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March 10, 2023

Richard R. Jones
Chair
Financial Accounting Standards Board
801 Main Avenue
Norwalk, CT 06851

Dear Chair Jones and Members of the Board:

CFA Institute[1], in consultation with its Corporate Disclosure Policy Council ("CDPC") [2], appreciates the opportunity to comment and provide our perspectives on the Financial Accounting Standards Board ("FASB" or "Board") Proposed Accounting Standards Update, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("Proposed Update")*[3].

CFA Institute has a long history of promoting fair and transparent global capital markets and advocating for strong investor protections. We are providing comments consistent with our objective of promoting fair and transparent global capital markets and advocating for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures and the related audits provided to investors and other end users are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally.

1 With offices in Charlottesville, New York, Washington, DC, Brussels, Hong Kong, Mumbai, Beijing, Shanghai, Abu Dhabi and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program.

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.

3 Statement of Financial Accounting Standard No. 14 (SFAS 14), *Financial Reporting for Segments of a Business Enterprise* was released in 1976 and was superseded in 1997 by SFAS No. 131 (SFAS 131), *Disclosure about Segments of an Enterprise and Related Information*, which became Topic 280, *Segment Reporting,*("Topic 280") upon the FASB's implementation of the Accounting Codification ("Codification") in 2009. This Proposed Update is a proposed amendment to Topic 280. Given that the prior standards are mentioned herein, we provide this historical reference for context.

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SUMMARY OF OUR VIEWS

The *Specific Question Responses* section of this letter provides our detailed views on the queries posed by the Board. We thought it necessary to contextualize our responses relative to our previous commentary on segment disclosures and various strategic trends, which we have done in the *Overarching Considerations* section. The information below is a summary of those sections.

Assessment of Proposed Changes Relative to Investors' Requests for Reform – Our view is that the FASB's contemplated changes to segment disclosures included within the Proposed Update are modest – focusing only on disaggregation of certain "significant expenses" – and may create more reconciliation and contextualization issues for investors. ***The proposed changes fall short of meeting the improvements sought by investors as outlined in our 2018 report***, *Segment Disclosures: Investor Perspectives* ("2018 Report", "2018 Survey" or "2018 Survey and Report") and do not consider bigger picture strategic trends which impact the relevancy of financial reporting generally and segment disclosures specifically.

We published our 2018 Survey and Report, after our response to the FASB's 2016 Agenda Consultation where we expressed the need for improvements in segment disclosures. We published this 2018 Report with the desire to provide the FASB with proactive, detailed investor input that would inform the FASB's decision-making related to segment disclosures. After the segments project stalled, we reiterated the need for improvement in segment disclosures in our 2021 Agenda Consultation comment letter to the FASB.

While we recognize the Proposed Update seeks to create greater disaggregation of expenses – something investors desire – the Proposed Update does not address the many other concerns set forth by investors including the determination and aggregation of segments; the application of the management approach; the reconciliation of segment disclosures to the consolidated financial statements; the provision of meaningful segment expense and profit subtotals; improved geographic disclosures; and a variety of other disclosure improvements including, for example, the disaggregation of liabilities. Further, the Proposed Update provides no additional information on how management makes capital allocation decisions.

The FASB notes the Proposed Update is the first revision of the segment disclosure standard[4] in 25 years, but the FASB leaves investors without an understanding if these are the only improvements, they can expect for the next 25 years or are they a part of a broader set of improvements to be made over time. Relative to the findings in our 2018 Report, the FASB must understand how investors, having advocated for segment improvements since at least 2016, might see these proposed changes as falling short of their needs – especially relative to changes in information, business, and technology since Topic 280's initial issuance in 1997.

The "Significant Expense Principle" – Recognizing that the Proposed Update's focus is on increasing expense disclosures through the establishment of the "significant expense principle" we are concerned that the principle is not sufficiently defined and operational to produce meaningful reforms and more decision-useful information for investors. The FASB appears to

[4] Ibid.

acknowledge this possibility, or concern, through Question #8 of the consultation where they query stakeholders' views regarding the situation where the Proposed Update produces no additional disclosure of expenses.

We also note that it is not clear how this definition of "significant" meshes with significance criteria in other US GAAP and SEC literature.

