October 30, 2023

Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board
801 Main Ave
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2023-ED500

Dear Ms. Salo:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses* (the proposed Update). We are pleased to provide our perspectives that are informed by our interactions with investors and companies. Our views also incorporate our experiences as a global business and our history of engagement on standard-setting matters.

We support the Board's overall objective in the proposed Update to address feedback from investors that additional information about a company's expenses would enhance their ability to understand its performance, assess its prospects for future cash flows, and compare its performance over time and with that of other companies. In the absence of a comprehensive framework for enhanced performance reporting, we believe the proposed Update enables an expedient response to this feedback by focusing on a finite number of common expense categories. However, with the continued proliferation of alternative performance measures and non-GAAP reporting outside of the financial statements, we believe the FASB should do more to enhance the relevance and decision-usefulness of the primary financial statements for investors. Therefore, we recommend that the Board consider a longer-term project on broader improvements to income statement presentation as part of or in addition to the existing research project focused on financial key performance indicators. We also observe that the usefulness of the disclosures resulting from the proposed Update may vary depending on a company's business model and industry. For example, the disclosures may be less relevant in industries in which significant amounts of employee compensation are capitalized into assets other than inventory.

Based on our experience and interactions with preparers, we understand that the costs to comply with the proposed Update could be significant, especially as it relates to disaggregation of inventory and other manufacturing expenses. Many companies will likely need to make significant changes to their systems and processes for collecting financial data as the required disclosures will often necessitate an alternative aggregation of costs rather than simply a disaggregation of amounts included in an expense caption. We encourage the Board to continue its efforts to obtain feedback from both preparers and investors to (1) measure the benefits of the proposed disclosures against the associated implementation costs and (2) inform decisions about the effective date of a final standard. We also recommend that the Board obtain an understanding from preparers of the need for information system modifications, including the need for new solutions from software vendors, and the expected time horizon for making those modifications as they consider the implementation timetable.

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Appendix A contains our detailed responses to the Questions for Respondents directed to practitioners, including recommendations for clarifying the guidance in the proposed Update and certain alternatives for the Board to consider. Appendix B contains additional observations and recommendations.

We would be pleased to discuss our observations and recommendations with the Board or its staff. If you have any questions, please contact Angela Fergason (angela.fergason@pwc.com) or Thomas Barbieri (thomas.barbieri@pwc.com).

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

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?

Yes, we believe the amendments for identifying relevant expense captions in the proposed Update are operable.

Entities in Scope

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

Yes, we believe the amendments in the proposed Update should apply to all public business entities. We recommend the Board perform outreach to users of private company financials in its assessment of whether the amendments, or a portion thereof, should also apply to private companies. The Board could also consider monitoring implementation of the guidance by public business entities and based on this experience, reassess application of the guidance to private companies at a future date.

Required Expense 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?

Yes, we believe the proposed definition of inventory expense is operable. We agree with the approach of leveraging existing concepts in ASC 330, *Inventory*, in the definition.

We observe that the definition of "inventory expense" includes impairments of inventory. Because impairments are not a required category for disclosure under paragraph 220-40-50-18, we expect that impairments would be included in the "other" line item described in 220-40-50-18(f). If this is consistent with the Board's intent, we recommend clarifying that an impairment is an example of a cost that would be included in this line item to avoid confusion and promote consistency in disclosures. If the Board intends that entities would include impairments of inventory in a different line item, we recommend providing specific guidance accordingly.

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 all stakeholders, should the definition of *employee compensation* include additional costs or exclude any of the costs proposed? Please explain why or why not.

Yes, we believe the proposed definitions of employee and employee compensation are operable. We agree with the approach of leveraging the existing definition of "employee" used in ASC 718, *Compensation—Stock Compensation*, as we believe this definition is understandable and we are not aware of any significant challenges in practice with applying it. Further, we have not identified any additional costs that should be included in the definition of "employee compensation."

Paragraph 220-40-50-4(b) of the proposed Update requires separate disclosure of one-time employee termination benefits recognized pursuant to ASC 420. We agree that investors may benefit from the separate disclosure of this information; however, we recommend that the same approach be applied for special or contractual termination benefits recognized pursuant to ASC 712, *Compensation—Nonretirement Postemployment Benefits,* and ASC 715, *Compensation—Retirement Benefits*. These termination benefits are similar in nature to one-time termination benefits recognized pursuant to ASC 420, *Exit or Disposal Cost Obligations*, and in some cases, the same restructuring event can result in the payment of termination benefits in the scope of multiple Topics.

