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Technical Director
FASB
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Re Proposed ASU Update: Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40)

Dear FASB:

We appreciate the opportunity to provide feedback to FASB to aid in its standard-setting efforts.

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs. The committee has been authorized by the Texas Society of CPAs' Leadership Council 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' Leadership Council or Board of Directors and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our responses below for the request for comment.

The PSC is supportive of FASB's efforts to provide decision-useful information to investors. However, we have concerns that the information required by this proposed ASU may be difficult to provide and may not provide decision-useful information that outweighs the costs of providing such information. We also find aspects of the proposed disaggregated amounts to be confusing and inconsistent with GAAP principles. Additionally, we observe that this proposed ASU would require incremental disclosures to the currently proposed ASU requiring expense disclosures for segments. Together, these two proposed ASUs, if implemented, would place an additional burden on preparers and auditors that may not outweigh the benefits.

We have provided more detailed answers to FASB's questions below. Please note that the TXCPA PSC does not respond to requests for comments on behalf of investors. Therefore, we have not provided comments on questions 3 and 8, or the investor directed portions of questions 4, 6, 8, 12, 14, and 15.

Expense Captions Subject to Disaggregation Requirements

Question 1: The amendments in this proposed Update would require that a public business entity disclose disaggregated *relevant expense captions* in the notes to financial statements. For preparers and practitioners, are the proposed amendments for identifying relevant expense captions operable? Please explain why or why not. If not, what changes would you make?

Response: The PSC believes that the proposed amendments that would require an entity to disclose disaggregated relevant expense captions are operable, as the definition of "relevant expense captions" is sufficiently clear.

Entities in Scope

Question 2: Should the proposed amendments apply to all public business entities? Please explain why or why not.

Response: If FASB proceeds with this proposed ASU, the PSC believes that for consistency purposes it would be appropriate to require all public business entities to apply the amendments. We are not aware of a subset of public business entities that should be carved out. However, we are not sure that the costs of implementing the proposed standard will outweigh the benefits, even for public business entities.

Due to the cost-benefit concerns that we have for public business entities, we would not be supportive of extending the proposed disaggregated expense requirements to entities that do not meet the definition of a public business entity.

Required Expense Categories

Question 4: For preparers, how does requiring disclosure of certain categories of expenses included in relevant expense captions compare with the operability and cost of requiring full disaggregation of income statement expenses into natural categories (including the disclosure of additional categories that would not be required by the proposed amendments)? Are there other broadly applicable expense categories or disaggregation approaches that would provide investors with more decision-useful information, be less costly to provide, or both? Please explain why or why not.

Response: The PSC believes that the proposed approach of limiting the categories of expenses that require additional disaggregated disclosures would be more cost effective than a requirement to provide full disaggregation of income statement expenses. However, it may make the standard more difficult to understand and apply because it will require a determination of what types of expenses fall into those defined categories.

Question 5: For preparers and practitioners, is the proposed definition of *inventory expense* operable? Please explain why or why not. If not, what changes would you make?

Response: The PSC believes that the proposed definition of inventory expense is generally operable. However, we observe that the definition of inventory expense would also encompass items such as employee compensation, depreciation and amortization that are initially capitalized in inventory and later released to the income statement. Please see our concerns with the required additional disaggregation of inventory expense under question 9 below.

Question 6: The proposed amendments would leverage the existing definition of *employee* in Topic 718, Compensation—Stock Compensation, and would add a definition of *employee compensation*. For preparers and practitioners, are the proposed definitions of *employee* and *employee compensation* operable, including for entities with international operations, and would the proposed amendments affect entities' current application of the definition of *employee* in Topic 718? Please explain. What changes, if any, would you make? For preparers, would the proposed practical expedient that would allow certain entities to disclose salaries and benefits in accordance with SEC Regulation S-X Rule 9-04 be less costly to apply than applying the proposed definition of *employee compensation*? For investors, would permitting the application of that proposed practical expedient affect the decision usefulness of the proposed disclosures? For all stakeholders, should the definition of *employee compensation* include additional costs or exclude any of the costs proposed? Please explain why or why not.

