an entity. Often the chief operating decision maker of an entity is its chief executive officer or chief operating officer, but for example it may be a group of executive directors or others.
- 7 For many entities, the three characteristics of operating segments described in paragraph 4 clearly identify its operating segments. However, an entity may produce reports in which its business activities are presented in a variety of 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 entity'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.

- 8 Generally, an operating segment has a segment manager who is directly accountable to and maintains regular contact with the chief operating decision maker to discuss operating activities, financial results, forecasts, or plans for the segment. The term 'segment manager' identifies a function, not necessarily a manager with a specific title. The chief operating decision maker also may be the segment manager for some operating segments. A single manager may be the segment manager for more than one operating segment. If the characteristics in paragraph 4 apply to more than one set of components of an organisation but there is only one set for which segment managers are held responsible, that set of components constitutes the operating segments.
- 9 The characteristics in paragraph 4 may apply to two or more overlapping sets of components for which managers are held responsible. That structure is sometimes referred to as a matrix form of organisation. For example, in some entities, some managers are responsible for different product and service lines worldwide, whereas other managers are responsible for specific geographical areas. The chief operating decision maker regularly reviews the operating results of both sets of components, and financial information is available for both. In that situation, the components based on products and services would constitute the operating segments.

Reportable segments

- 10 An entity shall report separately information about each operating segment that
 - (a) has been identified in accordance with paragraphs 4–9 or results from aggregating two or more of those segments in accordance with paragraph 11, and
 - (b) exceeds the quantitative thresholds in paragraph 12.

Paragraphs 13–18 specify other situations in which separate information about an operating segment shall be reported.

Aggregation criteria

- 11 Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar. Two or more operating segments may be aggregated into a single segment if aggregation is consistent with the core principle of this [draft] FRS, the segments have similar economic characteristics, and the segments are similar in each of the following respects:
 - (a) the nature of the products and services;
 - (b) the nature of the production processes;
 - (c) the type or class of customer for their products and services;
 - (d) the methods used to distribute their products or provide their services; and
 - (e) if applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities.

Quantitative thresholds

- 12 An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:
- (a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.
 - (b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.
 - (c) Its assets are 10 per cent or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.

- 13 An entity may combine information about operating segments that do not meet the quantitative thresholds with information about other operating segments that do not meet the quantitative thresholds to produce a reportable segment only if the operating segments share a majority of the aggregation criteria listed in paragraph 11.
- 14 If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments shall be identified as reportable segments (even if they do not meet the criteria in paragraph 12) until at least 75 per cent of the entity's revenue is included in reportable segments.
- 15 Information about other business activities and operating segments that are not reportable shall be combined and disclosed in an 'all other segments' category separately from other reconciling items in the reconciliations required by paragraph 27. The sources of the revenue included in the 'all other segments' category shall be described.
- 16 If management judges that an operating segment identified as a reportable segment in the immediately preceding period is of continuing significance, information about that segment shall continue to be reported separately in the current period even if it no longer meets the criteria for reportability in paragraph 12.
- 17 If an operating segment is identified as a reportable segment in the current period in accordance with the quantitative thresholds, segment data for a prior period presented for comparative purposes shall be restated to reflect the newly reportable segment as a separate segment even if that segment did not satisfy the criteria for reportability in paragraph 12 in the prior period unless the necessary information is not available and the cost to develop it would be excessive.
- 18 There may be a practical limit to the number of reportable segments that an entity separately discloses beyond which segment information may become too detailed. Although no precise limit has been determined, as the number of segments that are reportable in accordance with paragraphs 12–17 increases above ten, the entity should consider whether a practical limit has been reached.

Disclosure

- 19 **An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the types of business activities in which it engages and the economic environments in which it operates.**

- 20 To give effect to the principle in paragraph 19, an entity shall disclose the following for each period for which an income statement is presented:
- (a) general information as described in paragraph 21;
 - (b) information about reported segment profit or loss, including specified revenues and expenses included in reported segment profit or loss, segment assets, and the basis of measurement, as described in paragraphs 22–26; and
 - (c) reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, and other material segment items to corresponding entity amounts as described in paragraph 27.

Reconciliations of balance sheet amounts for reportable segments to the entity's balance sheet amounts are required for each date at which a balance sheet is presented. Previously reported information for prior periods shall be restated as described in paragraphs 28 and 29.

