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August 29, 2018

Mr. Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Segment Reporting

Dear Mr. Golden,

We believe the Financial Accounting Standards Board's (FASB) project on Accounting Standards Codification Topic 280, *Segment Reporting*, is an important FASB agenda item. We recognize a discussion paper or exposure document has not yet been issued, and we note the FASB is conducting outreach to preparers to study the proposed improvements. As inputs to valuation models, segment disclosures are very important to investors. Because of the importance of such disclosures to investors, we believed it was important to provide investor input in advance of the issuance of any discussion paper or exposure document.

To that end, CFA Institute,[1] in consultation with its Corporate Disclosure Policy Council ("CDPC")[2] designed and undertook a survey of our members who are portfolio managers and analysts globally in the Spring of 2018. Attached is a copy of the publication, *Segment Disclosures: Investor Perspectives*, which will be posted to our website forthwith.

As you know, CFA Institute seeks to promote fair and transparent global capital markets and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures provided to investors and other end users is of high quality. We have prepared the aforementioned survey and related report with this in mind.

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[1] With offices in Charlottesville, New York, Hong Kong, London, Mumbai, Beijing and Abu Dhabi, CFA Institute is a global, not-for-profit professional association of more than 133,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 151 countries, of whom more than 125,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 145 member societies in 70 countries and territories.

[2] The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

Our Objective
Our objective was to obtain these investors and analysts general sentiments on segment disclosures including the importance of and their satisfaction with such disclosures. We also queried topics such as:

- the impact of technology on the improvement in segment disclosures;
- whether segment disclosures should be a critical audit matter in the newly revised auditor's report;
- whether competitive harm is overstated as a reason for making minimal disclosures;
- the sufficiency of enforcement of segment disclosures;
- how investors view changing segments;
- investor views on the consistency of segment disclosures with other discussion of results and non-GAAP measures in the public domain;
- sufficiency of the presentation of segment results; and
- perceptions on segment disclosures.

We then crafted questions directly linked to the principles to be applied by preparers in crafting disclosures such that investor input could be directly connected to the FASB's work on the standard including:

- retaining the management approach;
- improvements in the definition of an operating segment including the definition of the chief operating decision-maker, whether revenues &/or expenses are necessary for defining an operating a segment; and what should be included in discrete financial information;
- the aggregation criteria including retaining the qualitative criteria and the importance of qualitative vs. quantitative criteria;
- various improvements in the quantitative criteria; and
- improvements in presentation & disclosure.

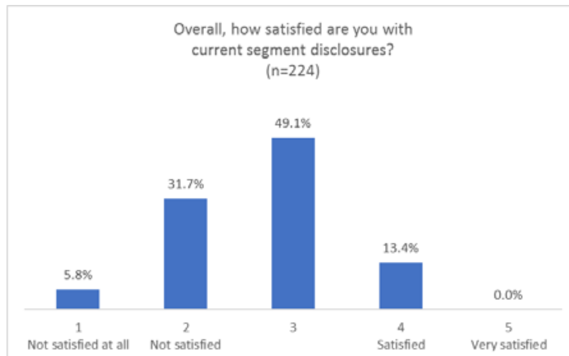
The survey was quite technical, longer and more complex than we would normally ask our members to complete. The survey had 22 questions – three questions had multiple parts which provided us with 54 data points – we analyzed overall and by region. The respondents were portfolio managers and analysts globally.

Our Findings

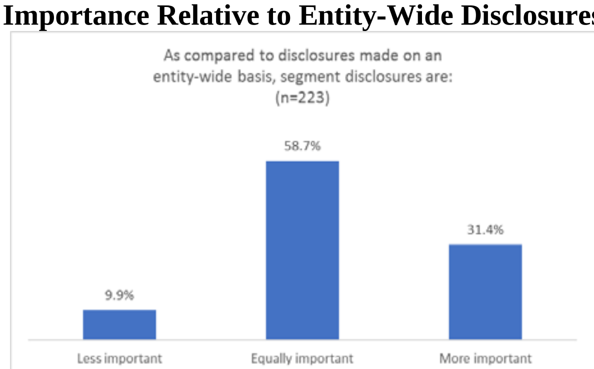
Our objective was to obtain investors' and analysts' general sentiments on segment disclosures, including the importance of, and their satisfaction with, such disclosures. Overall, respondents rated segment disclosures – see charts below – as very important (75%) to their analysis and equally if not more important (90.1%) than entity-wide disclosures. Their satisfaction (13.4%) with segment disclosures is substantially less than their rating of the importance of those disclosures. The implication for standard setters is that there is work to be done to meet investor needs as it relate to segment disclosures.