Response: The PSC believes that both proposed definitions are operable. However, we observe that the definition of *employee* in Topic 718 includes a discussion about non-employee directors. It is not clear whether FASB intends the proposed disclosures regarding *employee compensation* to include compensation paid to non-employee directors acting in their role as members of a board of directors and recommend that FASB clarify its intent. Further, if FASB believes that the definition of *employee compensation* should include board member compensation, it should discuss the reasons for this decision in the basis for conclusions.

We observe that the definition of *employee compensation* is intended to capture almost all costs related to compensating employees. We agree with that approach and are not aware of other significant costs that are not included in the existing definition.

Question 7: For preparers and practitioners, would linking depreciation and intangible asset amortization to existing disclosure requirements in Subtopic 360-10, Property, Plant, and Equipment—Overall, and Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill, be operable? Please explain why or why not.

Response: The PSC believes the proposed requirements that link depreciation and intangible asset amortization to existing disclosure requirements are operable.

Further Disaggregation of Inventory and Manufacturing Expense

Question 9: The proposed amendments would require (a) that the costs incurred that were capitalized to inventory during the current period be combined with other manufacturing expenses and (b) that this total of manufacturing-related expenses be disaggregated and disclosed separately from nonmanufacturing expenses. For preparers, would this proposed requirement be more or less costly to implement than if all such costs (manufacturing and nonmanufacturing) were permitted to be combined? For preparers and practitioners, is this proposed requirement operable? Please explain why or why not.

Response: The PSC believes that the proposed approach will be difficult to apply and to audit, as it combines expenditures made during the period that are being recognized on the balance sheet with costs that are being incurred and recognized in the income statement. We believe that mixing current expenditures that are capitalized on the balance sheet with expenses recognized in the income statement is counterintuitive and is inconsistent with established accrual-based accounting principles under U.S. GAAP. Further, we question whether such a mixed approach will provide decision-useful information to investors. We also believe that the costs to implement the proposed amendment may be significant as many entities do not have systems in place to readily capture the required information.

Question 10: For preparers and practitioners, is the proposed requirement to classify certain expenses as part of manufacturing activities and disclose how an entity defines other manufacturing expenses (other manufacturing expenses together with inventory expense constitute inventory and manufacturing expenses) operable? Please explain why or why not. If not, what changes would you make?

Response: The PSC generally believes the proposed requirements are operable.

Question 11: For preparers and practitioners, are there any potential practical expedients that would simplify or reduce the costs associated with disaggregating inventory and manufacturing expense but would not significantly diminish the decision usefulness of the information provided to investors? For any potential practical expedients suggested, please explain your reasoning.

Response: The PSC does not believe that separate presentation of expenditures that are added to the balance sheet in inventory accounts are necessary, and we are unsure that they provide decision-useful information. We believe that established accrual-based accounting principles currently used to account for inventory and the resulting inventory expense as it is released into the income statement provide a more faithful representation of expenses incurred during a period. To deviate from those principles would call into question the usefulness of accrual-based accounting. Additionally, we believe that investors can use techniques such as gross margin analysis to compare performance across companies and that further disaggregation of cost of sales may not be meaningful.

Additionally, we believe that preparing and auditing this information will be difficult and that the costs of this proposed ASU may outweigh the benefits. As such, we believe an approach that requires disaggregated information for income statement accounts excluding cost of sales may be a reasonable approach to provide investors with additional disaggregated data, without unwinding the principles of accrual-based accounting.

