



KPMG LLP
345 Park Avenue
New York, N.Y. 10154-0102

Telephone +1 212 758 9700
Fax +1 212 758 9819
Internet www.us.kpmg.com

October 30, 2023

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

RE: Proposed Accounting Standards Update, Income Statement – Reporting Comprehensive Income (Subtopic 220-40): Expense Disaggregation Disclosures (File Reference No. 2023-ED500)

Dear Ms. Salo:

We appreciate the opportunity to comment on Proposed Accounting Standards Update, *Income Statement – Reporting Comprehensive Income (Subtopic 220-40): Expense Disaggregation Disclosures* (the proposed ASU). We support the Board’s objective to provide information to help financial statement users better understand an entity’s performance, assess its prospects for future cash flows and compare its performance over time and with that of other entities. This cover letter describes our key observations and suggestions on the proposed ASU. The Appendix provides our responses to select questions for respondents and includes specific recommendations for the Board to consider.

We generally believe that the proposed disclosures would provide more transparent information about an entity’s operations and cost structure. However, we understand that management of many entities does not track or use the information required to be disclosed under the proposals in the normal course of managing the business. These entities would need to modify their systems, processes and controls to meet the proposed requirements, especially those related to the disaggregation of inventory and manufacturing expense, and in many cases we understand that these modifications could result in significant costs to preparers.

We understand that the FASB has conducted extensive outreach to financial statement users on these proposed disclosures and those financial statement users have indicated that the proposed disclosures would provide them with decision-useful information. We believe it is essential for the Board to continue to critically evaluate the feedback received from users to ensure that the benefits of the proposed amendments outweigh the costs to preparers.

In particular, we encourage the Board to highlight to users that although the proposed disclosures are not based on a management approach (unlike the segment disclosures), there are also inherent limitations on peer comparisons that could be performed using the disclosures given the lack of comparability that would result from policy elections that would be available to reporting entities about how to determine some of the information disclosed, as more fully explained below. In that regard, we believe it will be important for the Board to understand what incremental analyses users would expect to perform using the proposed disclosures as compared to the analyses they would be able to perform using the disaggregated segment expense information once the proposed amendments to Topic 280 become effective.

Following are some changes we recommend to clarify and improve the comparability and decision-usefulness of the disclosures, enhance their operability and lower the costs of implementation.

Implications of the costs expensed approach

With the exception of inventory expense, the proposed amendments generally would require public entities to disaggregate into natural expense categories the costs that have been directly expensed in the period (i.e. a costs expensed approach). Conversely, capitalized costs (e.g. for property, plant and equipment and internal-use software, and to acquire customer or insurance contracts) would eventually be expensed as depreciation, amortization or other.

We observe that costs capitalized might be very significant for some entities but not for others and there may be different disaggregation outcomes for the same expense categories based on an entity's accounting policy election (e.g. when an entity elects the practical expedient under Subtopic 340-40 to expense contract acquisition costs as incurred instead of deferring and amortizing them). This could impair comparability across peers. We note that paragraphs 36 and 107 of the Basis for Conclusions address some of those effects; however, neither does so comprehensively nor prominently.

We believe that understanding the objectives, construct and limitations of the costs expensed approach is key to understanding the disclosures themselves. Therefore, we suggest that the Board address these points more directly in the Basis for Conclusions or in the standard itself. We also recommend that the Board consider whether to require additional qualitative disclosures to help users better understand the extent of costs capitalized.

Employee compensation vs labor cost

Expanding on our comments above about the costs expensed approach, we believe there is a significant risk that the amount of employee compensation disclosed may be misunderstood because it likely will represent only a subset of the total amount of labor cost incurred in the period. For example, employee compensation included in selling expense may represent only fixed salaries if selling commissions are deferred. Employee compensation also generally excludes consideration paid to contractors (i.e. external labor). In addition, the mix of employee compensation versus consideration paid to contractors may vary significantly from one entity to another, including those engaged in comparable activities within the same industry. For these reasons, we recommend that the Board consider whether additional qualitative disclosures about employee compensation might be needed.

Disaggregation of inventory and other manufacturing cost

Under the proposals, inventory and manufacturing expense would be further disaggregated using a costs incurred approach. We recognize that this exception to the costs expensed approach was introduced to address operational concerns and reduce implementation costs; however, there is a potential for this information to be misconstrued by users, for example by comparing purchases of inventory to revenue, or by aggregating costs incurred (i.e. capitalized or expensed) and costs expensed in the same expense category.

