



October 30, 2023

Mr. Richard Jones, Chair
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT 06856-05116

Re: Proposed Accounting Standards Update on Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40) – *Disaggregation of Income Statement Expenses*

Dear Chair Jones:

The U.S. Chamber of Commerce (“Chamber”) appreciates the opportunity to comment on the Financial Accounting Standards Board (“FASB” or “Board”) Exposure Draft on the Proposed Accounting Standards Update (“ASU”) on Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40) – *Disaggregation of Income Statement Expenses* (“Proposal,” “Proposed ASU,” “Proposed Update,” or “Exposure Draft”).

The Proposed ASU would require all public business entities (“public companies”) to provide a financial statement footnote (“footnote” or “note”) disclosing very detailed, disaggregated quantitative information, in a tabular format, for specified categories underlying certain expense captions, along with additional qualitative information. The footnote disclosures would apply to both annual and interim reporting periods and encompass all three years of comparative income statements.

The Proposal would not change or remove any existing expense disclosure requirements or change requirements for presentation of expenses on the face of the income statement. While maintaining existing presentation and disclosure requirements, the Proposal would require companies to duplicate existing disclosures of other specified expenses, gains, and losses by including them in the tabular format. Although described as a new footnote in tabular format, essentially, the Proposed ASU creates a new financial statement – the Statement of Disaggregated Expenses, Gains, and Losses Before Taxes.

The Exposure Draft follows on the heels of the Board finalizing ASUs on segmental reporting and income tax disclosures, which will be costly for companies to

implement.¹ It continues FASB's journey down the path of significantly and prescriptively expanding the detailed information required in financial statement footnotes under U.S. Generally Accepted Accounting Principles ("U.S. GAAP" or "GAAP"). The Chamber has expressed deep concerns about this trend,² and our concerns extend to the Proposed ASU.

During outreach in developing the Proposal, FASB heard from preparers that "many entities would incur meaningful costs to implement the amendments in the [P]roposed Update," with these costs being both one-time and on-going.³ In response to this feedback, the Proposal reflects several FASB decisions to help mitigate the costs, including a practical expedient on employee compensation.⁴

The Chamber very much appreciates the due process activities of FASB and the Board's attempt to respond to preparer feedback. Nonetheless, the fact remains – the Proposal would involve significant costs and operability challenges for public companies. The Chamber questions the need for and benefits of the Proposed ASU – and the reasonableness of taking a rules-based prescriptive approach to dedicating a lengthy footnote for detailed information on disaggregated expenses in tabular format, including duplicative information otherwise disclosed.

The Chamber urges FASB to reconsider the Proposal and what, if any, disaggregated expense information would be meaningful (decision-useful) for investors broadly, while cost-effective for public companies to provide. In addition to the planned roundtable, the Chamber recommends FASB engage in field-testing to assess how best to narrow the scope, costs, and consequences of any Proposed Update on expense disaggregation disclosures.

Further, the Chamber recommends that FASB reinforce – by explicitly stating in any Update – that immaterial information need not be disclosed, in a tabular format or otherwise. The tabular format with the types of disaggregated expense information proposed should not apply to interim financial reporting. In addition, the Board should provide some type of accommodation in the circumstances of mergers and

¹ On July 26, 2023, the Board voted to clarify and finalize *Segment Reporting (Topic 280) – Improvements to Reportable Segment Disclosures* and, on August 30, 2023, the Board voted to finalize *Income Taxes (Topic 740) Improvement to Income Tax Disclosures*.

² For example, see the letter from the Chamber to Richard R. Jones, Chair, FASB on *Proposed Accounting Standards Update, Income Taxes (Topic 740): Improvements to Income Tax Disclosures* (File Reference No. 2023-ED100) dated May 30, 2023.

³ See the Exposure Draft, page 75.

⁴ See the Exposure Draft, pages 75 and 76.

acquisitions to allow time for appropriate integration of systems and processes to provide any required disaggregated expense disclosures.

After overviewing the Proposal, we discuss our concerns and recommendations in more detail below.

Overview

The Proposed ASU would require public companies to disclose in a tabular format in a financial statement footnote a disaggregation of any relevant expense caption presented on the face of the income statement. Under FASB's natural expense approach,⁵ relevant expense captions are those that contain any of the following expense categories: inventory and manufacturing expense, employee compensation, depreciation, intangible asset amortization, and depreciation/depletion/amortization ("DD&A") recognized as part of oil and gas producing activities. The application of this requirement will vary across industries and not all income statement line-items will necessarily be a relevant expense caption.