In our detailed response which follows we present, in tabular format, the alternatives considered by the FASB and the criteria for disclosure noting that the FASB selected the only alternative that would require two criteria to be met. Under the criteria selected, expenses disclosed need to be both: a) included in each reported measure of segment profit and loss, and b) regularly provided to the Chief Operating Decision-maker ("CODM"). The FASB acknowledges the approach chosen would provide the least additional information to investors.

Overall, as crafted, ***we are not convinced the proposed amendments will result in an improvement in the decision-usefulness of segment disclosures***.

See Questions #1, #2, #4 and #8 in the *Specific Question Responses* section of this letter.

Gaming of Segment Disclosures & Lack of Enforceability – In our detailed response which follows, we highlight how Topic 280 has resulted in a great deal of gaming of segment disclosures. The *selection of the CODM* (i.e., always at the highest level possible, e.g., CEO) *and* the need to *regularly provide* the information to the CODM (i.e., information is artfully crafted or provided so as not to be considered regularly provided to the CODM) are existing features of Topic 280 that are gamed by companies to reduce the disclosures provided.

Within the Proposed Update, the FASB rightly notes that *one-third of all public companies have but a single segment*. That statistic, in and of itself, could be seen by some as evidence of the gaming of Topic 280 and necessitating an exploration of whether Topic 280 is serving investors. Said differently, can investors support the decision-usefulness of Topic 280 if one-third of all companies do not provide anything more than the consolidated financial statements after its application?

The Proposed Update's additional requirement that ***the significant expenses considered for disclosure must be included in the segment profit or loss and regularly provided to the CODM only extends and expands the gaming***.

Our experience suggests ***we must agree with the Alternative View that highlights the ability of companies to strategically select profit and loss figures provided to the CODM to determine the significant expenses which are disclosed*** to investors. ***When this criterion is combined with the new and very subjective and flexible definition of "significant expenses," we believe the Proposed Update only extends the gaming features of Topic 280***, which will make it even more unenforceable for the SEC.

As we explained in our 2018 Report, the SEC asks questions about segment disclosures but does not make much progress in improving them because of these gaming features. In that same report

(Pages 7 & 24), 72.7% of respondents noted that lack of enforcement is a problem with segment disclosures. Segment disclosures are routinely one of the top ten topics queried by the SEC in their comment letters to registrants. And, despite segment disclosures being loaded with significant judgements, estimates and assumptions in their preparation, they are the only category of the SEC's top ten comment letter topics that are not also one of the most commonly identified critical audit matters (CAMs) disclosed by auditors in their audit opinion. In fact, it is rare to see them as a CAM.

The Management Approach: Differently Interpreted by Investors Than Set Forth in the Standard – We also believe that much of the gamesmanship comes from an ill-use of the term "management approach" when discussing Topic 280 with investors. We noted in our 2018 Report (Pages 9 & 26) that only 16.7% strongly supported retaining the "management approach" with 40.1% agreeing with retaining the management approach, for a total of 56.8%, while a significant minority, 30.5%, neither agreed or disagreed with retaining the management approach. While there is agreement with retaining the management approach, it is not as positive or supportive as with other queries regarding improving disclosures.

Additionally, we know from our discussion with investors that when they say they support the "management approach" they are using the term colloquially to mean through the eyes of management. Investors are not supporting an approach where only the information the CEO is provided – as management is much broader than simply the CEO – is disclosed. Further, they do not recognize or appreciate the existence of all the accounting nuances, conditions, and stipulations within the management approach as set out in Topic 280 regarding what is provided; the definition of profit and loss; and now with an arbitrary definition of significance overlayed. The use of the term "management approach" is where investors agreement with Topic 280 is misappropriated. This likely accounts for the high percentage of those neither agreeing nor disagreeing with retaining the management approach.

Preparers are using the accounting complexity in Topic 280 – or possibly complexity that leads to flexibility – as a means of reducing the information provided to investors. It would likely be better to name the approach in Topic 280 the "what we decide to provide to the CEO approach" rather than the "management approach".

We believe that the current use of the term "management approach" is an accounting caricature of the term and that when speaking to investors it is not what investors mean by the "management approach." Investors expect, in the case of expenses, that there is a level of management review and accountability for all a company's expenses – including those directly incurred by segments and those managed centrally and allocated. This is the "management approach" investors are speaking of.

