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Mr. Lawrence W. Smith
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Financial Accounting Standards Board
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Letter of Comment No: 3
File Reference: FSP131A
Date Received: 4/19/05

File Reference No. FAS 131-a
Re: Proposed FASB Staff Position FAS 131-a

Dear Mr. Smith:

Deloitte & Touche LLP is pleased to comment on the proposed FASB Staff Position No. FAS 131-a, *Determining Whether Operating Segments Have "Similar Economic Characteristics" under Paragraph 17 of FASB Statement No. 131, Disclosure about Segments of an Enterprise and Related Information* (the "Proposed FSP"). Although Deloitte and Touche LLP supports the FASB's effort to provide clarifying guidance on the proper application of Statement 131, the Proposed FSP needs clarification before issuance as a final FSP. Specific comments on the Proposed FSP are set out below.

Evaluating Quantitative and Qualitative Factors Once Identified

Once quantitative and qualitative factors have been identified and individually evaluated, questions arise in practice as to whether **all** of the quantitative and qualitative factors identified must be similar in order to conclude that the segments are economically similar or alternatively whether the determination of economic similarity should be based on the collective weight of the evidence with no particular factor considered presumptive or determinative. The last sentence of paragraph 7 has been interpreted to support either view. We support a collective weight of the evidence evaluation and encourage the FASB staff to clarify the sentence accordingly. Also, the staff should consider moving this guidance to the response to question 1.

Concerns Related to the Identification of Factors to Consider

- Paragraph 5 of the Proposed FSP indicates that even if qualitative factors are virtually identical, it is still necessary to evaluate quantitative factors. This statement also should apply in the reverse. That is, even if the quantitative factors are virtually identical, it is still necessary to evaluate qualitative factors.
- It is unclear whether question two requires consideration of only the primary **quantitative** factors or the primary **quantitative and qualitative** factors used by the CODM. Question two should require consideration of both types of factors and the example given in paragraph 7 should show the CODM using both types of factors.

- Paragraph 7 could be interpreted to restrict the factors that should be considered to those that the CODM uses. Factors other than those used by the CODM may be relevant to the economically similar determination.
- Question two of the Proposed FSP could be viewed as in conflict with question one. For example, if Company X's CODM does not use any qualitative factors, would the guidance in question two restrict consideration to solely quantitative factors, thus creating a conflict with the guidance in question one?

Items in (a)-(e) in Paragraph 17 are Qualitative Measures of Similar Economic Characteristics

Factors (a)-(e) in paragraph 17 of Statement 131 are qualitative indicators of similar economic characteristics. This view is supported by Topic D-101, which states that all of the factors in paragraph 17 should be considered in determining whether components of an operating segment are economically similar. While Topic D-101 was written in the context of determining whether components of a segment are economically similar for an impairment evaluation, this guidance also should be applied to determining whether segments of a business are economically similar for an aggregation evaluation. As such, the Staff should consider the following modifications to the Proposed FSP:

- Footnote 1 to paragraph 5 should be modified as follows:

These factors are incremental to ~~will be different from~~ those listed in Statement 131 paragraph 17 (a)-(e) and, therefore, should be evaluated separately.

- The last sentence of paragraph 5 should be modified as follows:

In addition to those listed in Statement 131 paragraph 17 (a)-(e), qualitative factors could include ~~nonperformance measures such as~~ competitive and operating risks, currency risks, and economic and political conditions associated with each segment. [See below for the discussion of the removal of nonperformance measures language.]

- Examples of the application of paragraph 17 in its entirety would be helpful.

Effective Date and Transition

The Proposed FSP does not address effective date and transition. The staff should consider whether specific transition guidance is necessary and whether the guidance in paragraphs 34 and 35 of Statement 131 should be applied by analogy.

Editorial Comments

- Because some of the qualitative factors listed in the last sentence in paragraph 5 could be considered drivers of performance measures, the phrase “nonperformance measures such as” should be removed as indicated above. For example, segments that face similar competitive and operating risks could frequently have similar trends in sales growth.
- Paragraph 7 includes sales volume as an example of a measure that the CODM uses to allocate operating resources. It is unclear whether sales volume is referring to sales trends or to the amount of a total company's sales per similar product group (for example,

in a two product company, one product contributes 70 percent of sales and the second product contributes 30 percent of sales.) Different contributions to total company sales may not be an indicator that two segments are economically dissimilar. To clarify, we suggest sales volume be replaced by *sales trends* or *trends* in sales growth.

- In order to be consistent with paragraph 10 of Statement 131, paragraph 7 of the Proposed FSP should be modified as follows:

The FASB staff believes that the factors that should be considered for purposes of determining whether operating segments have similar economic characteristics should be based on the primary factors that the Chief Operating Decision Maker (CODM) uses in allocating resources to and assessing the performance of individual segments.

We appreciate the opportunity to comment on the Proposed FSP. If you have any questions concerning our comments, please contact Jim Johnson at (203) 761-3709 or Christine Davine at (202) 879-4905.

Yours truly,

Deloitte & Touche LLP