The Proposed ASU would require public companies to disclose in the tabular footnote an additional disaggregation of the inventory and manufacturing expenses disclosed in the relevant expense captions for expenses in the following categories: purchase of inventory, employee compensation, depreciation, intangible asset amortization, DD&A, changes in inventories, other costs capitalized to inventory and manufacturing expenses that are not included in the previous categories, and other adjustments and reconciling items. Companies would be required to provide qualitative explanations for the latter two "other" categories.

In addition to the previously described disaggregated disclosures, companies would be required to provide a qualitative description of the amounts remaining in each relevant expense caption that are not separately disaggregated – in detail commensurate with the significance of the amounts described. The Proposed ASU would also require disclosure of: (1) a separate total of selling expenses, which should be presented in a manner similar to research and development and advertising

⁵ Natural expenses are distinguishable based on the types of economic benefits received in incurring those expenses. Natural expenses are often contrasted with functional expenses that are based on the purpose for which the expenses are incurred. The Board concluded that "[d]etermining the purpose for which a cost was incurred is subjective and can require significant judgment." Further, "an allocation of a natural expense to multiple functional expense captions does not affect its underlying natural categorization." See the Exposure Draft, page 54.

expenses and (2) the company's definitions of other manufacturing expenses and selling expenses.

Further, companies would be required to integrate into the tabular format amounts (otherwise disclosed elsewhere under various U.S. GAAP requirements) for certain specified expenses, gains, and losses recognized in each relevant expense caption (e.g., impairment loss of long-lived assets). Another set of specified (albeit otherwise disclosed) expenses, gains, and losses would be integrated into the tabular format and disclosed if included entirely in one relevant expense caption (e.g., provision for expected credit losses).

This brief overview illustrates the breadth and depth of the proposed new footnote disclosing disaggregated income statement expense information. But it is not so much a footnote. Essentially, the Proposed Update creates a new financial statement – the Statement of Disaggregated Expenses, Gains, and Losses Before Taxes – with its own set of footnotes for qualitative information.

Implementing the proposed requirements for this “new financial statement” would be a costly endeavor for public companies. The next section discusses both the purported benefits of the Proposed ASU and provides perspective on costs and consequences.

Discussion

Benefits

The Exposure Draft explains that the Board expects the key benefits of the Proposed ASU to include improved comparability and increased transparency on expenses. The Chamber questions the nature and extent of these purported benefits – especially relative to the costs that would be imposed on all public companies. Any benefits of the Proposal appear to be speculative and selective, yet the costs are real.

As to comparability, while the Chamber appreciates that the Board chose not to prescribe how an entity classifies certain expenses, the result is that public companies present certain expense amounts differently to provide decision-useful information in the context of their company. Further, operational decisions also create differences. For example, differences in the use of external contractors (rather than employees) would impact the comparability of employee compensation

expenses.⁶ Thus, there will be a lack of comparability among companies, even those within similar industries, under the Proposed ASU.

As to greater transparency, the Proposal responds to certain investor feedback asking for disaggregated expense disclosures to enhance forecasting future company performance. For example, FASB heard from analysts that they “would like to incorporate different rates for commodities, labor, and depreciation when modeling an entity’s expenses in future periods.”⁷ The Chamber questions whether responding to such requests should be a priority for FASB.⁸

Passive investment vehicles hold over fifty percent of U.S. publicly traded equity fund assets.⁹ Further, sixty-five percent of the nearly nine thousand companies with equity traded in U.S. markets last year were not followed by even one analyst.¹⁰ For the subset of companies with an analyst following, the proposed disaggregated expense disclosures (under a natural expense approach) are not necessarily useful for understanding or predicting company performance.

For example, for some companies, functional expense disaggregation, as reflected in the Board’s segmental reporting project,¹¹ can be a preferable approach because it provides investors with perspective on how the chief operating decision-maker manages the business and allocates resources. Essentially, management is in the best position to know, and should be the one to decide, what disaggregated expense information to provide to facilitate their analyst forecasting models (and investors more generally) and whether via financial reporting, earnings releases, earnings calls, or otherwise.

⁶ However, the Chamber is not suggesting that FASB needs to define external contractors, which would be difficult to do to achieve consistency among companies.

⁷ See the Exposure Draft, page 56.

⁸ FASB Concept Statements recognize that individual primary users may have different, and possibly conflicting, information needs and desires, and that the Board cannot accommodate every request for information. In developing financial reporting standards, which include disclosure standards, the Board must seek to provide the information set that will meet the needs of the maximum number of primary users in cost-beneficial ways. See FASB *Statement of Financial Accounting Concepts No. 8, Conceptual Framework for Financial Reporting: Chapter 1, The Objective of General Purpose Financial Reporting* (as amended, December 2021).

