December 14, 2022

Director@fasb.org
File Reference No. 2022-ED100
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re Proposed ASU: Segment Reporting – Improvements to Reportable Segment Disclosures

Dear FASB:

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs (TXCPA). The PSC has been authorized by the Texas Society of CPAs' Board of Directors to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our responses below on the above-referenced exposure draft.

The TXCPA PSC would like to highlight two areas of concern regarding the proposal. The first is that the term significant is not defined in the standard and the lack of a definition might lead to unnecessary conflict between preparers, auditors and regulators as they attempt to implement the standard. The second is the use of multiple measures of profit and loss, which might allow the introduction of non-GAAP measures that are specifically excluded by Securities and Exchange Commission (SEC) rules and requirements today. Please see the answers below for more specific details on these topics. Finally, please note that the TXCPA PSC does not respond to requests for comments on behalf of investors. Therefore, we did not provide comments on questions 4, 5, 7 and 8, as well as the investor directed portions of the remaining questions.

Question 1:
Are the amendments in this proposed Update that would require that a public entity disclose, by reportable segment, the significant segment expense categories and amounts clear and operable? Please explain why or why not. Is the term significant operable? Please explain why or why not.

Response:
The PSC believes that most of the amendments in this proposed Update are reasonably clear and operable. However, with no quantitative guidance of "significant" expenses, the threshold applied may vary greatly by preparer and audit firm not only resulting in diversity of practice, but needless conflict and expense trying to resolve legitimate differences in opinion as to the definition of significant. It is not clear whether the FASB intends "significant" to be interpreted based solely on quantitative measures (and if so, what measure should be used) or if it is intended to be applied based on management's perspective (i.e., what does management deem to be significant). Guidance in this area would greatly increase the likelihood of appropriate presentation of expenses by segment.

Question 2:
The proposed amendments would require that a public entity disclose the significant segment expense categories and amounts that are regularly provided to the CODM and included within each reported measure of segment profit or loss. For preparers, would the proposed amendments likely result in disclosure of additional information about your reportable segments' expenses? Please explain why or why not and, if not, how you would change the proposed amendments to result in more information being disclosed.

Response:
The PSC believes that the proposed amendments will lead to disclosure of additional information by some preparers that currently provide significant segment expenses to the CODM. However, since the requirement to disclose significant expenses depends on whether such expenses are provided regularly to the CODM, some preparers may be incentivized to remove these expenses from their CODM package to avoid disclosing such information. Additionally, as noted in the basis for conclusions in the proposal, many entities do not provide detailed expense information to their CODM on a segment basis. If this is the case, requirement to disclose significant segment expenses would most likely not result in disclosure of additional information.

Question 3:
The proposed amendments would require that a public entity disclose an amount and qualitative description of the composition for other segment items even if the public entity does not separately report significant segment expense categories and amounts. For preparers, would the proposed amendments likely result in disclosure of additional information about your other segment items? Please explain why or why not and, if not, how you would change the proposed amendments to result in more information being disclosed.

Response:
The PSC notes that the proposed amendments will result in additional disclosures, as the requirement to provide a qualitative description for other segment items would apply to all public entities even if they only have a single reportable segment. However, it is unclear whether providing this information will be beneficial for financial statement users – particularly for companies that do not include significant segment expenses in their CODM package and therefore would not disclose such items.

Question 6:
The Board decided to clarify that if the CODM uses more than one measure of a segment's profit or loss, at least one of the reported segment profit or loss measures (or the single reported measure, if only one is disclosed) should be the measure that is most consistent with the measurement principles used in measuring the corresponding amounts in the public entity's consolidated financial statements. For preparers, would the proposed amendments likely result in disclosure of additional measures of a segment's profitability? For investors, would disclosure of additional measures of a segment's profitability that are used by the CODM provide decision-useful information? If so, how would the information be used? For all respondents, should the Board extend this decision to other measures that are used by a CODM, such as multiple measures of a segment's assets? Please explain why or why not.