We believe the FASB must consider whether implementing and expanding these gaming features related to expense disclosures – including the addition of "other segment items" – truly reflects the management approach and an improvement in disclosures for investors.

We are concerned that the application of the guidance in the Proposed Update could be easily skewed to present a very limited view of the total expenses of a segment. As such, ***we prefer an***

approach to disclosing segment expense categories and amounts that is less reliant on gamesmanship existing in Topic 280 and ***more reliant on specific expense disclosure rules***.

Preparer Feedback During FASB Outreach: Outreach Indicates Preparers Could Provide Greater Expense Disclosures, If Required To Do So – As we outline in our *Specific Question Responses* section which follows, the FASB's own outreach finds that financial statement preparers indicated: a) they "*….would be able to identify their segment's expenses for disclosure purposes if required to do so*", and b) that a majority of preparers "*…currently report segment expense information to their CODMs for internal reporting purposes…"*

Given that: a) investors told the FASB they wanted greater detailed information on the income statement (i.e., including expenses); b) the majority of CODMs already receive segment expenses; and c) preparers said they would be able to identify their segment expenses if required to do so; it is not clear why the FASB has not required them to do so. Also unclear is why the FASB has knowingly selected the alternative that would provide the least information to investors given the feedback.

Reconciliations and "Other Segment Items" – As we considered the application of the "significant expense principle" we foresee new reconciliation problems emerging for investors. Reconciliations are essential to understanding the significant expenses in context of the consolidated financial statements. We specifically asked investors about reconciliations in our 2018 Survey and investors said reconciliations needed to be improved.

The expenses disclosed under the "significant expense principle" will not, however, be reconciled to the respective consolidated financial statement caption nor will they be reconciled to segment expenses.

The "other segment items" caption is a plug to reconcile disclosed revenues and expenses to the segment profit and loss. No revenue or expense subtotals by segment will be provided. As such, investors will not have a segment income statement that foots (sums) down to segment profit or loss or across to the consolidated financial statements. Accordingly, significant expenses will be disclosed but not contextualized such that they can be appropriately analyzed. In our view, "other segment items" is not only a plug, but a contrived accounting convention. It does not reflect a "management approach."

Why not simply require companies to provide a separate plug to segment revenues and segment expenses so that investors have an idea by segment of what management does not regularly review? There is clearly a management review of the components of these "other segment items" by some level of management within a company – even if not the CODM – that is more meaningful, disclosable, and decision-useful than this accounting invention. Further, segment management clearly knows their total revenues and total expenses.

"Other segment items" produces little information content and the proposed description of its contents is likely to be boilerplate.

Overall, ***we are not supportive of the proposed significant expense disclosure without a reconciliation that identifies where the significant expense is included within the consolidated financial statements and without a reconciliation of expenses to total segment expenses and revenues to total revenues***. Effective internal controls require that there be a reconciliation of a management approach to segments and the consolidated financial statements and an understanding of the allocation methodologies. Without it, management cannot be sure they have determined the significant expenses, allocated the expenses appropriately to the revenue producing activities of the organization, or understood the efficiency of shared services. If "plugs" are needed to present a more detail reconciliation this provides information to investors.

See Questions #3 and #9 in the *Specific Question Responses* section of this letter.

Single Segment – ***We are unsure that the requirement to apply the "significant expense principle" to companies with a single reportable segment would motivate managers to provide more segment expense information instead of simply providing the favorite profit or loss measure of a single-reportable segment company's CODM***. The disclosures may provide a slightly different breakdown of expenses, but that disaggregation might contradict their significance determinations for the consolidated income statement presentation, and therefore reduce their likelihood of disclosure. Those disclosures might also call into question the single segment determination if there are many expenses not considered significant. We would have to see this implemented over time to discern if any further meaningful information would be provided.

As we note previously, the FASB rightly points out that one-third of public companies have only one reportable segment. ***The need to address single segments separately in the application of the "significant expense principle" likely highlights the need to address the larger issue regarding single segments (i.e., their prevalence). Our investor outreach, and the discussion in the Alternative Views section of the Proposed Update, highlights that the matter to be addressed by FASB related to single segments is not a different presentation of their expenses but why a single segment is so often deemed acceptable under Topic 280***.