Notwithstanding the reasons for the costs incurred approach for inventory and manufacturing expense disaggregation, we understand that those requirements could be complex for some entities to implement, requiring upgrades to existing systems, processes and controls and corresponding new audit procedures. This is particularly likely for vertically integrated manufacturers or those with multiple manufacturing sites when the required information may reside in local sub-ledgers and is not necessarily fully incorporated into financial reporting systems or processes today.

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For these reasons, we recommend that the Board consider a phased approach to the amendments, whereby the disclosure of inventory and other manufacturing cost could be required later than the other proposed disclosures. In our response to Question 11, we also discuss various possible practical expedients for nonmanufacturing entities and acquired businesses. Finally, in our response to Questions 5 and 9, we propose clarifications and disclosure enhancements the Board could explore to make the proposed requirements more operable and improve comparability.

* * * * *

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com or Valerie Boissou at (212) 954-1723 or vlesageboissou@kpmg.com.

Sincerely,

A handwritten signature in black ink that reads "KPMG LLP". The letters are bold and slightly slanted, with a stylized 'K' and 'G'.

KPMG LLP

Appendix I – Responses to Questions for Respondents

Question 1:

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

We believe that preparers will generally be able to identify relevant expense captions subject to disaggregation based on the proposed amendments. We support the Board's decision to not identify specific expense captions for disaggregation given the inconsistency of expense captions between entities. Our general observations about the operability of the proposed disaggregation approach are outlined in our cover letter.

Question 2:

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

We agree with the Board's rationale for scoping out private companies, not-for-profit entities and employee-benefit plans from the amendments, as discussed in paragraphs 22 – 25 of the Basis for Conclusions. However, investment companies subject to Topic 946 and Article 6 of SEC Regulation S-X are already subject to extensive disaggregation requirements. We therefore recommend that the Board consider whether the proposed amendments would be relevant for these entities, and if not exclude them from the scope of proposed Topic 220-40.

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 the proposed definition of inventory expense is operable because it is linked to inventory accounted for under Topic 330.

Additionally, we note that Topic 330 does not define 'purchases'. It may therefore be unclear whether items such as in-bound shipping or freight costs, effects of hedging derivatives, or rebates should be included in purchases. Therefore, we suggest that the Board either clarify what items should be included as purchases, or let preparers define this notion and qualitatively disclose the composition.

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 support the Board's decision to leverage the existing definition of employee in Topic 718 and believe that the definition is operable.

As outlined in our cover letter, we recommend that the Board explore whether additional qualitative disclosures would improve the decision usefulness and comparability of amounts of employee compensation disclosed.

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 believe that linking depreciation and intangible asset amortization to existing disclosure requirements in Subtopics 360-10 and 350-30 is operable because entities should be able to rely on current practices to meet the proposed disclosure requirements. However, given the significance of internal-use software, we suggest that the Board incorporate paragraph 70 of the Basis for Conclusions into the standard, similar to the discussion of finance lease right-of-use asset amortization in paragraph 220-40-50-9.

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 believe that preparers are best suited to comment on whether the proposed requirement is operable. Our comments and suggestions with respect to the costs incurred approach for inventory and other manufacturing expenses are summarized in our cover letter.

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?

Depending on the inventory method used, entities could have significant amounts included in the 'change in inventories' line item. Given the impact that these costs can have on an entity's performance period over period, we suggest that the Board expand the qualitative disclosure requirement in paragraph 220-40-50-21 to include the amount disclosed for 'changes in inventories' as item c.

Additionally, any entity that carries inventory (e.g. a distributor) would be subject to the disaggregation of 'inventory and manufacturing expense'. Therefore, we suggest that the Board consider removing the reference to 'manufacturing expense' and select a more generic description for this expense category.

We believe that preparers are best positioned to comment on the potential operational challenges of classifying certain expenses as part of manufacturing activities.

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 suggest that the Board consider simplifying the proposed requirements as follows:

Disaggregation of inventory expense using the costs expensed approach

Certain entities may already disaggregate inventory and manufacturing expense using a costs expensed approach. We suggest that the Board exempt these entities from the costs incurred disaggregation requirement. For example, some transportation companies present fuel expense as an income statement caption and account for fuel under Topic 330. As such, under the proposals, it appears fuel expense would be a relevant caption and require a disaggregation disclosure for fuel purchases, inventory change, etc. Similarly, certain nonmanufacturing companies present an income statement caption for equipment cost and may be able to disaggregate this caption under its natural components using a costs expensed approach. It is unclear whether the information about costs incurred would be useful to financial statement users in these circumstances.

Business combinations

Given the proposed amendments will only apply to public business entities, we suggest that the Board consider providing temporary relief for acquired businesses that would not have been scoped into the disaggregation requirements before acquisition. For example, the Board could provide a one-year deferral from the date of acquisition. We believe that it may otherwise be difficult for such an acquired business to implement the necessary systems, processes and controls to produce the proposed disclosures within one interim period.

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.

Under paragraph 220-40-50-12, warranty expense would be included in the tabular format disclosure when it is included entirely in one relevant expense caption. This proposed requirement is further illustrated in paragraph 220-40-55-11. As defined under paragraph 460-10-50-8, warranty expense relates to aggregate changes in the liability for accruals related to both product warranties issued during the reporting period and preexisting warranties, including adjustments related to changes in estimates. We observe that warranty expense could include internal costs such as employee compensation, inventory expense, etc. and it is therefore unclear how the proposed disaggregation disclosure should be done in this case. We recommend that the Board clarify its intent in this area, and also consider other similar changes in liabilities (e.g. contingencies, insurance claims reserves, and environmental remediation liabilities).

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 believe that entities should be permitted to include in the tabular format disclosures other expenses that are currently disclosed elsewhere in the financial statements – e.g. either voluntarily or in response to SEC regulations. We recommend that the Board clarify that the tabular format disclosures may include such other disclosures and that inclusion of those other disclosures does not necessitate disaggregation beyond otherwise existing requirements.

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.

Overall, we believe that this qualitative disclosure requirement is operable and also necessary to meet the objective of providing more comparable and decision-useful information. This is especially true for nonmanufacturing entities that would likely have significant expenses disclosed as ‘other.’

We agree with the Board’s perspective outlined in paragraph 81 of the Basis for Conclusions that the detail provided in the qualitative disclosures should be commensurate with the significance of amounts being described. The example in paragraph 220-40-55-18, however, does not illustrate this clearly. In the example, ‘other SG&A’ represents 40% of the total selling, general, and administrative expense but the related qualitative disclosure does not appear to be significantly more comprehensive than the qualitative

disclosure provided for smaller amounts. If the Board intends for the qualitative disclosure to be more comprehensive for more significant amounts, we suggest that the Board illustrate its intention in the example.

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.

We observe that many entities already present a selling and general administrative expenses caption or a selling expenses or equivalent caption on the face of their income statement. Therefore, we agree with the Board's approach of not providing a definition of selling expenses. While the amount of selling expenses may not be comparable across entities, we expect that qualitatively disclosing its composition will improve transparency and may yield comparability over time as entities elect to align their presentation practices (see our response to Question 17 about related changes in presentation).

Further, for commercial and industrial companies subject to the requirements of SEC Regulation S-X Article 5 to present selling and general administrative expenses on the face of the income statement, we suggest that the Board clarify whether selling expenses is expected to be a subset of this amount.

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. Based on the stated objectives in paragraph 220-40-50-1, we agree with the Board's proposal to require the expense disaggregation disclosures on both an annual and interim basis.

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 with the proposal for prospective adoption of the proposed amendments, with an option to apply the guidance retrospectively.

To improve the operability of the proposed amendments, we suggest that the Board consider providing relief from some the requirements in Topic 250 for changes in presentation made in connection with the proposed amendments. The Board has highlighted during the project that entities currently have different presentation practices (e.g. some may record shipping and handling in cost of sales and others in SG&A). Entities may also define selling expenses differently. We expect that the increased transparency introduced by the proposed amendments may prompt entities to reconsider certain of their presentation practices (e.g. to better align with peers). Industry practice is, however, generally not sufficient on its own to demonstrate preferability of an accounting treatment under Topic 250. Therefore, we suggest that the

Board explore whether the disclosure and recasting requirements in Topic 280 for changes in segment information could provide an acceptable alternative to Topic 250, to address changes in presentation made in connection with the proposed amendments.

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 that preparers are best positioned to comment on the time needed to implement the proposed ASU.

As discussed in our cover letter, given the complexity associated with the disaggregation of inventory and manufacturing expense, we recommend that the Board consider a phased approach to the amendments, whereby the disclosure of inventory and other manufacturing costs could be required later than the other proposed disclosures. We are supportive of permitting early adoption.