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Via email to director@fasb.org

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

Re: Disaggregation of Income Statement Expenses (File Reference No. 2023-ED500)

Dear Ms. Salo:

We appreciate the opportunity to respond to the Board's exposure draft on the disaggregation of income statement expenses. We support the Board's efforts to improve a public business entity's disclosures about its expenses and to address requests from investors for meaningful information about these expenses.

We agree with the Board's proposal to require that a public business entity disclose disaggregated relevant expense captions in the notes to financial statements' notes. However, we believe certain aspects of the proposal require clarification to reduce complexity and the potential for diversity in practice, such as the identification for the relevant expense captions and the proposed definition of inventory expense. We have described our suggestions in our responses to the Questions for Respondents in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Angela Newell at (214) 689-5669 or Adam Brown at (214) 665-0673.

Very truly yours,

BDO USA, P.A.

BDO USA, P.A.

Appendix

Note: We have not responded to questions addressed specifically to investors.

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?

We generally believe that the proposed amendments for identifying relevant expense captions are operable. However, we believe certain revisions may result in more consistent application, as further discussed in the responses to other questions. In addition to those comments, we also suggest providing additional clarification on the following:

- Proposed paragraph ASC 220-40-50-8 indicates that the amounts disclosed for depreciation and amortization expense must be consistent with “the classification of amounts used to satisfy the disclosure requirements for the total depreciation expense and total intangible asset amortization expense disclosures ...” It is unclear how amounts disclosed can be consistent with classifications, and thus it is unclear what is meant by this disclosure. We recommend clarifying the intent of this guidance for consistency and appropriate application.
- Proposed paragraph ASC 220-40-50-13 requires disclosure of listed items only required if those items are included in a single expense line item. We understand based on the language in paragraph BC 73 that the Board intentionally omitted disclosure when these expenses are separated into multiple captions because existing guidance does not require disclosure of the caption in which those expenses are recorded. However, allowing an entity to avoid disclosure if the items are reported in multiple captions will result in a lack of comparability between entities. In addition, only requiring disclosure when the amounts are included in a single income statement caption coupled with the lack of clear guidance on income statement presentation potentially leads to structuring opportunities if an entity wants to avoid disclosure. Finally, when entities report these items in multiple income statement captions, not requiring disclosure can result in quantitatively large “other” categories in the disaggregation disclosures, as evidenced by the fact that “Other costs of services” and “Other SG&A” in example 1 in the Exposure Draft represent more than 35 percent of the total, despite both captions including operating lease cost. Therefore, we encourage the Board to consider aligning the disclosure requirements regardless of where entities include the amounts in the income statement.

We also suggest clarifying the interrelationship between this exposure draft and the proposed project on enhanced segment disclosures.

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

We generally believe applying the proposed amendment to all public business entities will enhance comparability. However, we believe entities that meet the definition of public business entities, but were previously classified as such, (for example, significant equity method investees or joint ventures of public business entities) will require more time to implement the proposed amendments compared to other public business entities.

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.

We defer to preparers on how requiring the disclosure of certain categories of expenses compares with the operability and cost of preparing full disaggregation of the income statement expenses into natural categories.

However, we note that either approach will likely increase audit costs. The proposed disclosures will require entities to report at a lower level than they do currently, which will require auditors to also audit at the same level. That change could impact materiality considerations and will potentially increase audit costs. We expect that limiting the disclosure to only certain categories of expenses will restrict the increase in costs compared to requiring full disaggregation of the income statement expenses into natural 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?

We believe that proposed definition of inventory expense is confusing when considered in conjunction with the proposed disclosure requirements in proposed paragraphs ASC 220-40-50-17 through 50-21. The disaggregation of inventory and manufacturing expense includes amounts that entities initially capitalize as inventory costs and amounts that entities recognize in the current period as expenses, either due to the sale of inventory or due to remeasurement. While we support this approach (see our response to Question 9), we believe that labeling the caption as “expense” is misleading, and potentially leads to confusion in applying the guidance in proposed paragraphs ASC 220-40-50-17 through 50-21. Therefore, we recommend revising the title to reflect that entities must disclose both the capitalized and expensed components of the items. For example, the title “inventory costs” would better reflect the intent of the proposed disclosure.