See Question #5 in the *Specific Question Responses* section of this letter.

Our Proposed Solution – ***To promote the disclosure of expense information and reduce the gaming above, we suggest the FASB include a minimum disclosure threshold that requires: a) the company to provide total revenue and total expense subtotals by segment reconciled to the consolidated financial statements; and b) to disclose expenses in excess of 10% of the segment expense subtotal***. The resulting reconciling items – "other revenue items" or "other expense items" – that are created via this approach will be more meaningful and contextualized information to investors than "other segment items" in arriving at segment profit and loss. ***The reconciliation items to consolidated financial statements (i.e., the cross-footing reconciling items) should also be required – and would be more meaningful. Both would be more reflective of the management approach.***

Disclosure of CODM – The FASB's proposal to disclose the CODM may be helpful, but it is not the reform investors seek. A named decision-maker whose decision-useful information is being publicly disclosed may increase accountability and ensure such information is robust and error-free, compared to an anonymous decision maker. The disclosure may also result in an improved dialogue as a result of knowing exactly who is using such information internally. That said, ***this disclosure is more likely to simply confirm investors' view and belief that the CODM is at a level higher than it should be to meet an investor-based definition of the management approach*** as we explain above. Our 2018 Survey of investors showed that a majority, 61.7%, believed a change in the definition of the CODM was necessary.

See Question #7 in the *Specific Question Responses* section of this letter.

More Than One Measure of Segment Profit or Loss – ***We agree with the Alternative View that the proposed changes may result in the inclusion of additional non-GAAP measures in the segment footnote specifically and financial statements more broadly. We also agree with their view that investors prefer measures of profit consistent with GAAP because they know that non-GAAP measures are generally created to present a more profitable (favorable) view of the company's results***.

Investors are not averse to the inclusion of these non-GAAP measures – of profit and loss or of other segment measures such as assets and cash flows – if they assist in understanding how capital allocation decisions are made by managers based on these measures. Such measures also provide investors with behavioral tells of management. Aggressive non-GAAP measures portend a management willing to push limits.

That said, investors want all non-GAAP measures reconciled back to GAAP measures but in a more detailed fashion than by the closest subtotal so they can anchor management to the truth of GAAP measures.

We would also note, which may mitigate the concerns of those holding the Alternative View, that ***the inclusion of additional non-GAAP measures in the financial statements subjects such non-GAAP measures to greater audit scrutiny and legal liability*** than the provision of such measures solely outside the financial statements. Said differently, ***they will be harder to manipulate over time*** and for that reason ***management may decide not to include these additional non-GAAP measures in financial statements to avoid such scrutiny***.

We are concerned by the FASB's recognition in the Proposed Update that their proposal may result in the inclusion of individually tailored accounting principles (i.e., an oxymoron as they cannot be principles if individually tailored) as these are generally not non-GAAP measures (i.e., presentation differences) but alternative performance measures (APMs). Such measures are not simply presentation differences that can be reconciled to totals – they are different recognition and measurement criteria that require additional measurement and recognition disclosures. ***Including individually tailored accounting principles in US GAAP financial statements seems incompatible with the integrity of financial statements. We think the FASB needs to distinguish between such alternative performance measures and true non-GAAP measures***.

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See Question #6 in the *Specific Question Responses* section of this letter.

Interim Disclosures – Investors would welcome the FASB's proposed amendment to require the annually presented information (Paragraph 280-10-50-22 to 24) to also be presented at interim. ***This is likely the most useful feature of the Proposed Update***. See Question #10 in the *Specific Question Responses* section of this letter.

Transition & Adoption – Other than the interim disclosure requirements and the disclosure of the CODM (i.e., though, as we describe above, we believe the level of the CODM needs to be lowered), ***we do not support adoption of the provisions of the Proposed Update without reconsideration of the "significant expense principle" (i.e., replacing it with a more detailed and prescriptive disclosure requirement) and without the replacement of the "other segment items" caption with more detailed reconciliations***. Both are necessary, in our view, for there to be an improvement in financial reporting, which is the criteria for change.