⁹ See the discussion of an analysis by James Seyffart on Bloomberg Intelligence (March 11, 2021).

¹⁰ These data are according to Multex and discussed in an article on the Zacks website on stocks neglected by analysts (October 11, 2023).

¹¹ See the FASB project on *Segment Reporting (Topic 280) – Improvements to Reportable Segment Disclosures*.

Importantly, many companies with analyst followings do not get requests to disclose the types of disaggregated information that the Proposal would require. FASB appears to be responding to a push by a limited, but vocal, subset of investor-related groups for disclosures that are free to them – yet would force public companies to incur significant costs.¹²

Further, companies already disclose a good deal of disaggregated expense information both voluntarily and in accordance with U.S. GAAP and regulatory requirements, including industry-specific regulators and the Securities and Exchange Commission (“SEC”). Required disclosures by the SEC encompass Management Discussion and Analysis (“MD&A”) in annual Form 10-K and quarterly 10-Q filings, which provide a vast amount of financial information, both quantitative and qualitative, including (material) disaggregated expense-related information.¹³

Otherwise, companies that voluntarily provide disaggregated expense information in the notes to the financial statements are those where the information is most likely to be decision-useful. The usefulness of the information is enhanced because disclosures are tethered to materiality, tailored to the company, and include relevant context. The next section discusses materiality.

Materiality

Materiality is a bedrock of the U.S. capital markets.¹⁴ The materiality standard “ensures that investors have the information they need while protecting them from ‘information overload’...”¹⁵ The Conceptual Framework recognizes materiality as a foundational concept in GAAP standard-setting and specifies that materiality is entity-specific.¹⁶ The Concepts Statements emphasize:

¹² For example, FASB’s remit does not extend to responding to requests for publicly available disaggregated information by data aggregators and others in the financial reporting ecosystem to facilitate their business models and activities.

¹³ Required MD&A disclosures include discussion of material changes in financial condition and results of operations between the financial reporting periods and known trends and uncertainties, including the impact of inflation and price changes, present or reasonably likely to have a material impact on revenues or income.

¹⁴ See U.S. Chamber Center for Capital Markets Competitiveness, *Essential Information: Modernizing Our Corporate Disclosure System* (Winter 2017).

¹⁵ See U.S. Chamber Center for Capital Markets Competitiveness, *Effective, Material corporate Disclosure Is the Cornerstone of U.S. Capital Markets* by Evan Williams (October 13, 2022).

¹⁶ See FASB Statement of Financial Accounting Concepts No. 8, Conceptual Framework for Financial Reporting: *Chapter 3, Qualitative Characteristics of Useful Financial Information* (August 2018), page 2.

While disclosures have relevance to a broad range of entities, they may not be material to all entities to which they apply. Materiality decisions must be made by each individual entity. As such, the Board should establish requirements that are not so prescriptive that they preclude reporting entities from making materiality judgments.¹⁷

The Chamber is concerned that the Proposed ASU – with its rules-based prescriptive approach – contravenes FASB’s materiality principle. To clarify that this is not the case and avoid any confusion, the Chamber urges the Board to explicitly affirm, in accordance with Section 105-10-05 of the Codification, that any proposed disclosure requirements for disaggregated expenses need not be applied to immaterial items.

Tabular Format

The Proposed ASU would add a footnote to the financial statements – with yet another lengthy and complicated set of disclosures. In the current environment, with concerns about disclosure overload and complexity, it is ironic that the Board would propose requirements for even more detailed disclosures that would add significant length and complexity to annual and interim reports – and burden preparers with incurring the costs.

Arguments on the need to collect information in one footnote in tabular format, including information currently disclosed in other footnotes or MD&A, appear specious given the state of technology. For example, if reading the financial statements and footnotes is too burdensome or not considered feasible, analysts using modeling approaches (that appear to be a major source of the demand for the Proposal) have the technological capability to search GAAP financial statements and notes (along with the 10-K’s and 10-Q’s that contain them) in targeted ways.

The complexity of the footnote is exacerbated by other problematic aspects of the proposed disclosures in a tabular format. For example, the disaggregation of inventory and manufacturing expenses would reconcile (a) costs capitalized to inventory during the period and (b) inventory and manufacturing expenses recognized during the period. This disaggregation intends to explain the change in inventory (per the balance sheet) as compared to the costs recognized during the period. However, the need for this granular reconciliation (co-mingling income statement expenses and

¹⁷ See FASB Statement of Financial Accounting Concepts No. 8, Conceptual Framework for Financial Reporting: *Chapter 8, Notes to Financial Statements* (as amended, December 2011), pages 6 and 7.

balance sheet amounts, essentially using a “plug”) is not compelling, especially considering existing disclosures, including those in MD&A.