In addition, we also believe that the proposed definition of inventory expense further confuses the intent of the proposed disclosure because it includes “an expense resulting from the derecognition of inventory due to sale to customers” as well as an expense resulting from “consumption in the production of goods or services for such sale.” It is unclear whether the phrase “[consumed] in the production of goods or services” intends to encompass only period costs not capitalized under the guidance in ASC 330-10 or if it intends to include all costs incurred during the period that undergo capitalization into inventory. The former definition would be consistent with amounts expensed as cost of goods sold or cost of sales in the income statement, but it would be inconsistent with the requirement to separately show amounts required to be disaggregated as inventory and other manufacturing expenses in proposed paragraph ASC 220-40-50-18. The latter definition would be consistent with the proposed disaggregation guidance but would double-count certain expenses that are both used in production and sold as inventory in the current period. Therefore, we suggest revising the proposed wording to better align with the intent of the proposed disaggregated disclosures.

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.

We agree with leveraging the existing definition of employee and employee compensation in Topic 718 as this eliminates some of the complexity in adopting the proposal and results in the proposed disclosures being operable¹. However, we believe that the proposed definition of employee compensation is potentially confusing because it begins with the phrase “All forms of cash consideration,” which could lead a reader to conclude that the definition does not include non-cash compensation other than share-based payments (which is explicitly included). Proposed paragraph BC60 notes that the Board intended for the employee compensation definition to include significant non-cash forms. Therefore, we recommend clarifying that approach in the definition by revising it as follows: “All forms of ~~cash~~ consideration, including current and deferred compensation, ...”

In addition, we note that proposed paragraph 220-40-50-7 gives entities the option to include amounts attributable to other transactions entered for the benefit of employees in employee compensation. If an entity elects to include such amounts, that entity is required to disclose that fact and a description of those transactions. While the option to include or exclude such amounts could result in disparity among public business entities, we note that the requirement to disclose a description of those transactions may disincentivize entities from including those amounts in their disclosure of employee compensation, as entities that elect not to include such amounts face no comparable disclosure requirement. Therefore, if the Board believes that inclusion of such amounts would result in better disclosure, then we recommend requiring such amounts to be included. Alternatively, the Board could retain optionality, but require disclosure of the description of those transactions even if not included.

We generally agree that the proposed practical expedient to allow certain entities to disclose salaries and benefits in accordance with SEC Regulations S-X Rule 9-04 is less costly to apply than applying the proposed definition of employee compensation.

We defer to investors on whether permitting the application of that proposed practical expedient affects the decision usefulness of the proposed disclosures.

¹ We note that limiting this disclosure to compensation paid to employees will result in diversity to the extent that entities rely more or less on non-employee labor. However, we acknowledge the difficulty in determining how to define non-employee for purposes of determining which payments represent the equivalent of employee compensation, and therefore do not object to the Board's proposed approach.

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.

We agree that linking depreciation and intangible asset amortization to existing disclosure requirements Subtopic 360-10, Property, Plant, and Equipment—Overall, and Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill is operable and maintains consistency.

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.

We acknowledge the challenges associated with reporting amounts expensed during the period as cost of goods sold or cost of sales, which would require disaggregation of amounts incurred in prior periods, as discussed in paragraphs BC 45 through BC 54. Therefore, we agree with the proposed approach to reporting disaggregated information related to inventory and other manufacturing costs. See our response to Question 5 for comments on the operability of the definition of inventory cost.

However, we also acknowledge that many accounting systems do not currently provide the reporting needed to comply with the proposed disaggregation disclosure. As a result, entities may resort to manual reconciliations, which result in increased costs for preparers as well as increased audit fees resulting from additional procedures necessary for practitioners to audit these manual reconciliations.

We defer to preparers to determine whether implementing this proposed requirement is more or less costly than combining all such costs (manufacturing and nonmanufacturing).

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?