General information

- 21 An entity shall disclose the following general information:
- (a) factors used to identify the entity's reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated), and
 - (b) types of products and services from which each reportable segment derives its revenues.

Information about profit or loss and assets

- 22 An entity shall report a measure of profit or loss and total assets for each reportable segment. An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss:
- (a) revenues from external customers;
 - (b) revenues from transactions with other operating segments of the same entity;
 - (c) interest revenue;
 - (d) interest expense;
 - (e) depreciation and amortisation;
 - (f) material items of income and expense disclosed in accordance with paragraph 86 of *FRS 1 Presentation of Financial Statements*;
 - (g) the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method;
 - (h) income tax expense or income; and
 - (i) material non-cash items other than depreciation and amortisation.

An entity shall report interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest and the chief

operating decision maker relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources to be allocated to the segment. In that situation, an entity may report that segment's interest revenue net of its interest expense and disclose that it has done so.

- 23 An entity shall disclose the following about each reportable segment if the specified amounts are included in the determination of segment assets reviewed by the chief operating decision maker or are otherwise regularly provided to the chief operating decision maker, even if not included in the determination of segment assets:
- (a) the amount of investment in associates and joint ventures accounted for by the equity method, and
 - (b) total expenditures for additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets (see FRS 19 *Employee Benefits* paragraphs 54–58) and rights arising under insurance contracts.

Measurement

- 24 The amount of each segment item reported shall be the measure reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing an entity's financial statements and allocations of revenues, expenses, and gains or losses shall be included in determining reported segment profit or loss only if they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker. Similarly, only those assets that are included in the measure of the segment's assets that is used by the chief operating decision maker shall be reported for that segment. If amounts are allocated to reported segment profit or loss or assets, those amounts shall be allocated on a reasonable basis.
- 25 If the chief operating decision maker uses only one measure of an operating segment's profit or loss and only one measure of the segment's assets in assessing segment performance and deciding how to allocate resources, segment profit or loss and assets shall be reported at those measures. If the chief operating decision maker uses more than one measure of an operating segment's profit or loss and more than one measure of the segment's assets, the reported measures shall be those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.
- 26 An entity shall provide an explanation of the measurements of segment profit or loss and segment assets for each reportable segment. At a minimum, an entity shall disclose the following:
- (a) the basis of accounting for any transactions between reportable segments.
 - (b) the nature of any differences between the measurements of the reportable segments' profits or losses and the entity's profit or loss before income tax expense or income and discontinued operations (**if not apparent from the reconciliations described in paragraph 27**). Those differences could include accounting policies and policies for allocation of centrally incurred costs that are necessary for an understanding of the reported segment information.
 - (c) the nature of any differences between the measurements of the reportable segments' assets and the entity's assets (if not apparent from the reconciliations described in paragraph 27). Those differences could include accounting policies and policies for allocation of jointly used assets that are necessary for an understanding of the reported segment information.

- (d) the nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss and the effect, if any, of those changes on the measure of segment profit or loss.
- (e) the nature and effect of any asymmetrical allocations to reportable segments. For example, an entity might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.

Reconciliations

- 27 An entity shall provide reconciliations of all of the following:
- (a) the total of the reportable segments' revenues to the entity's revenue.
 - (b) the total of the reportable segments' measures of profit or loss to the entity's profit or loss before income tax expense or income and discontinued operations. However, if an entity allocates to reportable segments items such as income tax expense or income, the entity may reconcile the total of the segments' measures of profit or loss to the entity's profit or loss after those items.
 - (c) the total of the reportable segments' assets to the entity's assets.
 - (d) the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity. For example, an entity may choose to disclose liabilities for its reportable segments, in which case the entity would reconcile the total of reportable segments' liabilities to the entity's liabilities if the segment liabilities are material.

All material reconciling items shall be separately identified and described. For example, the amount of each material adjustment needed to reconcile reportable segment profit or loss to the entity's profit or loss arising from different accounting policies shall be separately identified and described.

