AICPA & CIMA
Together as the Association of International Certified Professional Accountants

December 12, 2022

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

File Reference No. 2022-ED100

Dear Ms. Salo:

The AICPA's Financial Reporting Executive Committee (FinREC) appreciates the opportunity to comment on FASB's Proposed Accounting Standards Update*, Segment Reporting (Topic 280) – Improvements to Reportable Segment Disclosures*.

FinREC supports FASB's efforts to improve disclosures on reportable segments, but believes the project should focus on public entities with multiple reportable segments. FinREC is also supportive of FASB's ongoing projects on "Disaggregation – Income Statement Expenses" and "Financial Key Performance Indicators for Business Entities" and is hopeful that the combined outcome from these projects will result in improved and more transparent disclosures for users of financial statements.

The remainder of this letter provides more specific feedback on the proposed ASU for your consideration.

<u>Single Reportable Segments</u>

It is FinREC's understanding that smaller public entities that have identified a single operating segment and have a single reportable segment generally provide the chief operating decision maker (CODM) with information that is consistent with that presented on the consolidated income statement. FinREC is concerned that including public entities that have a single reportable segment within the scope of this project would result in these entities being required to create information solely to be included in the segment footnote and that the expected benefits may not justify the expected costs to preparers.

FinREC supports the objective of providing improved disclosures to explain different business activities, but recommends the Board consider if this could be better achieved for public entities that have single reportable segments with further disaggregation to be required by the "Disaggregation – Income Statement Expenses" project instead of segment disclosures. If the Board elects to move forward with requiring segment disclosures for entities with a single reportable segment, FinREC recommends that the Board make clear that information that would be a duplication of that presented on the consolidated income statement and/or consolidated balance sheet would not be required to be disclosed a second time in a segment footnote.

Significant Expense Principle

FinREC believes that without further clarification, the proposed language as currently drafted to determine significant segment expenses that are regularly provided to the CODM includes too much judgment that could be applied inconsistently. If the Board decides to retain the use of the term *significant* in identifying the segment expenses to be disclosed in the final standard, a majority of FinREC believes that clarification of the definition would be helpful for both preparers and practitioners. Specifically, it would be helpful to explain whether the use of *significant* is intended to include a materiality assessment or whether it is more focused on what information is used by the CODM, consistent with the management approach generally applied by ASC 280. For example, FinREC notes that the use of the term *significant* in the standard currently is typically viewed as primarily a materiality assessment. However, paragraphs BC18 and BC19 in the Basis for Conclusions indicate that the use of *significant* as the reporting threshold is consistent with the CODM's perspective, which implies an intent to apply the management approach rather than solely a materiality threshold. If the Board intended the framework to include a materiality assessment, it would also be useful to explain if significance is assessed at the segment level or the consolidated financial statements and to provide examples of qualitative factors that could be used in making the assessment. Alternatively, if the Board intended to apply a management approach to determining significance, FinREC recommends that the Board consider further clarifying the meaning of *significant expense* by including language from the Basis for Conclusions in the final standard. In addition, proposed paragraph 280-10-50-26A could be revised to state "regularly provided to <u>and regularly reviewed by</u> the chief operating decision maker" in order to better align this disclosure with the management approach.

Multiple Measures

FinREC believes that the disclosure of multiple measures used by CODMs could be helpful to financial statement users, but shares the concerns expressed in paragraph BC68 of the Basis for Conclusions related to including additional non-GAAP measures in segment disclosures. FinREC also recommends that the Board consider any unintended consequences of allowing multiple measures to be disclosed such as weakening of the comparability between entities. In addition, FinREC notes the possibility that without any restrictions on the type of measure that could be reported, companies could report non-

GAAP measures that include tailored accounting practices, such as reporting revenues on an as-billed basis.

FinREC believes that if the Board decides to allow multiple measures to be disclosed, there should be a requirement to reconcile each measure to the corresponding consolidated line item amount to provide better transparency. In addition, FinREC recommends that the Board add an example illustrating how such a reconciliation could be presented in the footnotes, as none of the existing or proposed examples include the disclosure of multiple measures of profitability.

FinREC supports the objective of providing improved disclosures but recommends that the Board consider if this could instead be accomplished by further disaggregation under the "Disaggregation – Income Statement Expenses" project.

Members of FinREC and AICPA staff would be pleased to discuss any of these comments at your convenience.

Sincerely,

Angela J. Newell, Chair
FinREC