We generally agree that the proposed requirements are operable with suggestions on additional clarity in the following instances:

- Please see our responses to Questions 5 and 9.
- We note the example in ASC 220-40-55-11, footnote (d) states, ““For the year ended December 31, 20X3, other adjustments and reconciling items also included the carrying amount of inventory sold to noncustomers in connection with a disposal transaction.” We believe that this language intends to discuss a transfer of inventory in the sale of an legal entity or line of business, which would be consistent with the language in proposed paragraph 220-40-50-20(a). However, a “disposal transaction” could have multiple meanings. As there are limited instances in which noncustomers would receive inventory in a transaction, we suggest the Board revise the language in this example for clarity.

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.

The Board may consider allowing a qualitative disclosure of the additional disaggregated information proposed in ASC 220-40-50-17 and 50-18 when a single expense represents substantially all of the inventory and manufacturing expense, for example, inventory purchases. In this context, it is possible certain distributors and resellers may not incur significant manufacturing-related costs in connection with the purchase of goods for resale. If the Board pursues such an expedient, additional outreach may be helpful in determining whether “substantially all” or another threshold is appropriate. .

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.

We generally agree that the proposed requirement is operable as the information required already exists within most accounting systems.

We defer to investors on whether the proposed requirement gives decision-useful information and the ability to locate the relevant expense information in the notes to the financial statements.

We recommend amending the proposed ASC 220-40-50-12(a) to state “... in a transaction other than a business combination or a joint venture formation ...” to be consistent with the amendments made in ASU 2023-05 to ASC 350-30-50-1(c), as that paragraph is referenced in the proposed paragraph. Although most joint ventures are not public business entities, it is possible that a joint venture could meet that definition and thus be subject to the disclosure requirements in the proposed Update.

In addition, we understand that the proposed update on accounting for crypto assets would treat such assets as a separate class of intangible assets. We encourage the Board to consider whether to include changes in the value of a crypto asset required under a final standard as part of proposed paragraphs ASC 220-40-50-4(d) and ASC 220-40-50-12(b).

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.

We suggest allowing entities the option to include other expenses that they currently disclose in the financial statements in the tabular format disclosures. An option allows entities to exercise professional judgement on how best to highlight decision-useful information in the financial statements. For example, there may be certain one-time expenses that an entity wants to describe in more detail to users as opposed to including in the tabular format. Conversely, preparers may determine that including expenses that they disclose regularly in the tabular disclosure gives more user-friendly information for investors.

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.

We generally agree that the proposed amendments, which require an entity to give a qualitative description of any other items remaining in relevant expense captions and any costs remaining in inventory and manufacturing expense after applying the specific disaggregation requirements, are operable as the information required already exists within most accounting systems.

We defer to investors on whether the proposed requirement gives decision-useful information and on how they would use that information.

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.

As written, we agree that the proposed amendments are operable because entities have the necessary information readily available to disclose their current accounting policy on the composition of selling expenses and the amounts recognized in each reporting period pursuant to that policy.

We also believe it would be helpful for the Board to develop a definition of selling expenses. From a comparability perspective, having a definition or parameters on what the Board constitutes as selling expenses would promote consistency among companies in their determination of selling expenses. However, we acknowledge that it may be challenging to develop one all-encompassing definition for selling expenses that would apply to all industries. Therefore, we would support a separate project to develop a definition of selling expenses. We would also support expanding such a project to include income statement presentation more broadly.

We defer to investors on whether the proposed requirement gives decision-useful information and on how they would use that information.

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.

We generally agree with the requirement to provide the proposed disclosures both annually and on an interim basis but defer to investors on the frequency needed.

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.

We agree that the proposed amendments are operable as the entity has the option to apply them either prospectively or retrospectively. This allows the entity to assess the availability of data and make the best decision for its user base. We defer to investors on whether the proposed transition method is decision useful.

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.

We defer to preparers on their expectations on the need to apply the proposed amendments retrospectively at the request of investors.

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.

While we defer to preparers on how much time they will need to implement the proposed amendments, we also generally acknowledge they may need time to reconfigure and develop reporting needed to build the proposed disclosures. Further, as practitioners, we will need time to test, review, and audit these processes and resulting disclosures. Additionally, we believe entities that meet the definition of public business entities but previously were not considered public entities (for example, significant equity method investees of public business entities or joint ventures) may require more time to implement the proposed amendments compared to other public business entities. We support the idea of granting an extended transition period for such entities.

We support permitting early adoption as such information would give decision-useful information to investors.