Restatement of previously reported information

- 28 If an entity changes the structure of its internal organisation in a manner that causes the composition of its reportable segments to change, the corresponding information for earlier periods, including interim periods, shall be restated unless the information is not available and the cost to develop it would be excessive. The determination of whether the information is not available and the cost to develop it would be excessive shall be made for each individual item of disclosure. Following a change in the composition of its reportable segments, an entity shall disclose whether it has restated the corresponding items of segment information for earlier periods.
- 29 If an entity has changed the structure of its internal organisation in a manner that causes the composition of its reportable segments to change and if segment information for earlier periods, including interim periods, is not restated to reflect the change, the entity shall disclose in the year in which the change occurs segment information for the current period on both the old basis and the new basis of segmentation, unless the necessary information is not available and the cost to develop it would be excessive.

Entity-wide disclosures

- 30 Paragraphs 31–33 apply to all entities subject to this [draft] FRS including those entities that have a single reportable segment. Some entities' business activities are not organised on the basis of differences in related products and services or differences in geographical areas of operations. Such an entity's reportable segments may report revenues from a broad range of essentially different products and services, or more than one of its reportable segments may provide essentially the same products and services. Similarly, an entity's reportable

segments may hold assets in different geographical areas and report revenues from customers in different geographical areas, or more than one of its reportable segments may operate in the same geographical area. Information required by paragraphs 31–33 shall be provided only if it is not provided as part of the reportable segment information required by this [draft] FRS.

Information about products and services

- 31 An entity shall report the revenues from external customers for each product and service or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. The amounts of revenues reported shall be based on the financial information used to produce the entity's financial statements.

Information about geographical areas

- 32 An entity shall report the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:
- (a) revenues from external customers (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. An entity shall disclose the basis for attributing revenues from external customers to individual countries.
 - (b) non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts (i) located in the entity's country of domicile and (ii) located in all foreign countries in total in which the entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately.

The amounts reported shall be based on the financial information that is used to produce the entity's financial statements. If the necessary information is not available and the cost to develop it would be excessive, that fact shall be disclosed. An entity may provide, in addition to the information required by this paragraph, subtotals of geographical information about groups of countries.

Information about major customers

- 33 An entity shall provide information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of an entity's revenues, the entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues. The entity need not disclose the identity of a major customer or the amount of revenues that each segment reports from that customer. For the purposes of this [draft] FRS, a group of entities known to a reporting entity to be under common control shall be considered a single customer, and a national government, a local government (for example, a county or municipality), or a foreign government each shall be considered a single customer.

Transitional provisions and effective date

- 34 An entity shall apply this [draft] FRS in its annual financial statements for periods beginning on or after 1 January 2007. Earlier application is encouraged. If an entity applies this [draft] FRS in its financial statements for a period before 1 January 2007, it shall disclose that fact.
- 35 Segment information for prior years that is reported as comparative information for the initial year of application shall be restated to conform to the requirements of this [draft] FRS, unless the necessary information is not available and the cost to develop it would be excessive.

Withdrawal of FRS 14

36 This [draft] FRS supersedes FRS 14 *Segment Reporting*.

Appendix

Amendments to other FRSs

The amendments in this appendix shall be applied for annual periods beginning on or after [1 January 2007]. If an entity applies this [draft] FRS for an earlier period, these amendments shall be applied for that earlier period. In the amended paragraphs, new text is underlined and deleted text is struck through.

- A1 In Financial Reporting Standards, including Interpretations, applicable at [date of issue of FRS], references to FRS 14 *Segment Reporting* are amended to FRS [X] *Operating Segments*.
- A2 In FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*, paragraph 41 is amended as follows:
- 41 An entity shall disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:
- ...
- (d) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with ~~FRS 14 *Segment Reporting*~~ FRS [X] *Operating Segments*.
- A3 In FRS 106 *Exploration for and Evaluation of Mineral Resources*, paragraph 21 is amended as follows:
- 21 An entity shall determine an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment. Each cash-generating unit or group of units to which an exploration and evaluation asset is allocated shall not be larger than a ~~segment based on either the entity's primary or secondary reporting format~~ an operating segment determined in accordance with ~~FRS 14 *Segment Reporting*~~ FRS [X] *Operating Segments*.**
- A4 In FRS 2 *Inventories*, paragraphs 26 and 29 are amended as follows:
- 26 For example, inventories used in one ~~business~~operating segment may have a use to the entity different from the same type of inventories used in another ~~business~~operating segment. However, a difference in geographical location of inventories (or in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.
- 29 Inventories are usually written down to net realisable value item by item. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory relating to the same product line that have similar purposes or end uses, are produced and marketed in the same geographical area, and cannot be practicably evaluated separately from other items in that product line. It is not appropriate to write inventories down on the basis of a classification of inventory, for example, finished goods, or all the inventories in a particular ~~industry or geographical~~operating segment. Service providers generally accumulate costs in respect of each service for which a separate selling price is charged. Therefore, each such service is treated as a separate item.
- A5 In FRS 7 *Cash Flow Statements*, paragraph 50 is amended as follows:
- 50 Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include:

