

April 25, 2005

Letter of Comment No: 6

File Reference: FSP131A

Date Received: 4/29/05

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Re: Proposed FASB Staff Position No. FAS 131-a, Determining Whether Operating Segments Have “Similar Economic Characteristics” under Paragraph 17 of FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*

We appreciate the opportunity to respond to the above-referenced proposed FASB Staff Position (FSP). Our detailed comments and observations are provided below for your consideration.

Evaluation of Whether Economic Characteristics are Similar

We agree with the guidance in the proposed FSP that when evaluating whether operating segments have similar economic characteristics under paragraph 17 of Statement 131, the factors that should be considered should be based on the primary factors that the chief operating decision maker (CODM) uses in allocating resources to individual segments, including both quantitative and qualitative factors. However, we believe that the proposed FSP should also address how, once identified, these factors should be evaluated to determine whether the economic characteristics of two or more segments are “similar”. We note that paragraph 7 of the proposed FSP states “evaluating whether economic characteristics are similar is a matter of judgment that depends on specific facts and circumstances.” However, differences in view with respect to how to perform the evaluation has, in our experience, resulted in diversity in practice.

For example, do each of the primary factors that the CODM uses in allocating resources to individual segments need to be similar or should the evaluation be performed on an aggregate basis? If performed on an aggregate basis, should certain factors be given greater weight than others? We believe that the evaluation should be performed on an aggregate basis with no individual factor being presumptive or determinative. In addition, we believe that the relative weight given to each individual factor in the overall evaluation should be consistent with the relative importance of each factor to the CODM in making resource allocation decisions.

We also note that there is diversity in practice with respect to how the term “similar” is viewed for purposes of applying paragraph 17 of Statement 131. Paragraph 73 of Statement 131 indicates (emphasis added):

The Board believes that separate reporting of segment information will not add significantly to an investor’s understanding of an enterprise if its operating segments have characteristics so similar that they can be expected to have essentially the same future prospects. The Board concluded that although information about each segment may be available, in those circumstances the benefit would be insufficient to justify its disclosure.

The above has been interpreted to mean that operating segments should not be aggregated for reporting purposes unless their economic characteristics are *virtually identical*. However, we note that this view does not appear to be consistent with current practice where aggregation of operating segments is fairly commonplace.

In summary, while we are not in favor of “bright-line” guidance in this area, we believe the proposed FSP should address how to evaluate, once identified, the various factors to determine whether the economic characteristics of two or more segments are “similar”. We also believe that a comprehensive example of the application of paragraph 17 of Statement 131 viewed from the perspective of a CODM would be helpful in this regard.

Consideration of Qualitative and Quantitative Factors

Paragraph 5 of the proposed FSP indicates (emphasis added), “Even if the **qualitative** factors...are virtually identical, the FASB staff believes it is still necessary to evaluate the **quantitative** factors to determine whether the segments have similar economic characteristics.” The proposed FSP should be clarified to indicate that the opposite scenario would also apply (i.e., if the quantitative factors are virtually identical, the qualitative factors should still be evaluated).

Effective Date and Transition

Since the effective date of EITF No. 04-10, “Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds,” has been delayed to coincide with the effective date of this proposed FSP, we believe that specific effective date and transition guidance should be provided.

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We would be pleased to meet with the Board or its staff to discuss the above in further detail.

Sincerely,

Ernst & Young LLP