Response:
The PSC believes that the measure of a segment's profit or loss should be limited to the measure that is most consistent with GAAP. The allowance of multiple measures would be confusing to users

of the financial statements. Further, this may "open the door" for preparers to disclose non-GAAP measures in the financial statements that would not be allowed by the SEC today. We note that the SEC has established parameters for including non-GAAP financial measures in an entity's publicly filed reports; however, such parameters do not currently exist in ASC 280. Therefore, allowing multiple reported measures of a segment's profit and loss may result in unintended consequences. We recommend that extreme caution be used when considering allowing non-GAAP items in the financial statements. Similarly, we would not be supportive of expanding the ability to disclose multiple measures to other measures used by the CODM.

Question 9:
The Board decided that a reconciliation of the total of the reportable segments' amount for each significant segment expense category to its corresponding consolidated expense amount was not operable. For preparers, do you agree with that decision? Please explain why or why not. For investors, would the absence of a reconciliation reduce the usefulness of the significant segment expense information? Please explain why or why not.

Response:
The PSC is not sure why the requirement to provide a reconciliation of the total of the reportable segments' amount for each significant segment expense category to its corresponding consolidated expense is not operable. We note that it seems unusual to require that other amounts presented in the segment disclosures must be reconciled to the information reported under GAAP but to not require a similar reconciliation for segment expenses. Additionally, we believe that most entities that provide expense information to the CODM would already ensure that such information reconciles to the information reported under GAAP as part of their Internal Control over Financial Reporting. Additionally, even if this reconciliation is not required by the standard, we believe that auditors may require management to provide reconciliation as part of the financial statement audit. Therefore, the PSC does believe that significant segment expense reconciliation to the corresponding consolidated expense accounts at some level is operable and could be performed.

Question 10:
The proposed amendments would require that a public entity disclose significant segment expenses and existing segment disclosures on an interim and annual basis. Do you agree with that proposal? Please explain why or why not.

Response:
The PSC does not object to the proposed requirement to provide full disclosures on an interim and annual basis. However, we note that the requirement to provide interim period information in paragraph 280-10-50-32 of the proposal has different requirements than paragraphs 280-10-50-20 through 50-26 for annual financial statements. For simplification purposes, we recommend requiring annual disclosures in paragraphs 280-10-50-20 through 50-26 for both annual and interim financial statements and deleting section 280-10-50-32.

Question 11:
The proposed Update would require that the amendments be applied on a retrospective basis. Is that transition method operable? If not, why not and what basis would be more appropriate and why? Would the information disclosed by that transition method be decision useful? Please explain why or why not.

Response:
The PSC believes that applying the proposed amendments on a retrospective basis is generally operable; however, the FASB may wish to consider allowing a practicability exception consistent with the exception in paragraph 280-10-50-34 in the event an entity does not have the information to disclose significant expenses in prior periods.

Question 12:
Upon transition, the segment expense categories and amounts that an entity would disclose in comparative prior periods would be based on the significant segment expense categories identified in the period of adoption. An entity also would be required to provide a qualitative transition disclosure that explains what the differences in the segment expense categories would have been if the significant expense principle had been applied in the most recent comparative period. Is this transition disclosure clear and operable? Please explain why or why not. For investors, would such a transition disclosure provide decision-useful information? If so, how would the information be used?

Response:
As there has not previously been a requirement to disclose significant expenses by segment, the PSC would recommend that this proposed requirement be deleted. The PSC believes investors and other users of the financial statements may find it confusing.

Question 13:
In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should early adoption be permitted? Please explain your reasoning.

Response:
Since the requirement to disclose significant expenses is based on information provided to the CODM, the PSC does not believe that it would take a significant amount of time to implement this standard. However, since these disclosures are not currently required, entities may need to enhance their Internal Control over Financial Reporting. As such, the PSC recommends that the FASB allow sufficient time to implement necessary controls. Early implementation should be allowed.

We appreciate the opportunity to submit comments on the proposed ASU on improvements to segment reporting.

Sincerely,

J. Ramsey Womack III, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants