



December 14, 2022

Ms. Hillary Salo
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File Reference No. 2022-ED100

Dear Ms. Salo:

RSM US LLP is pleased to provide feedback on the Financial Accounting Standards Board's (FASB or Board) proposed Accounting Standards Update (ASU), *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* (proposed Update or proposal).

Overall, we support the Board's proposal that would enhance reportable segment disclosure requirements thereby improving disclosures about significant segment expenses and interim disclosures. However, we recommend codifying specific passages within the Basis for Conclusions and clarifying (or reconsidering) certain elements of the proposed guidance to improve its understandability and operability. Additionally, while we recognize the scope of Topic 280 is not currently addressed in the proposed Update, we believe it would be beneficial for the Board to clarify whether non-issuer broker-dealers are subject to the requirements of this Topic to address diversity in practice. We note that the proposed requirement for a public entity that has a single reportable segment to provide all the disclosures required by the amendments in this proposed Update together with all existing segment disclosures in Topic 280 increases the need for that clarification. As detailed further in our response to Question 1, we believe that non-issuer broker dealers that are registered with the U.S. Securities Exchange Commission (SEC) pursuant to the Securities Exchange Act of 1934 (the 1934 Act) should be exempt from requirements of Topic 280.

Our responses to the questions posed in the proposed Update, other than those specifically directed at investors or preparers, are included in the remainder of this letter.

Responses to Questions for Respondents

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.

We believe that the amendments in this proposed Update that would require that a public entity disclose, by reportable segment, the significant expense categories and amounts are generally clear and operable. However, as explained in more detail below, we would suggest that the Board reconsider the use of the term *significant* and the exceptions that the proposed Update creates. We believe our suggested changes set out below would better align the proposed guidance to the general principles already established in Topic 280.

Operability of the Term Significant

We understand that the Board did not provide further definition of *significant* for purposes of the proposed disclosures because the term is already used and applied in practice under Topic 280. As noted in paragraph BC32 of the proposed Update, the Board expects that “entities would be able to apply judgment in a manner similar to how the threshold is already applied in other parts of Topic 280.” While we agree with the Board that there are no current practice issues with the use of this threshold definition in the context of Topic 280 for non-cash items and required reconciliations, the application of *significant* to determine which expense categories to individually disclose by segment would make the use of the term much more prominent under the proposed Update. Therefore, we expect the inherent subjectivity of the term without further clarification or definition could lead to diversity in practice or unintended consequences, such as limited incremental disclosures.

Currently in Topic 280, the disclosure of information on a segment basis is dependent on whether the amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker (CODM) or otherwise regularly provided to the CODM. Proposed paragraph 280-10-55-15D seems to emphasize the principle that what is regularly provided to the CODM should be disclosed as significant expense categories. In other words, it reasons that if expenses are not regularly provided to a CODM, there would be no significant expense categories and amounts disclosed for a reportable segment. Considering these current principles, we question whether the term *significant* is necessary for the proposed guidance. In our experience, if an expense category is regularly provided to the CODM, it is likely to be significant and useful to readers of the financial statements unless clearly immaterial. This experience is consistent with that of the Board as detailed in paragraph BC34 of the proposed Update. As a result, we suggest eliminating the term *significant* from the proposed guidance and instead, require that a public entity disclose expense categories and amounts regularly provided to the CODM that are within the reported measure of a segment’s profit or loss.

If the Board decides to retain the term *significant* in the proposed guidance, we recommend adding examples or considerations about what may constitute “significant” either in Subtopic 280-10-50 or Subtopic 280-10-55. Specific considerations could be quantitative, such as those described in paragraph 280-10-50-12, or qualitative indicators, such as those already alluded to in Topic 280 and the Basis for Conclusions of the proposed Update.

Reconsideration of the Proposed Exceptions to the Overall Principles in Topic 280

The proposed Update would create the following exceptions to two of the general principles of the management approach to prepare segment information under Topic 280. The significant expense principle in the proposed Update requires disclosure of a significant expense category if it is both (a) regularly provided to the CODM and (b) included within the reported measure of a segment’s profit or loss. In contrast, extant paragraph 280-10-50-22 requires that a public entity disclose certain information for each reportable segment if it meets either of those criteria. The proposed Update also would not require any form of reconciliation for the significant expense categories disclosed under the principle to the corresponding consolidated amounts in the financial statements. In contrast, extant paragraph 280-10-50-30 requires reconciliations to the corresponding consolidated amounts for all significant items of information disclosed within the reportable segments.

Generally, we believe that introducing exceptions to existing comprehensive guidance should only be made in circumstances in which the information provided by the existing guidance is not decision useful to users of financial statements and/or it creates significant additional burden for preparers. Regarding the two exceptions above, we agree with the points expressed by Board members in the Alternate View in that following the overall principles of Topic 280 would produce more comparable and decision-useful information for users. Additionally, while we acknowledge there may be some additional cost incurred by public entities if these exceptions are removed from the proposed Update, we note that the significant expense categories should already be part of the information internally prepared and communicated to management (that is, the change in criteria should not operationally change what segment information is regularly provided to the CODM) and that public entities already perform reconciliations to corresponding consolidated amounts for other disclosed segment information.

If the scope of criteria is not amended to align with that of paragraph 280-10-50-22, we recommend amending the second sentence in proposed paragraph 280-10-50-26A to the following for clarification purposes (added content *italicized* and in **bold**):

When determining the segment expense categories and amounts that shall be disclosed, a public entity shall identify the expenses from the segment level information **included in the measure of segment profit or loss** that is regularly provided to the chief operating decision maker and then disclose those segment expense categories and amounts that are significant.

Other Comments to Improve Operability and Understandability of Current Proposal

To avoid potential diversity in practice, we recommend codifying the content in paragraph BC50 of the proposed Update, which indicates that the Board expects that “a public entity would consider recasting prior-period information for a change in significant expenses in the current period in a manner similar to how a public entity applies the recasting requirements in existing paragraphs 280-10-50-16 through 50-17 for operating segments.” We agree with the Board that these paragraphs offer a logical conclusion related to the recasting of prior period significant expense categories to reflect changes in significance of expenses in the current period; however, the guidance is unclear on this point and the Basis for Conclusions is often not reviewed by stakeholders once guidance is finalized. Additionally, codifying this conclusion would be consistent with the decision for the required prior period significant expense disclosures in the period of adoption under proposed paragraph 280-10-65-1(b).

The proposed Update amends paragraph 280-10-50-34 to expand the scope of changes that would require recasting of previously reported information to situations in which a public entity changes the segment information that is regularly provided to the CODM in a manner that causes the identification of significant segment expenses to change. As illustrated below, we recommend including a corresponding amendment to paragraph 280-10-50-35, so that the scope of that paragraph is consistent with the scope of paragraph 280-10-50-34 (added content *italicized* and in **bold**).

280-10-50-35 If a public entity has changed the structure of its internal organization in a manner that causes the composition of its reportable segments to change **or the public entity has changed the segment information that is regularly provided to the chief operating decision maker in a manner that causes the identification of significant**

segment expenses to change, and if segment information for earlier periods, including interim periods, is not ~~recast~~ ~~restated~~ to reflect the change, the public entity shall disclose in the year in which the change occurs segment information for the current period under both the old basis and the new basis of segmentation unless it is impracticable to do so.

We believe the sentence in subparagraph 280-10-50-26B(b) of the proposed Update that does not preclude public entities from disclosing different significant expense categories across segments is necessary and helpful guidance for stakeholders, yet it is obscured due to its current placement in the proposed guidance. We believe that sentence is more relevant to the determination of a reportable segment's significant expense categories, which is discussed in paragraph 280-10-50-26A, as opposed to determining what to disclose for other segment items (as discussed in subparagraph 280-10-50-26B(b)). Refer to suggested changes below (deleted content in ~~strike through~~ and added content *italicized* and in **bold**):

280-10-50-26A A public entity shall disclose for each reportable segment the significant expense categories and amounts that are regularly provided to the chief operating decision maker and included in each reported measure of a segment's profit or loss. When determining the segment expense categories and amounts that shall be disclosed, a public entity shall identify the expenses from the segment level information that is regularly provided to the chief operating decision maker and then disclose those segment expense categories and amounts that are significant. ***A public entity is not precluded from separately disclosing an expense that is not significant for one reportable segment but is significant for another of its segments.*** When applying this guidance, a public entity shall evaluate for disclosure a segment expense that is regularly provided to the chief operating decision maker as well as a segment expense that is easily computable from information that is regularly provided to the chief operating decision maker. Paragraphs 280-10-55-15A through 55-15B provide additional guidance on determining whether segment expense amounts can be easily computed for purposes of applying the guidance in this paragraph.

280-10-50-26B(b) The total of a reportable segment's expenses that are included in the reported measure(s) of a segment's profit or loss but are not disclosed in accordance with paragraph 280-10-50-26A. ~~A public entity is not precluded from separately disclosing an expense that is not significant for one reportable segment but is significant for another of its segments.~~ However, if a segment expense that is not significant is not separately disclosed, it would be included as part of other segment items.

Scope of Topic 280: Non-issuer Broker Dealers

Paragraph 280-10-15-2 states that the guidance in Topic 280 applies to all "public entities." The ASC Master Glossary definition of public entities includes "any business entity or a not-for-profit entity that is required to file financial statements with the Securities and Exchange Commission (SEC)." Accordingly, because broker-dealers registered with the SEC under the 1934 Act are required to file a complete set of audited financial statements with the SEC on at least an annual basis, it would appear that the segment reporting requirements of Topic 280 apply. However, as noted above, we have observed diversity in practice as to whether broker-dealers provide the required disclosures under Topic 280.