Importance

Satisfaction



Importance Relative to Entity-Wide Disclosures



In the survey, we also queried our members on several other broad topics and found respondents believed:

- ***Critical audit matters***—Segments should be disclosed as a critical audit matter in the new auditor's report.
- ***Competitive harm***—Competitive harm is overstated as a reason not to improve segment disclosures.
- ***Technology***—Technological improvements should, but have not, substantially improved segment disclosures.
- ***Enforcement***—Regulators do not seem to effectively enforce segment disclosure requirements, but they did not feel as strongly that changing segments—at least infrequently—was a red flag.
- ***Consistency of discussion results with segment disclosures***—Discussion of results and other information provided in other public venues, including non-GAAP measures, were not necessarily consistent with or reconcilable to segment results.
- ***Presentation***—There was substantial room for enhancing the presentation of the balance sheet and income statement by segment, including providing more detail and reconciling amounts to the entity-wide income statement and balance sheet.

- ***Disclosures***—Providing additional cash flow disclosures was the most important disclosure area to investors, followed by better information on liabilities, assets, and total assets.

The survey also included questions directly linked to the principles to be applied by preparers in crafting disclosures such that investor input could be directly connected to the FASB's work on the standard. Our analysis of the responses showed the following:

- ***Management approach***—There was support for retaining the management approach.
- ***Definition of an operating segment—*** As it relates to the definition of an operating segment we found:
    i. opportunities for improving the definition of the chief operating decision maker, which would likely result in a lower level or broader level of decision making within the organization;
    ii. support for broadening whether revenues and/or expenses are necessary for defining an operating segment and whether growth areas should be specifically highlighted; and
    iii. discrete financial information could include information provided to analysts and non-GAAP measures.
- ***Aggregation and disaggregation***—The terms *aggregation* and *disaggregation* are used as terms of art in the application of segment reporting guidance and then used more broadly or traditionally in gauging sentiment regarding sufficiency of detail with investors. As would be expected, investors broadly sought greater disaggregation. When used as terms of art in applying the accounting standard, investors (1) supported aggregation of operating segments into reportable segments; (2) preferred the application of quantitative criteria before the application of qualitative criteria; and (3) sought refinements in the definition of qualitative criteria, as they see opportunities for overly liberal application of those criteria.

    The survey revealed regional variations in the responses to each of the questions. Broadly, respondents in the Americas region were closest to the overall averages, while those in the Asia-Pacific region more strongly favored improvements—particularly related to disaggregation and limiting management choice. Those in the Europe, Middle East, and Africa region less strongly favored limiting management choice and were less strong—but most times still in a majority—in making improvements to the disclosures in areas such as disaggregation. That said, the regional results should be evaluated on a question-by-question basis.

SEC Reporting

Recently, the SEC eliminated requirements for certain segment disclosures based on quantitative thresholds in the "Business" section of periodic reports and prospectuses. In the Commission's view, these disclosures maybe be duplicative in that they might be covered by risk factor disclosures, or by the discussion of significant trends in the "Management's Discussion & Analysis" section. The information might also be covered in the segment information footnote. This SEC action amplifies the importance of the FASB-required information, and we suggest that the Board consider addressing the need for such back-up disclosures in its segment reporting project.

U.S. GAAP and IFRS

We know the IASB does not have an active project on segments, but we believe it is essential for International Financial Reporting Standard 8 (IFRS 8), *Operating Segments*, be a project for the International Accounting Standards Board (IASB). Segment reporting requirements under IFRS are very close to those under U.S. GAAP. Given the similarity of the current standards, the fact that investing is global and the importance of segment disclosures to investors, we believe the IASB and FASB need to work together on this project to make joint improvements in segment reporting.

CFA Institute

With the FASB and IASB pursuing different project agendas, the approach taken herein – where we consider a topic globally – is one we intend to pursue more frequently given the resource constraints faced by investors in responding to the various consultations. Projects and agendas with different timing, different nuances and different results are not productive for investors.

We have forwarded our paper, along with a letter explaining our perspectives, to the IASB for their consideration as we believe retaining global consistency of segment reporting requirements is imperative.

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We hope you find the report useful. We would welcome the opportunity to discuss the results of our survey with you after you have had a chance to review the report. We think direct outreach to investors on the topic of segments is essential as investors have strong views on this topic and will want to influence any decisions made prior to the release of any exposure draft. We are happy to help assist with this.

If you or your staff have questions or seek further elaboration of our views, please contact Sandy Peters by phone at +1.212.754.8350 or by email at sandra.peters@cfainstitute.org.

Sincerely,

/s/ Sandra J. Peters

Sandra J. Peters, CPA, CFA
Head, Global Financial Reporting Policy
CFA Institute

cc: Corporate Disclosure Policy Council