...

- (d) the amount of the cash flows arising from the operating, investing and financing activities of each ~~reported industry and geographical~~ reportable segment (see ~~FRS 14 Segment Reporting~~ FRS [X] Operating Segments).

A6 In FRS 19 *Employee Benefits*, the example illustrating paragraph 115 is amended as follows:

Example illustrating paragraph 115

An entity discontinues a business <u>operating</u> segment and employees of the discontinued segment will earn no further benefits...
--

A7 In FRS 34 *Interim Financial Reporting*, paragraph 16 is amended as follows:

- 16 An entity shall include the following information, as a minimum, in the notes to its interim financial statements, if material and if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis. However, the entity shall also disclose any events or transactions that are material to an understanding of the current interim period:

...

- (g) ~~the following segment revenue and segment result for business segments or geographical segments, whichever is the entity's primary basis of segment reporting information~~ (disclosure of segment ~~data~~ information is required in an entity's interim financial report only if ~~FRS 14 Segment Reporting~~ FRS [X] Operating Segments requires that entity to disclose segment ~~data~~ information in its annual financial statements):

- (i) revenues from external customers
- (ii) intersegment revenues
- (iii) a measure of segment profit or loss
- (iv) total assets for which there has been a material change from the amount disclosed in the last annual financial statements
- (v) a description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss
- (vi) a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before income tax expense or income and discontinued operations. However, if an entity allocates to reportable segments items such as income tax expense, the entity may reconcile the total of the segments' measures of profit or loss to profit or loss after those items. Material reconciling items shall be separately identified and described in that reconciliation;

...

A8 FRS 36 *Impairment of Assets* is amended as described below.

In the Introduction, paragraph IN11 is amended as follows:

- IN11 The previous version of FRS 36 required goodwill acquired in a business combination to be tested for impairment as part of impairment testing the cash-generating unit(s)

to which it related. It employed a 'bottom-up/top-down' approach under which the goodwill was, in effect, tested for impairment by allocating its carrying amount to each cash-generating unit or smallest group of cash-generating units to which a portion of that carrying amount could be allocated on a reasonable and consistent basis. The Standard similarly requires goodwill acquired in a business combination to be tested for impairment as part of impairment testing the cash-generating unit(s) to which it relates. However, the Standard clarifies that:

...

- (b) each unit or group of units to which the goodwill is allocated should:
 - (i) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
 - (ii) not be larger than ~~aan operating segment based on either the entity's primary or the entity's secondary reporting format determined in accordance with FRS 14 *Segment Reporting*~~ FRS [X] *Operating Segments*.

Paragraph 80 is amended as follows:

80 For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated shall:

...

- (b) ~~not be larger than an operating segment based on either the entity's primary or the entity's secondary reporting format determined in accordance with FRS 14 *Segment Reporting*~~ FRS [X] *Operating Segments*.

Paragraph 129 is amended as follows:

129 An entity that reports segment information in accordance with ~~FRS 14 *Segment Reporting*~~ FRS [X] *Operating Segments* shall disclose the following for each reportable segment ~~based on an entity's primary reporting format~~:

In paragraph 130, subparagraphs (c)(ii) and (d)(ii) are amended as follows:

130(c)(ii) if the entity reports segment information in accordance with ~~FRS 14~~ FRS [X], the reportable segment to which the asset belongs, ~~based on the entity's primary reporting format~~.

130(d)(ii) the amount of the impairment loss recognised or reversed by class of assets and, if the entity reports segment information in accordance with ~~FRS 14~~ FRS [X], by reportable segment ~~based on the entity's primary reporting format~~; and