The Association of
Accountants and
Financial Professionals
in Business

<u>Via email</u>
to: director@fasb.org

December 21, 2022

Ms. Hillary H. Salo
Technical Director
Financial Accounting Standards Board
801 Main Avenue, PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2022-ED100

RE: Proposed Accounting Standards Update on Segment Reporting (Topic 280)

Dear Ms. Salo:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB or Board) Proposed Accounting Standards Update on *Segment Reporting (Topic 280) – Improvements to Reportable Segment Disclosures*.

The IMA is a global association representing over 140,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

<u>Executive Summary</u>

The Committee understands investors are looking for more information and appreciates the Board's efforts to be responsive to investor needs. In general, the Committee believes that the proposed Update is mostly clear and operable. However, the Committee has concerns that the costs may exceed the benefits in application of certain aspects of the proposed Update. Furthermore, the

Committee believes that the Board's current project on income statement expense disaggregation (*Disaggregation – Income Statement Expenses*) will offer the Board useful insights that can further inform the intent of the significant expense principle as described in this proposed Update. The Committee strongly encourages the Board to reconsider the approach and timing for this proposed Update to be aligned in concepts and timing with any proposed guidance resulting from the *Disaggregation – Income Statement Expenses* project (Disaggregation Project). In the balance of our letter, we will provide additional perspectives in response to the *Questions for Respondents.*

The Committee did not provide responses to Questions 4, 5, 7, and 8 as these questions are addressed to investors and other users of financial statements.

Significant Expense Principle

Question 1: Are the amendments in this proposed Update that would require that a public entity disclose, by reportable segment, the significant segment expense categories and amounts clear and operable? Please explain why or why not. Is the term *significant* operable? Please explain why or why not.

The Committee believes that the amendments in this proposed Update, that require a public entity to disclose significant segment expense categories and amounts by reportable segment, are mostly clear and operable. As proposed, a public entity would determine the significant expenses to disclose using criteria currently existing in generally accepted accounting principles (GAAP). The starting filter being expenses "regularly reviewed" by the chief operating decision maker (CODM) and included in the segment's measure of profit/loss. The second filter being those that are "significant."

However, the Committee believes there may be interpretation challenges between preparers and auditors in applying the "significant" filter for expenses that are regularly reviewed by the CODM. Specifically, the Committee is concerned that a strictly quantitative definition would be applied in the auditing of segment disclosures. For instance, some interpret "significant" to be "10% or more" of either total revenues or total expenses, depending on the context. Should a strictly quantitative measurement be inferred in interpretation and application, the resulting disclosure would not be reflective of "management's approach," which clearly remains the objective of segment reporting, inclusive of the proposed Update. The Committee's concern with the risk of a default to a quantitative interpretation of "significant" is that undue burden and cost will result. If preparers are required to report expenses that the CODM regularly reviews but does <u>not</u> deem significant, it will take additional preparer and audit efforts. This is in addition to time that conceivably will be spent between auditors and preparers debating the interpretation of "significant." For example, certain overhead costs are allocated to segments using a pre-defined formula (i.e., percent of revenues) and such expenses may appear as a line item on reports regularly reviewed by the CODM and be quantitatively "significant;" however, they may not provide the CODM decision-useful information at the segment level.

Question 2: The proposed amendments would require that a public entity disclose the significant segment expense categories and amounts that are regularly provided to the CODM and included within each reported measure of segment profit or loss. For preparers, would the proposed amendments likely result in disclosure of additional information about your reportable segments' expenses? Please explain why or why not and, if not, how you would change the proposed amendments to result in more information being disclosed.

Generally, the application of this proposed Update is expected to result in additional disclosure about a reportable segment's expenses for public entities; however, the effect of the proposed Update would be less for public entities that do not regularly provide segment expense information to the CODM. For public entities that currently present expense detail regularly to the CODM, it is expected that there will be a greater degree of incremental information disclosed.

Further, the Committee is concerned that the proposed Update could result in the disclosure of proprietary information that may result in competitive disadvantages.

Question 3: The proposed amendments would require that a public entity disclose an amount and qualitative description of the composition for other segment items even if the public entity does not separately report significant segment expense categories and amounts. For preparers, would the proposed amendments likely result in disclosure of additional information about your other segment items? Please explain why or why not and, if not, how you would change the proposed amendments to result in more information being disclosed.

