

Letter of Comment No: 4
File Reference: FSP131A
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April 18, 2005

Mr. Lawrence Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

RE: File Reference No. FSP FAS 131-a -- Proposed FSP 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*"

Dear Mr. Smith:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the proposed Financial Accounting Standards Board (FASB) Staff Position identified above ("the FSP"). We support the Board's efforts to provide accounting guidance on this topic and offer the following comments and observations for your consideration.

We note that FAS 131, "Disclosures about Segments of an Enterprise and Related Information," (FAS 131) is a principles-based standard that enables preparers to make reasonable interpretations of its provisions. We also note that the determination of whether two operating segments can be aggregated partially depends on an interpretation of the term "similar economic characteristics." We believe that the intent of the FSP with respect to that term is unclear. For example, it is unclear whether the intent is to clarify that the extent to which aggregation of two or more operating segments can occur under FAS 131 should be limited. Without knowing the intent, we cannot assess whether the specific practice issue that precipitated the FSP has been adequately addressed. We recommend that the intent be set out in the FSP as an objective, consistent with an objectives-oriented principles-based approach to standard-setting. We also recommend that additional guidance be provided in the following areas.

One dictionary defines the word "similar" as "related in appearance or nature; alike though not identical." The guidance in paragraph 73 of FAS 131 states, in part:

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.* [emphasis added]

The definition of the word "similar" and the paragraph 73 text above could lead one to conclude that aggregation of operating segments would be rare, because characteristics would have to be "so similar that they can be expected to have essentially the same future prospects." However, the aggregation of operating segments is not at all rare in practice. We believe that the

challenges in determining whether economic characteristics of two or more operating segments are similar could be simplified if the FSP provided further guidance on the term “similar,” perhaps through illustrating the FASB’s thought process in evaluating whether various quantitative and qualitative factors are similar.

We agree with the conclusion in paragraph 5 of the FSP that both quantitative and qualitative factors should be considered for purposes of determining whether the economic characteristics of two or more operating segments are similar. However, it is unclear whether all of the qualitative factors listed in the FSP should be considered or what the implications would be of concluding that one or more of the qualitative factors are not similar. Additionally, to assist preparers in determining whether certain qualitative factors are similar, it would be helpful if the FSP provided more guidance regarding the application of certain terms, including “currency risks” and “economic and political conditions.”

Finally, although we note that the FASB’s website provides “default” transition and effective date guidance for FSPs, we recommend that specific effective date and related transition guidance be provided explicitly in the FSP, particularly because the effective date of EITF 04-10, *Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds*, depend on the effective date of this FSP.

If you have any questions regarding our comments, please contact Eric Jacobsen at 973-236-4070.

Sincerely,

PricewaterhouseCoopers LLP