Assuming broker-deals are required to apply the requirements of Topic 280, we do not believe these disclosures are meaningful for these entities when they are closely held (which is the case in the

overwhelming majority of instances). That is because other than the owner and management of the broker-dealer entity, the primary user of the financial statements is the SEC. Broker-dealers are required to file their audited annual financial statements with the SEC to help the regulator assess the entity's compliance with certain net capital and customer protection rules. Broker-dealers are also separately required to provide the SEC with other information about the nature of their business activities and operations. It's also worth noting that these entities' complete set of audited financial statements filed with the SEC are generally not made publicly available because they are permitted "confidential treatment" as long as the broker-dealer also files an audited statement of financial condition in a format that is consistent with Form X17A-5, Part II or Part IIA, and meets certain other administrative requirements.

To address the diversity in practice, we believe the Board should take this opportunity to clarify whether the disclosure requirements of Topic 280 apply to non-issuer broker-dealers. For the reasons described above, we recommend that these entities be exempted.

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.

We believe that the Board should extend this decision to other measures that are used by a CODM, such as multiple measures of a segment's assets. By extending this decision to other measures, the Board is not precluding entities from providing more than one measure, which could provide additional decision-useful information to investors.

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.

We believe segment disclosures provide information necessary to understand a public entity's different business activities, which is why we support the Board's proposal that would require disclosures about significant segment expenses and existing segment disclosures on both an interim and annual basis. We also believe that the benefits of the proposed Update to the users of the financial statements should not impose significant incremental costs to preparers. As noted by the Board, the information needed to produce the additional proposed interim segment disclosures should already be available within an entity's existing financial systems and records, which is similar to the availability of the segment information already provided on an interim basis.

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.

We believe that applying the proposed amendments on a retrospective basis would be operable. Under the existing guidance, public entities are already required to recast or update previously reported information when practicable. We believe that the information necessary to update prior periods should be available within an entity's financial systems. We acknowledge that applying the retrospective method could be challenging for those entities that have restructured their segments, but not necessarily more challenging than what is required under the current guidance. We also think that such a transition method will provide the most comparable (and therefore, decision-useful) information.

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?

We believe that basing comparative prior period significant segment expense categories on the significant segment expense categories identified in the period of adoption is clear and operable. It is also consistent with the current guidance on recasting previously reported information in Topic 280, so entities should have the information necessary to update prior periods. However, we question the usefulness of the proposed qualitative transition disclosure, especially within the context of existing disclosures in Topic 280 that attempt to update prior period segment information for changes in the current period instead of the inverse. Additionally, as described in the following paragraphs, we believe that the proposed qualitative transition disclosure needs to be clarified in order to be operable.

Ongoing disclosures in Topic 280 capture changes, either through recasting, providing both bases, or description, in the structure of a public entity's internal organization that would change the composition of segment reporting or the measurement of its reported profit or loss. If any of those changes exist between the period of adoption and the prior period, it is unclear under the proposed transition disclosures whether significant expenses in the prior period should be determined utilizing the current period segment composition and reported measure of profit or loss or the prior period segment composition and reported measure of profit or loss.

It's also unclear whether an entity would be required to disclose changes in expense categories presented to the CODM based solely on changes in their relative significance (i.e., the expense categories presented to the CODM have not changed, but their relative values have). To illustrate, consider the following example.

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In 20X3 (the year of adoption), the expense categories presented to the CODM (and included within the reported measure of segment profit or loss) include research and development (R&D), non-labor salaries, cost of sales (COS), and professional fees. Of those categories, only R&D and COS are determined to be significant by management.

In 20X2 (i.e., the prior comparative period), the same expense categories were provided to the CODM, but management determined R&D, non-labor salaries and COS were significant based on application of the significant expense principle as of that period.

In the scenario described above, would a public entity be expected to disclose that the non-labor salaries expense category is no longer considered a significant expense category in the current period, or would there be no required disclosures under the proposal because there were no changes to the composition of expense categories presented to the CODM?

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.

We generally defer to the preparers of financial statements regarding the time needed to implement the proposed amendments. However, we believe that public entities should be able to implement the proposed Update in a relatively short timeframe considering that the information required to be disclosed is information already provided to the CODM. We also see no reason to preclude early adoption.

We would be pleased to respond to any questions the Board or its staff may have concerning our comments and ask that questions be directed to Ryan Carter at 203.905.5059 or Joseph Cascio at 212.372.1139.

Sincerely,

RSM US LLP

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