As noted in the response to Question 2, the proposed amendments for "other segment items" would likely be the change that impacts most, if not all, public entities resulting in disclosure of additional information within the segment disclosure.

Question 6: The Board decided to clarify that if the CODM uses more than one measure of a segment's profit or loss, at least one of the reported segment profit or loss measures (or the single reported measure, if only one is disclosed) should be the measure that is most consistent with the measurement principles used in measuring the corresponding amounts in the public entity's consolidated financial statements. For preparers, would the proposed amendments likely result in disclosure of additional measures of a segment's profitability? For investors, would disclosure of additional measures of a segment's profitability that are used by the CODM provide decision-useful information? If so, how would the information be used? For all respondents, should the Board extend this decision to other measures that are used by a CODM, such as multiple measures of a segment's assets? Please explain why or why not.

The Committee appreciates the Board's clarification that multiple measures of segment profit or loss may but are <u>not required</u> to be disclosed should the CODM use more than one measure of segment profit or loss. The Committee anticipates that a population of public entities may elect to incorporate additional measures of segment profit or loss to align their segment disclosures with other investor communications (e.g., earnings release, management's discussion and analysis (MD&A).

The Committee expresses no opinion on the permission to disclose multiple measures of segment assets.

Question 9: The Board decided that a reconciliation of the total of the reportable segments' amount for each significant segment expense category to its corresponding consolidated expense amount was not operable. For preparers, do you agree with that decision? Please explain why or why not. For investors, would the absence of a reconciliation reduce the usefulness of the significant segment expense information? Please explain why or why not.

The Committee agrees with the Board's decision to not require a reconciliation for each significant expense category to its corresponding consolidated expense amount. The Board's explanation, as provided in paragraph BC48, aligns with the Committee's view on this matter.

Interim Reporting

Question 10: The proposed amendments would require that a public entity disclose significant segment expenses and existing segment disclosures on an interim and annual basis. Do you agree with that proposal? Please explain why or why not.

The Committee does not take exception to interim disclosure requirements as many preparers already align interim and annual segment disclosures.

Transition and Effective Date

Question 11: The proposed Update would require that the amendments be applied on a retrospective basis. Is that transition method operable? If not, why not and what basis would be more appropriate and why? Would the information disclosed by that transition method be decision useful? Please explain why or why not.

In general, the Committee believes that the retrospective transition method would be operable as the information regularly provided to the CODM would be available for comparative periods. However, the Committee's concerns on interpretation of "significant" expressed in Question 1 are also relevant to this Question.

Question 12: Upon transition, the segment expense categories and amounts that an entity would disclose in comparative prior periods would be based on the significant segment expense categories identified in the period of adoption. An entity also would be required to provide a qualitative transition disclosure that explains what the differences in the segment

expense categories would have been if the significant expense principle had been applied in the most recent comparative period. Is this transition disclosure clear and operable? Please explain why or why not. For investors, would such a transition disclosure provide decision useful information? If so, how would the information be used?

The Committee is not supportive of a requirement for a qualitative transition disclosure that explains what the segment expense categories *would have been* in the most recent comparative period as it is an unnecessary burden to prepare.

Question 13: In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should early adoption be permitted? Please explain your reasoning.

As discussed in the introduction of this letter, the Committee strongly encourages the Board to delay the issuance of any new guidance pursuant to Topic 280 until the Board concludes its deliberations on the *Disaggregation – Income Statement Expenses* project. The Committee believes that deliberations on the Disaggregation Project can further inform the Board's view of the significant expense principle in the context of segment reporting. As such, the Committee's view is that the effective date of this proposed Update, and whether early adoption should be permissible, should be in alignment with any proposed amendments under the *Disaggregation – Income Statement Expenses* project.

The Committee also encourages the Board to consider having a group of preparers and investors meet to discuss the needs of the investors and the challenges to preparers to provide input to the Board on what may represent a meaningful and operable change to segment reporting.

The Committee thanks the Board for considering the Committee's view on the matters discussed in the *Questions for Respondents*. We would be pleased to discuss our comments with the Board or the FASB staff at your convenience.

Sincerely,

Josh Paul
Chair, Financial Reporting Committee
Institute of Management Accountants
jpaul@paloaltonetworks.com