We also encourage the Board to align the definitions of "employee" and "employee compensation" with SEC disclosure requirements, such as in any proposals issued by the SEC related to human capital disclosures, to the extent possible.

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.

Yes, we believe that linking the requirements in the proposed Update to existing disclosure requirements in ASC 350, *Intangibles—Goodwill and Other*, and ASC 360, *Property, Plant and Equipment*, will facilitate consistent application of the guidance.

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 and practitioners, is this proposed requirement operable? Please explain why or why not.

Yes, we believe this requirement is generally operable; however, refer also to our responses to Questions 10 and 11 for recommendations to enhance operability.

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 believe some judgment will be required to determine whether expenses represent manufacturing or nonmanufacturing expenses; however, we generally believe this proposed requirement is operable. We recommend expanding the description of other manufacturing expenses in paragraph 220-40-50-6 of the proposed Update to include further examples, such as costs to manufacture a customized product or to construct a facility under a long-term construction contract for which revenue is recognized over time in accordance with ASC 606.

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.

We understand from our discussions with preparers that the disaggregation of inventory and manufacturing expenses would be the most challenging aspect of the proposed Update as many companies do not currently collect and aggregate financial data into the categories that would be required.

Additionally, further disaggregation of inventory and manufacturing expense may not be as meaningful for companies with limited manufacturing activities, such as retailers or distributors that predominantly buy and sell finished goods. We suggest the Board consider an alternative to allow companies the option to disaggregate inventory and manufacturing expense based on the amount expensed on the income statement instead of providing the separate tabular disclosure of inventory and manufacturing expense based on costs incurred (required by paragraph 220-40-50-17). Some companies may prefer this alternative approach if, for example, "purchases of inventory" is the only material component of inventory and manufacturing expense.

We support the Board's continued dialogue with preparers and investors to identify and evaluate potential alternatives or practical expedients that would reduce the cost of providing the disclosures while continuing to achieve the overall objective of providing decision-useful information.

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 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.

While we believe the proposed amendments are operable, we recommend the Board consider an alternative approach to the guidance in paragraphs 220-40-50-12 through 50-15 of the proposed Update. These paragraphs seek to provide detailed lists of existing disclosure requirements in other Topics. We believe it may be challenging to maintain the completeness of these lists, especially over time as disclosure requirements in other Topics are added or amended. We understand that the intent of the guidance is to incorporate existing disclosures into a single table for ease of reference by investors; however, we believe the guidance may be confusing to both preparers and investors, including differentiating between the list in paragraph 220-40-50-12 and the list in paragraph 220-40-50-13. We also question whether duplicating existing disclosures or requiring information to be disclosed in a specific location provides significant benefit to investors. Additionally, we are concerned that certain expense amounts may not be meaningful to investors without the context of the discussion in the relevant footnote disclosure and that inclusion in the table could give undue prominence to certain expenses while other, more significant, expense categories are not quantitatively disclosed simply because they are not on the lists in paragraphs 220-40-50-12 and 50-13.

As an alternative, we recommend allowing companies the option to provide a cross-reference to other relevant footnotes in conjunction with providing the qualitative description of other remaining items, as required by paragraph 220-40-50-16. We believe this will provide investors with relevant information to understand the composition of other remaining items, while at the same time simplifying the guidance for what is required to be included within the table.

If the Board decides to retain the requirement to include amounts from existing disclosures in the table, we recommend a principles-based approach that explains the intent of the guidance without providing detailed lists of references to other Topics. Certain of the items in paragraphs 220-40-50-12 and 220-40-50-13 could be used as examples to illustrate the principle. We believe this approach would limit the risk of unintended omissions, particularly as disclosure requirements in other Topics change over time.

If the Board decides to retain the listings in paragraphs 220-40-50-12 and 50-13, we have identified the following items that may have been unintentionally excluded from these paragraphs:

- The amount of acquisition costs amortized for the period per the requirements in ASC 944-30-50-1(c)
- The total amount charged to advertising expense for each income statement presented per the requirements in ASC 720-35-50-1(b)
- Components of net benefit cost recognized (other than service cost amounts included within employee compensation) per the requirements in ASC 715-20-50-1(h)

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.

No, we do not believe other expenses should be required to be integrated into the tabular format disclosures. Refer also to our response to Question 12.

<u>Qualitative Description of Other Items</u>

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 preparers and practitioners, is this proposed requirement operable? Please explain why or why not.

Yes, we believe the amendments in the proposed Update requiring qualitative description of other remaining items are 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 preparers and practitioners, is the proposed requirement operable? Please explain why or why not.

In the absence of a comprehensive framework that defines the elements of the income statement, we agree with the Board's decision not to develop a definition of "selling expenses" and instead, require a reporting entity to disclose its policy for defining this category of expenses. We believe the proposed requirement is operable. As noted in our cover letter, we recommend the Board consider a longer-term project on broader improvements to income statement presentation, including developing guidance to enhance comparability of expense categories.

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.

Yes, we agree with disclosures being required on both an annual and interim basis. We believe the information that would be provided by the proposed Update is most useful to investors when provided each reporting period.

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.

We generally believe the information that would be provided by the proposed Update is most useful to investors if provided on a comparative basis. However, acknowledging the potential challenges to preparers in obtaining the necessary data, we believe allowing companies to provide the new disclosures on a prospective basis (with an option to apply retrospectively) is responsive to investor feedback by providing additional information within a reasonable timeframe while also providing some implementation relief to preparers.

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.

We believe preparers can provide the most insight into the amount of time needed to implement the proposed amendments. We encourage the Board to continue to obtain feedback from preparers on the system modifications required to collect and aggregate financial data to comply with the proposed

Update, including the estimated time to implement these changes and the reliance on software vendors to provide system-driven solutions. We believe early adoption should be permitted as the proposed amendments result in providing incremental information that investors have indicated is decision-useful.

We have the following additional observations and suggestions to clarify the proposed guidance.

Deferred costs

We understand the Board's intent is that companies would not be required to further disaggregate amounts recognized as an expense in the income statement that were initially capitalized as part of the cost of an asset, except for costs incurred in the production of inventory in the scope of ASC 330. Paragraphs 220-40-55-2 and 55-3 explain this concept, using the example of employee compensation capitalized as part of the cost of constructing new property, plant, and equipment for internal use.

However, based on the current wording in the proposed Update, it appears that companies would be required to potentially further disaggregate expenses resulting from the amortization of capitalized costs (into categories such as employee compensation) in certain situations:

- Amortization of a capitalized asset, such as deferred acquisition costs recognized under ASC 944, *Financial Services—Insurance*, that is presented as a separate expense caption in the income statement
- Amortization of a capitalized asset that is not required to be included in the tabular disclosure pursuant to paragraph 220-40-50-13 because the amounts are not included entirely in one expense caption
- Amortization of a capitalized asset that is not required to be included in the tabular disclosures pursuant to paragraphs 220-40-50-12 or 50-13 because there is not an existing requirement to disclose the amount of amortization during the period

We believe that is not the Board's intent. Therefore, we recommend amending paragraphs 220-40-55-2 and 55-3 to explicitly state that further disaggregation is not required for an expense that represents the subsequent recognition of an amount initially capitalized as an asset, even if the costs initially capitalized included the categories listed in paragraph 220-40-50-4, such as employee compensation.

We also recommend amending the discussion in the Basis for Conclusions paragraph B36 to remove the statement: "However, capitalization of a cost to an asset affects the natural classification of that cost; any expense that is subsequently recognized would have a different natural classification than the cost that was capitalized." We believe this discussion may be confusing to preparers as the proposal discusses "natural expenses" both in terms of the nature of costs when incurred (for costs incurred in the production of inventory) and the nature of costs when expensed in the income statement (for depreciation and amortization of an asset). The Board's decision to only require further disaggregation of costs incurred in the production of inventory, but not other types of assets, appears to be a practical approach rather than an outcome of how "natural expenses" should be defined.

Certain accrued expenses

In some circumstances, GAAP requires accruing expenses that include an estimate of future employee compensation. For example, insurance liabilities recorded under ASC 944 and warranty expense recorded under ASC 460, *Guarantees*, are based on estimated costs that may include employee compensation. We do not believe the Board intends that such an expense, including subsequent updates to the recorded liability, would be further disaggregated into categories (such as employee compensation) under the proposed Update. If our understanding of the Board's intent is correct, we recommend adding clarification to the guidance.