RSM US LLP
30 South Wacker Drive
Suite 3300
Chicago, IL 60606
www.rsmus.com

October 20, 2023

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

File Reference No. 2023-ED500

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 *Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses,* (the proposed ASU or proposal).

Overall, we support the Board's efforts to provide investors with more detailed and consistent information about an entity's cost of sales and selling, general and administrative expenses (SG&A). Unless otherwise prescribed by industry-specific guidance or the reporting rules of the U.S. Securities and Exchange Commission, the extent of information currently disclosed varies widely by entity.

Although we generally believe the requirements in the proposed ASU are operable, implementing the proposed amendments will likely result in significant up-front cost and effort by financial statement preparers, especially those with less sophisticated enterprise reporting and financial accounting systems. For those reasons and others, we recommend an effective date that is at least one year beyond the date from which a final ASU is issued, and an additional 12 months for smaller reporting and emerging growth companies.

In our response to Question 11, we discuss some recommendations that may reduce the cost and effort of implementing the Board's proposal, which include possibly allowing reporting entities the option of providing the International Accounting Standards Board's (IASB) proposed disclosures in lieu of those included in the FASB's proposed amendments. We believe this option could be particularly helpful to preparers with multi-national operations and reporting requirements under both accounting principles generally accepted in the United States (US GAAP) and International Financial Reporting Standards (IFRS).

Our responses to the questions posed in the proposed Update, other than those directed to investors or preparers and certain other questions that we believe are best addressed by other stakeholders, are included in the remainder of this letter.

Responses to Questions for Respondents

Question 1: The amendments in this proposed Update would require that a public business entity disclose disaggregated *relevant expense captions* in the notes to financial statements. For preparers and practitioners, are the proposed amendments for identifying relevant expense captions operable? Please explain why or why not. If not, what changes would you make?

We believe the proposed amendments for identifying relevant expense captions are operable. The definitions of the categories of expenses within proposed paragraph 220-40-50-4, are sufficiently clear to enable consistent application of the proposed guidance.

While the level of time and effort required to gather and extract such information from an entity's financial records will vary based on the extent and type of existing automation and the industry in which the entity operates, we believe that entities will be able to compile the required information in a format that is auditable by their external auditors.

Question 2: Should the proposed amendments apply to all public business entities? Please explain why or why not.

We generally defer to the investors' views as to whether the proposed amendments should apply to all public business entities (PBE). However, we recommend that the Board undertake a separate project to reassess the appropriateness of the PBE definition for purposes of differentiating the applicability of its standards. That's because we question the usefulness of the proposed disclosures for non-issuer broker dealers and similar entities that meet the definition of a PBE. Our comment letter dated December 14, 2022, to the FASB's separate proposed ASU, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* - File Reference No. 2022-ED100, further explains why we do not believe the proposed disclosures would be meaningful for these entities when they are closely held.

We support the FASB's decision to not extend the proposed amendments to nonpublic business entities for the same reasons noted in paragraphs BC22 to BC25 of the proposed ASU. Creditors, investors and other stakeholders of nonpublic business entities can always request this additional information if deemed useful or if not already available to them. Moreover, because many nonpublic business entities do not have strict annual reporting deadlines and typically do not report on an interim basis, we believe the benefits of the proposed disclosures to users of financial statements would be further diminished.

Question 5: For preparers and practitioners, is the proposed definition of *inventory expense* operable? Please explain why or why not. If not, what changes would you make?

We believe that the proposed definition of inventory expense is operable. Its use in applying the requirements of the proposed ASU is consistent with how the term is currently used by financial statement preparers and practitioners in applying the existing guidance in FASB Accounting Standards Codification (ASC) Topic 330, *Inventory*.

Question 6: The proposed amendments would leverage the existing definition of *employee* in Topic 718, Compensation—Stock Compensation, and would add a definition of *employee compensation*. For preparers and practitioners, are the proposed definitions of *employee* and *employee compensation* operable, including for entities with international operations, and would the proposed amendments affect entities' current application of the definition of *employee* in Topic 718? Please explain. What changes, if any, would you make? For preparers, would the proposed practical expedient that would allow certain entities to disclose salaries and benefits in accordance with SEC Regulation S-X Rule 9-04 be less costly to apply than applying the proposed definition of *employee compensation*? For investors, would permitting the application of that proposed practical expedient affect the decision usefulness of the

> proposed disclosures? For all stakeholders, should the definition of *employee compensation* include additional costs or exclude any of the costs proposed? Please explain why or why not.

We believe that the proposed definitions of employee and employee compensation are operable. We do not believe the proposed amendments would affect an entity's current application of a definition of an employee when applying ASC 718, *Compensation – Stock Compensation,* including those entities with international operations.

We believe the proposed definition of employee compensation is sufficiently broad to encompass the material elements of compensation that an entity provides to its employees. Considering the guidance in proposed paragraph 220-40-50-7, we do not have any suggested additions or exclusions to the list of costs included in that proposed definition. Proposed paragraph 220-40-50-7 would allow an entity the option to include amounts attributable to other transactions entered into for the benefit of employees in employee compensation, provided such election is consistently applied and appropriate disclosures are included in the notes. This option effectively means that the proposed definition of employee compensation serves as a floor for the types of costs that should be captured and disclosed and offers preparers some flexibility, which we support.

> **Question 7:** For preparers and practitioners, would linking depreciation and intangible asset amortization to existing disclosure requirements in Subtopic 360- 10, Property, Plant, and Equipment—Overall, and Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill, be operable? Please explain why or why not.

We believe that the linkage of depreciation and intangible asset amortization to existing disclosure requirements in Subtopic 360-10, *Property, Plant, and Equipment—Overall*, and Subtopic 350-30, *Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill,* is operable and clarifies the types of expenses expected to be included within the further disaggregated disclosures of relevant expense captions.

> **Question 9:** The proposed amendments would require (a) that the costs incurred that were capitalized to inventory during the current period be combined with other manufacturing expenses and (b) that this total of manufacturing-related expenses be disaggregated and disclosed separately from nonmanufacturing expenses. For preparers, would this proposed requirement be more or less costly to implement than if all such costs (manufacturing and nonmanufacturing) were permitted to be combined? For preparers and practitioners, is this proposed requirement operable? Please explain why or why not.

Overall, we believe that combining the costs incurred that were capitalized to inventory during the current period with other manufacturing expenses and disaggregating and separately disclosing this amount from nonmanufacturing expenses is operable. However, it's unclear to us whether the potential benefits of having the information disaggregated as proposed outweighs the costs and efforts to produce the disclosures. The level of effort that would be required by preparers to compile the proposed information will vary depending on whether the entity's operations are decentralized, the degree of existing automation and how easily reporting systems can be customized to capture or extract the necessary information, among other factors.

> **Question 10:** For preparers and practitioners, is the proposed requirement to classify certain expenses as part of manufacturing activities and disclose how an entity defines other manufacturing expenses

(other manufacturing expenses together with inventory expense constitute inventory and manufacturing expenses) operable? Please explain why or why not. If not, what changes would you make?

We believe that the proposed requirement to classify certain expenses as part of manufacturing activities and to disclose how the entity defines other manufacturing expenses is operable.

Question 11: For preparers and practitioners, are there any potential practical expedients that would simplify or reduce the costs associated with disaggregating inventory and manufacturing expense but would not significantly diminish the decision usefulness of the information provided to investors? For any potential practical expedients suggested, please explain your reasoning.

To reduce the costs of complying with the proposed ASU, we recommend that the Board allow reporting entities that also report under IFRS the option of providing the disclosures included in the IASB's proposal in lieu of the FASB's proposed amendments.

The IASB is about to complete its Primary Financial Statements Project to replace International Accounting Standard (IAS) 1, *Presentation of Financial Statements*, with a new standard that would also require additional disclosures about the amount of depreciation, amortization, employee benefits, specified impairments and write-down of inventories included in each line item presented in the statement of profit or loss. Under the IASB's proposed standard, amounts disclosed are not required to be expense amounts; however, qualitative explanations would be required if part of the amount disclosed has been included in the carrying amount of assets.

We acknowledge that the scope of the IASB's Primary Financial Statements Project is broader than that of the FASB's proposed ASU. However, as the FASB noted in paragraph BC110 of the proposed ASU, "[t]he amendments in this proposed Update are similar to the approach tentatively decided upon by the IASB in that investors would be provided with information about how certain natural expenses (depreciation, intangible asset amortization, and employee compensation) are allocated to different functional expense captions on the face of the income statement. The Board expects that investors would benefit from increased comparability if these similar requirements were finalized."

We respect the separate (but similar) missions of the FASB and IASB to improve financial accounting and reporting standards and provide useful information to investors and other users of financial information. However, to improve the ability of investors to compare investments and make capital allocation decisions on a global basis, we support any efforts of the boards to minimize differences between US GAAP and IFRS. For multi-national entities with financial reporting responsibilities under both US GAAP and IFRS, further convergence between the financial reporting frameworks is key to reducing compliance costs and efforts.

Accordingly, the FASB should consider permitting, but not requiring, PBEs that also report under IFRS to present disaggregated income statement information in a manner consistent with that proposed by the IASB. Such optionality would further the global convergence of financial reporting and likely reduce an entity's cost of financial reporting while not jeopardizing the usefulness of its information to investors.

Further, to comply with the requirements of proposed paragraph 220-40-50-18, we believe that all entities should be given the opportunity to present inventory and manufacturing expense by natural expense classifications if they are able and choose to do so. Such an alternative may reduce the costs of implementing the proposed amendments and would provide investors with the information they prefer.

Lastly, we recommend that the Board provide a practical expedient, similar to the one included in the IASB's proposed standard, that would allow entities to include certain expenses or costs in the "Other" category that would otherwise be required to be presented separately in one of the specified categories described in proposed paragraphs 220-40-50-4 and 50-18. This expedient would be available only when, after making a good faith effort to do so, an entity cannot cost-effectively disaggregate such costs and expenses into the required categories. Under this approach, the entity would also be required to provide qualitative disclosure of such items, which would be consistent with the disclosures required under proposed paragraph 220-40-50-21.

Question 12: The proposed amendments would require that an entity include certain existing disclosures of expenses in the same tabular format disclosure as the disclosures that would be required by the proposed amendments. For investors, would including those expenses in the same tabular format disclosure provide decision-useful information? Would this improve your ability to locate relevant expense information in the notes to financial statements? Please explain why or why not. For preparers and practitioners, is this proposed requirement operable? Please explain why or why not. For all stakeholders, are there other existing disclosures that are not reflected in the proposed amendments and should be included in the lists in paragraph 220-40-50-12, paragraph 220-40-50-13, or both? Please explain why or why not.

We believe that including the amounts of certain expenses subject to existing disclosure requirements in the same tabular format disclosure that would be required under the proposed ASU is operable. Inclusion of such amounts in the tabular disclosure would reduce the use of the "Other" category of expenses when reconciling the disclosures required under proposed paragraph 220-40-50-4 to the relevant expense caption, thus providing more decision-useful information to investors.

The list of existing expense, gain and loss disclosures included in proposed paragraphs 220-40-50-12 and 50-13 appears to be complete; however, we did not perform an exhaustive search for items that may be missing.

Question 14: The proposed amendments would require that an entity provide a qualitative description of any other items remaining in relevant expense captions and any costs remaining in inventory and manufacturing expense after the specific disaggregation requirements are applied. For investors, would this proposed requirement provide decision-useful information? If so, how would that information be used? If not, what changes would you make? For preparers and practitioners, is this proposed requirement operable? Please explain why or why not

We believe the proposed requirement to provide a qualitative description of any other items remaining in relevant expense captions and any costs remaining in inventory and manufacturing expense after the specific disaggregation requirements are applied is operable.

Question 15: The proposed amendments would require that an entity disclose selling expenses and how it defines selling expenses. Should a definition of *selling expenses* be developed, or should an entity be required to determine what constitutes a selling expense? For investors, would the proposed requirement provide decision-useful information? If so, how would that information be used? If not, what changes would you make? For preparers and practitioners, is the proposed requirement operable? Please explain why or why not.

We do not believe a definition of selling expenses is necessary for purposes of applying the requirements of this proposed ASU. By providing flexibility in how an entity defines selling expenses, entities can present this amount in a manner that conforms to how it uses such information in managing its operations. Further, providing such flexibility could reduce the cost of implementing the proposed ASU, which should outweigh any reduced benefits to investors as a result of differences in how such expenses may be defined across reporting entities.

Question 16: The proposed amendments would require the disclosures on both an annual basis and an interim basis. Do you agree with those proposed amendments? Please explain why or why not.

We agree with the proposed frequency for the proposed disclosures. After the initial system changes and automation to compile the required information in the proposed ASU, we believe the effort and cost to produce the proposed disclosures on a recurring basis would not be very significant relative to the benefits that the more frequent disclosures would provide investors.

Question 17: The proposed amendments would be applied on a prospective basis with an option for an entity to apply the guidance retrospectively. Is that proposed transition method operable? If not, why not and what transition method would be more appropriate and why? Would the information disclosed under the proposed transition method be decision useful? Please explain why or why not.

We believe that a prospective transition approach, with optional retrospective application is operable. While we believe that comparative presentation of the information presented in the disclosures contained in the proposal would provide the greatest value to investors, the proposed transition approach recognizes the potential challenges and incremental costs preparers would face if required to apply the proposed amendments retrospectively, which could outweigh the potential benefits for investors.

Question 19: Regarding the effective date, how much time would be needed to implement the proposed amendments? Should early adoption be permitted? Please explain why or why not.

We recommend an effective date that is at least one year beyond the date from which a final ASU is issued. A minimum 12-month period would allow preparers time to implement new systems, processes and controls to accumulate the information required under the proposed update and allow practitioners time to train and develop guidance for its auditors on the new standard.

For preparers that meet the definition of a smaller reporting company (SRC) under SEC Regulation S-K Item 10(f)(1) or an emerging growth company (EGC) under Section 2(a)(19) of the 1933 Securities Act, we recommend an additional year for adoption (i.e., an effective date no less than 24 months after a final ASU is issued).

An option to early adopt a final ASU should be extended to only those entities that may be provided effective date relief (e.g., SRCs and EGCs), with a date of early adoption not preceding the effective date of entities that have not been provided effective date relief.

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 Richard Daisley at 267.515.5148 or Joseph Cascio at 212.372.1139.

Sincerely,

RSM US LLP

RSM US LLP