



December 20, 2022

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

**Re: File Reference No. 2022-ED100**

Dear Ms. Salo,

This letter is submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in response to the Financial Accounting Standards Board's (FASB or Board) Proposed Accounting Standards Update, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures (Exposure Draft or proposed Update).

FEI is a leading international organization comprised of members who hold positions as Chief Financial Officers, Chief Accounting Officers, Controllers, Treasurers, and Tax Executives at companies in every major industry. CCR is FEI's technical committee of approximately 50 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing more than \$11 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the U.S. SEC, PCAOB, FASB, and IASB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

**Executive Summary**

We commend the Board's responsiveness to stakeholder requests to improve the disclosure requirements for reportable segments, primarily around significant segment expenses. In our letter, we offer broad support for the Exposure Draft. We suggest a scope exception for certain wholly-owned subsidiaries and include specific recommendations related to the significant expense principle to facilitate clarity and comparability. We also identify components of the interim reporting guidance where we suggest aligning with proposed and existing U.S. GAAP guidance in Topic 270, Interim Reporting. Lastly, we offer implementation recommendations regarding the transition and effective date.

**Scope**

Although the proposed Update does not include amendments to the existing Scope and Scope Exceptions guidance,<sup>1</sup> we believe an exception should be considered for certain registrants who are wholly-owned subsidiaries applying General Instruction I (1) for Form 10-K that do not have separate reportable segment

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<sup>1</sup> See ASC 280-10-15.

entities.<sup>2</sup> Registrants meeting the conditions for the relief specified above are wholly-owned subsidiaries whose operations are consolidated and included in the parent entity's segment disclosure footnote. If the wholly-owned subsidiary does not have separate reportable segment entities and no detailed business information is provided to a CODM regarding the registrant's stand-alone operations, we believe requiring segment specific information that is not used by management would not provide decision-useful information to users of financial statements.

### **Significant Expense Principle**

Overall, we find the amendments in the proposed Update that would require companies to disclose significant expenses to be clear and operable. We are accustomed to using the term "significant" in financial reporting today and agree that management is capable of exercising judgment to determine which segment expense categories are significant based on quantitative and qualitative factors.<sup>3</sup> We generally find principles-based guidance more operable across industries as compared with prescriptive definitions and appreciate the flexibility in using judgment.

We are generally supportive of the addition of the language in 280-10-50-26A which expands on disclosure requirements using the significant expense principle,<sup>4</sup> but we believe further clarity and alignment with existing guidance would be helpful. The existing guidance in Topic 280 uses "regularly reviewed" in the context of operating segments when referring to information the CODM uses, and we believe further consistency could be achieved if the proposed guidance was updated to suggest disclosures are required for the "significant expense categories and amounts that are regularly provided to *and regularly reviewed by* the chief operating decision maker and included in each reported measure of a segment's profit or loss." As the CODM may have considerable data at their disposal, including access to dashboards with various metrics that are not used for decision making or being included on the distribution of earnings release preparation packages being sent to the investor relations department, we recommend the addition of "and regularly reviewed" for clarification and consistency with the definition of an operating segment.

Additionally, information provided and disclosed may be impacted by disclosure requirements included in the Board's project on disaggregation of income statement expenses.<sup>5</sup> We applaud the Board's reaffirmation of the segment reporting project being rooted in the management approach,<sup>6</sup> and we suggest the Board consider aligning the disaggregation of income statement expenses project with this approach. We encourage the Board to consider the potential impacts of the application of significance in the interaction between the project on disaggregation of income statement expenses and this proposed Update to ensure that the resulting disclosures include decision-useful information for investors that is concise and meaningful, as applying the requirements of both projects could result in a significant increase of disclosures. For some companies, significant segment expenses tend to be aligned with existing financial statement line items, and the changes in required line items resulting from implementation of the disaggregation project would likely affect the format of information provided to the CODM, and therefore may alter significant expense categories. This could require the recast of prior period segment expense

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<sup>2</sup> See [page 3 of the SEC Form 10-K General Instructions](#).

<sup>3</sup> See [BC 32 of the Exposure Draft](#).