Integration of Existing Disclosure Requirements

Question 12: The proposed amendments would require that an entity include certain existing disclosures of expenses in the same tabular format disclosure as the disclosures that would be required by the proposed amendments. For investors, would including those expenses in the same tabular format disclosure provide decision-useful information? Would this improve your ability to locate relevant expense information in the notes to financial statements? Please explain why or why not. For preparers and practitioners, is this proposed requirement operable? Please explain why or why not. For all stakeholders, are there other existing disclosures that are not reflected in the proposed amendments and should be included in the lists in paragraph 220-40-50-12, paragraph 220-40-50-13, or both? Please explain why or why not.

Response: The PSC believes it is reasonable to integrate existing disclosure requirements into the same table so that all such requirements are presented in a single place.

Question 13: In addition to the disclosure requirements being proposed, should other expenses that are currently disclosed in the financial statements also be required to be integrated into the tabular format disclosures (for example, other expenses that an entity voluntarily discloses in total in the notes to financial statements)? Please explain why or why not.

Response: Although the PSC believes that it may be helpful for an entity to include other disaggregated expense information that it provides in the same table, we do not believe that voluntary disclosures provided by an entity should be required to be included in a specific place or format in the financial statements. We believe that a requirement for a specific location or format is inconsistent with the notion that such disclosures are voluntary.

Qualitative Description of Other Items

Question 14: The proposed amendments would require that an entity provide a qualitative description of any other items remaining in relevant expense captions and any costs remaining in inventory and manufacturing expense after the specific disaggregation requirements are applied. For investors, would this proposed requirement provide decision-useful information? If so, how would that information be used? If not, what changes would you make? For preparers and practitioners, is this proposed requirement operable? Please explain why or why not.

Response: The PSC believes that the proposed requirement would be operable.

Selling Expenses

Question 15: The proposed amendments would require that an entity disclose selling expenses and how it defines selling expenses. Should a definition of selling expenses be developed, or should an entity be required to determine what constitutes a selling expense? For investors, would the proposed requirement provide decision-useful information? If so, how would that information be used? If not, what changes would you make? For preparers and practitioners, is the proposed requirement operable? Please explain why or why not.

Response: Although the PSC observes that a standardized definition of selling expenses could promote greater consistency between entities, we note that diversity currently exists across different companies and industries and that investors appear to be able to understand and manage those differences. As such, we do not believe there is a current need to develop a standard definition of selling expenses. We believe the proposed requirement to disclose an entity's selling expenses and how it defines them is operable.

Interim Reporting

Question 16: The proposed amendments would require the disclosures on both an annual basis and an interim basis. Do you agree with those proposed amendments? Please explain why or why not.

Response: If FASB proceeds with this project, the PSC believes that once entities have the systems in place to generate the required information, it should not be unreasonable to require disclosures on an interim basis.

Transition and Effective Date

Question 17: The proposed amendments would be applied on a prospective basis with an option for an entity to apply the guidance retrospectively. Is that proposed transition method operable? If not, why not and what transition method would be more appropriate and why? Would the information disclosed under the proposed transition method be decision useful? Please explain why or why not.

Response: The PSC agrees with the prospective transition method and does not object to allowing an option for a retrospective adoption. We do not believe that a retrospective adoption method should be required due to the difficulty in obtaining the required information.

Question 18: For preparers, would you expect to apply the proposed amendments retrospectively, even if not required, to assist investors in comparing performance to previous periods? Please explain why or why not.

Response: Although the PSC believes that investors may desire comparative information, we believe that few companies will elect to apply the proposed amendments retrospectively due to the difficulty of obtaining such information in past periods prior to implementing systems to capture this information.

Question 19: Regarding the effective date, how much time would be needed to implement the proposed amendments? Should early adoption be permitted? Please explain why or why not.

Response: The PSC believes it may take a substantial amount of time to implement the proposed standard. As such, we recommend providing a long period of time (at least one or two years) to enable companies to update systems to be able to provide all the required information.

We appreciate the opportunity to submit comments on the proposed ASU on Expense Disaggregation Disclosures (Subtopic 220-40).

Sincerely,

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