Costs and Consequences

The Proposed ASU presents operability challenges for many public companies and will be costly to implement and comply with for all. Many companies do not have systems in place that provide the types of granular information the Proposal would require be disclosed. Thus, it will involve significant effort to obtain the level of detail required. Companies with diverse ERP environments will face particularly serious operability challenges.

Importantly, the Proposal will involve one-time costs to modify systems, processes, and controls, which would be significant for most companies. Depending on circumstances, implementing the Proposal will require companies to incur the costs of designing and installing new systems and processes. Companies with international operations may need to overcome particularly difficult and costly challenges to integrate the proposed requirements into their systems, processes, and controls globally.

Companies will also face continuing costs and challenges down the road that will vary depending on circumstances. For example, mergers and acquisitions could involve significant operability challenges. The Chamber recommends that the Board provide an accommodation to allow adequate time for companies to integrate acquisitions into their systems and processes and enable compliance with any disaggregated expense disclosure requirements.

The Proposal will also involve additional costs, both one-time and on-going, for annual audits and interim reviews, which would be significant for many companies. Further, the current environment is a difficult one for auditors of public companies. The Public Company Accounting Oversight Board (“PCAOB”) is focused on identifying and spotlighting inspection deficiencies, including deficiencies on integrated audits of internal control over financial reporting (“ICFR”).

The Chamber recommends that the Board work with the PCAOB and SEC to ensure that PCAOB inspections do not exacerbate the audit-related costs of any new disclosure requirements. It is important to avoid a “404-type” situation, whereby the feedback loop from PCAOB inspections has an inappropriate impact on decisions and activities that are the purview of companies, such as those related to ICFR documentation decisions.

The Proposed ASU will have other consequences that need to be considered by FASB. For example, it could put U.S. public companies at a competitive disadvantage relative to their foreign and/or private competitors,¹⁸ including from requiring disclosure of detailed information on cost structures. In addition, the proposed disaggregated expense information would be exploited by others not motivated by the interests of current investors or investing for long-term value creation.¹⁹

Annual and Interim Disclosures

The Proposal would require that the disaggregated expense footnote in tabular format be provided in both annual and interim reporting periods. However, in accordance with both U.S. GAAP and SEC requirements, interim reporting is intended to be condensed, viewed in the context of financial reporting for the preceding annual period, and focused on material changes – sufficient to make the information presented not misleading. Various footnote information can be omitted from interim financial reports of public companies in SEC 10-Q filings.

The Proposed ASU applied to interim reporting would contravene this established framework – and impose significant additional costs on companies. Analyst demand for interim information on disaggregated expenses to facilitate forecasting quarterly earnings as the rationale for extending the proposed requirements to interim reporting is particularly problematic. The Chamber strongly encourages FASB to eliminate the proposed requirements for expense disaggregation disclosures in tabular format from applying to interim reporting periods.

Concluding Remarks

In conclusion, the Chamber cannot support the Proposed ASU in its current form. The Chamber urges the Board to reconsider the Proposal and what, if any, expense information would be meaningful for investors, while cost-effective for public

¹⁸ The Chamber understands that the International Accounting Standards Board (“IASB”) is considering revising International Financial Reporting Standards (“IFRS”) to require the disclosure of additional information about expenses. However, IFRS requirements are unlikely to coincide with the Proposed ASU. Moreover, IFRS is not promulgated in the context of SEC reporting requirements, including disclosures in MD&A.

¹⁹ The Chamber has previously expressed concerns about the exploitation of disaggregated expense disclosures by activists and others to the detriment of current investors. For example, see the letter from the Chamber to Richard R. Jones, Chair, FASB on *Proposed Accounting Standards Update, Income Taxes (Topic 740): Improvements to Income Tax Disclosures* (File Reference No. 2023-ED100) dated May 30, 2023.

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companies to provide. Further, the Board should clarify that any disaggregated expense disclosure requirements do not apply to immaterial information or interim reporting.

Effective standard-setting takes time. The Chamber urges FASB to take the necessary time to reconsider the proposed requirements and engage in due process activities in advance of finalizing any ASU. In addition to the planned roundtable, the Chamber recommends that FASB conduct field-testing to right-size any proposed expense disaggregation disclosure requirements to ensure that they are cost-benefit effective for public companies and their investors, generally.

Thank you for your consideration and we stand ready to discuss these matters with you further.

Sincerely,

A handwritten signature in black ink, appearing to read 'TK' followed by a long horizontal flourish.

Tom Quaadman
Executive Vice President
Center for Capital Markets Competitiveness
U.S. Chamber of Commerce