<sup>4</sup> See [page 10 of the Exposure Draft](#).

<sup>5</sup> See FASB Technical Agenda for [Disaggregation – Income Statement Expenses Project](#).

<sup>6</sup> See [BC65 of the Exposure Draft](#).

disclosures, creating additional burden since certain categories such as labor costs have not been historically tracked by segment.

We expect the amendments in the Exposure Draft to result in disclosure of additional information about reportable segments' expenses and other segment items for many registrants. The level of additional disclosures will vary based on the information the CODM regularly receives and reviews. The proposed amendments requiring the disclosure of "other segment items" may result in additional qualitative disclosure of residual items that we expect would most likely be limited,<sup>7</sup> but the disclosure may include information that the CODM does not use. We encourage the Board to reconsider the requirement to disclose "other segment items" as it may result in disclosure of information that is not used to assess performance and make resource allocation decisions, which does not align with the underlying management approach within segment reporting.

Furthermore, we support the proposed requirement to, at a minimum, disclose the measure of a segment's profit or loss used by the CODM that is most consistent with the principles used in measuring the corresponding amounts in the consolidated financial statements. Many CODMs only use profitability type measures and thus, we agree with the Board to not extend this decision to other measures used by the CODM; doing so may result in a lack of comparability of disclosures and disclosures that are inconsistent with how the CODM manages the business.

We are supportive of the Board's decision to not require a reconciliation of the total of the reportable segments' amount for each significant segment expense category to its corresponding consolidated expense amount. We commend the Board for listening to input regarding the operability concerns given the reconciliation may require information not provided to the CODM or may not exist, or be readily available, resulting in unnecessary complexity.<sup>8</sup> Additionally, the reconciliation could result in disclosure of information that is either immaterial or not regularly provided to and reviewed by the CODM to make decisions and, thus, would not be decision-useful for users of the financial statements. We agree with the Board that applying the significant expense principle results in disclosures that provide an enhanced understanding of the components of a segment's profitability.

### **Interim Reporting**

We generally agree with the proposed Update to require that a public entity disclose significant segment expenses and existing segment disclosures on an interim and annual basis. Many companies show segment disclosures on an interim basis today, so we do not believe it will result in significant incremental costs to comply with this requirement. However, we recommend the Board consider whether the proposed requirements align with the Board's direction on proposed changes to Topic 270, Interim Reporting. In the November 2021 exposure draft on interim reporting (Topic 270), the Board proposed an interim reporting principle that aligned with SEC Regulation S-X, Rule 10-01 which was intended to remove redundancies in financial reporting.<sup>9</sup> We believe aligning to the existing interim disclosure guidance will not only help with consistency but will help eliminate redundant information and enable investors to make efficient investment decisions.

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<sup>7</sup> See [BC45 of the Exposure Draft](#).

<sup>8</sup> See [BC48 of the Exposure Draft](#).

<sup>9</sup> See [BC11 and BC12 of ASU 2021-001](#).



## **Transition and Effective Date**

We support requiring the proposed Update be applied on a retrospective basis and agree it will provide decision-useful information that will allow investors and other users of financial statements to better understand trends. While we are supportive of the proposed retrospective transition requirements, we believe the qualitative transition disclosure guidance as proposed would aim to explain a hypothetical difference by disclosing what the significant segment expense categories would have been if they were adopted in the most recent comparative period, which may not provide decision-useful information to investors and other users of financial statements. Companies periodically evaluate the reports provided to the CODM, resulting in the removal of extraneous information not used while information needed and utilized by the CODM would continue to be included. As such, we believe explaining changes resulting from periodic reviews to make reports more efficient may be unnecessary. Application of the proposed Update may require additional control documentation or modifications to systems and processes, or both, and as such we recommend providing companies at least one year from the date of issuance to implement the proposed amendments, with early adoption permitted.

## **Conclusion**

We appreciate this opportunity to provide feedback on the proposed Update related to improvements to reportable segment disclosures. We thank the Board for its consideration of our comments and welcome further discussion with the Board or staff at your convenience.

Sincerely,

*Rudolf Bless*

Rudolf Bless  
Chair, Committee on Corporate Reporting  
Financial Executives International