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December 4, 2023

Technical Director
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116
File Reference No. 2023-ED500

Dear Ms. Salo:

The AICPA's Financial Reporting Executive Committee (FinREC) appreciates the opportunity to comment on FASB's Proposed Accounting Standards Update, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40) Disaggregation of Income Statement Expenses*.

Overall

FinREC supports the project's objective of providing consistent disaggregated disclosures about a public business entity's expenses and believes that the project is responsive to financial statement users' need for disaggregated information about an entity's expenses which will help them in understanding the entity's performance, assessing the entity's prospects for future cash flows, and comparing the entity's performance both over time and with that of other entities. However, members also expressed concern with the complexity of some of the proposed disclosures and operational challenges to preparers related to system modifications and identification of required information, as further discussed below. FinREC encourages additional outreach to determine the appropriate amount of time needed for successful implementation.

Inventory and Manufacturing Expense

For manufacturing companies with a vertically integrated, multi-entity manufacturing operation (i.e., where each entity only performs certain value-added work on WIP and then passes on that WIP to the next entity and so on until the final product is produced)—amounts capitalized in inventory will be especially difficult to capture. Members of FinREC noted that for many companies (especially ones that that are not on one worldwide ERP system) the proposed inventory and manufacturing expense disaggregation disclosure would likely not be able to be captured by general ledger accounts and would require a manual process to collect data from various purchasing systems. FinREC recommends that the Board consider performing additional outreach to determine if the proposed disclosures related to capitalized costs is helpful to users or if other information might be more useful. If the proposed disclosures are finalized, FinREC recommends that a staggered effective date be considered to allow preparers additional time to determine necessary system modifications for example, the Board should consider whether entities should be provided with more time before the effective date for disclosure of disaggregation of inventory and manufacturing expense.

Employee compensation

FinREC understands that total employee compensation is a valuable disclosure, but members have concerns that the proposed disclosure required for employee compensation expense including amounts capitalized in inventory may not result in the disclosure which FinREC believes is desired by the investors, i.e., total employee compensation costs incurred during the reporting period, due to capitalized or deferred employee compensation costs e.g., software, PP&E, or costs deferred in accordance with ASC 340-40 and ASC 842. Some FinREC members observe that the Board may consider requiring disclosure of total employee compensation costs incurred during the reporting period, irrespective of whether a portion of that amount is capitalized or deferred, without reconciliation of the amount to the financial statements. Other members believe that such a disclosure should include a reconciliation of the amounts disclosed to the income statement and balance sheet. This reconciliation would enhance users understanding the amounts included in the financial statements and the nature of the compensation costs and make it easier to design appropriate internal controls over financial reporting.

FinREC observes that the use of outsourcing may result in noncomparability in employee compensation disclosures between entities in the same industry, such as insurance entities that outsource claim processing functions as compared to those that perform the processing in-house or companies that outsource call center services as compared to those performing that function in-house, and that additional qualitative disclosures could be helpful in explaining those differences.

Scope Clarification

FinREC requests that the final standard include within the codification the concepts in paragraph BC36 of the proposed ASU, that certain costs would not be included in the scope of the disaggregated expense disclosures due to the change in the original natural classification of that expense as employee compensation. FinREC also recommends that the final standard (not the Basis for Conclusions) include examples of employee compensation that would not be included in the scope such as; costs deferred as an incremental cost to obtain a contract with a customer in accordance with ASC 340-40, included as acquisition costs deferred and amortized in accordance with ASC 944-30, and directly related to the claims settlement process that are included within the liability for future policy benefits and claim adjustment expense in accordance with ASC 944-40.

Selling expense

FinREC observes that the proposed requirement to have companies self-define selling expenses could lead to diversity in practice and noncomparability. As explain below, additional transition time may be needed by entities to align with industry practices.

Additional illustrations of disclosures (ASC 220-40- 50-13)

FinREC requests that the final standard include an illustrative example on the application of the proposed disclosure requirements in ASC 220-40-50-13 when amounts are included entirely in one expense caption for one year, but in multiple expense captions in another year. FinREC members had differing thoughts on how the disclosure requirements in ASC 220-40-50-13 would be applied in that situation, with some believing that it would be required to include an amount in the disclosure by combining what is in the various expense captions, and others believing that it would be sufficient to include a footnote in the disclosure explaining the change in expense captions.

Transition

When deciding on the effective date, FASB should consider that prospective application would not eliminate the need to offer information to investors for comparative purposes and provide enough time for implementation. The FASB should consider providing a transition period of one year to allow entities to consider classification of amounts, since without such a transition relief any change to classification to conform to industry practice or to make disclosures comparable to others in the same industry may require application of ASC 250. FinREC notes that such change in accordance with ASC 250 could require a preferability letter and this may be a time consuming and costly process. For example, there are differing practices on whether companies include marketing expenses as selling expenses. As companies may wish to change their accounting policy with respect to the definition of selling expense to be consistent with other companies in the same industry, a transition relief allowing companies one year from adoption to finalize their accounting policy would allow entities to change their accounting policy without having to apply the ASC 250 requirements.

Implementation of the proposed disclosure requirements for costs capitalized to inventory may be particularly challenging and initially time consuming for some preparers. FinREC recommends allowing additional time for implementation of this disclosure requirement, and that the FASB consider a staggered effective date.

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

Sincerely,

Mark Crowley, Chair
FinREC

Rahul Gupta, Chair
Disaggregation of Income Statement Expenses Task Force