If the FASB decides to move forward, we have provided our views on the method of transition and adoption dates in our response to Questions #11 to #13 in the *Specific Question Responses* section of this letter.

Restate vs. Recast – ***We would not object to the use of the term recast versus restate, but we believe the term recast likely needs to be added to the Accounting Codification*** ("Codification") glossary as we believe this distinction may need to be made throughout the Codification not simply this Proposed Update. Only then will the nuances of this new language and how it is implemented be fully identified and realized by stakeholders. We also highlight that ***the FASB needs to consider instances where changes in allocations and classification between segments or changes in non-GAAP measures*** – now more likely to appear within segment footnotes – ***really represent differences that amount to more than a recast of prior results***. We believe it may be challenging for auditors to discern and enforce the difference. See *Other* in the *Specific Question Responses* section of this letter.

The Proposed Reforms in the Context of Strategic Considerations – As we describe more fully in the *Overarching Considerations* section, we believe the FASB needs to evaluate the sufficiency of these proposed segment disclosure changes, and segment disclosures more broadly, relative to changes in information, technology, and global business over the last 25 years since the standard was issued and last updated. The segments standard was developed before Google was incorporated and now, we are in the age of artificial intelligence. Further, the pandemic demonstrated the increased globalization of business. Yet there are only modest changes proposed related to the disaggregation of expenses and no further geographic disclosures required. These developments alone beg the question: are the proposed changes sufficient? ***We believe the FASB needs to step back and consider whether the changes in the Proposed Update are sufficient considering the age of the standard and the evolution of the business and technology ecosystem since it was issued***.

Further, investors need to understand whether these proposed changes are part of a step-by-step approach to improving segment disclosures toward a future state or are these the complete

package of improvements in segment disclosures investors can expect over the next decade or next 25 years?

Still further, ***the term or narrative "achievable standard setting" has emerged. It is unclear what this phrase means in application. What makes a standard setting change achievable?*** As it relates to segment disclosures, the modest changes included in this Proposed Update may be achievable but are they an efficient and effective improvement for investors?

While many have complained of the FASB's slow standard-setting process, this has not been the key focus for investors. Investors have highlighted as their concern: a) a delay in addressing investor priorities (i.e., including segments); and b) the FASB's focus on simplification projects to address preparer priorities. ***Investors want the FASB to address key priority topics in a full-throated, comprehensive manner or to outline a plan regarding how they will tackle incremental improvements toward a strategic outcome***.

Without a strategic approach to investor priorities, "achievable standard setting" is likely to be interpreted by investors as doing what is easiest, not what is most effective or needed by investors. For that reason, we believe the FASB needs to clarify the meaning of this term – identifying what makes something achievable from an investor perspective – and explain how investor priorities and improvements will be met. Investors seek more from the FASB than incremental, tactical changes in standards.

We also believe the FASB must address the proposed changes relative to other projects, such as the income statement disaggregation project as the two must work in concert.

OVERARCHING CONSIDERATIONS

Commentary Regarding Segment Disclosures in Prior Agenda Consultations

In the Fall of 2021, CFA Institute responded to the FASB's Invitation to Comment, Agenda Consultation ("2021 Agenda Consultation").[5] In that comment letter, we reiterated the importance of improving segment disclosures – a comment we had made earlier in our response to the 2016 Agenda Consultation. In our 2021 Agenda Consultation comment letter we noted the following with respect to segment disclosures:

> ***Segments***
> *FASB took one small step with the issuance of its segment reporting standard in 1997, but it was a significant and meaningful step for investors. Segment disclosures complement the consolidated financial statements because they can expose differences in economic fundamentals, such as growth prospects, rates of profitability, degrees of risk, financing and financial structures, and differences in regulatory and tax regimes across business units. It is no wonder that investors spend a significant amount of time with segment disclosures.*
>
> *However, application has challenged regulators and investors. As we stated in response to the 2016 consultation, segment reporting should be on the Board's agenda to address some issues that have evolved over the 20 years since the standard was first promulgated. Segment reporting information is critical to investors because they consider the information provided at the segment level to be equally important to information provided on an entity wide basis. Many times, the segment footnote is the last footnote prepared with traditional accountants not fully trained in how investors' use segment information in the valuation process. Those running the business understand better the use of this information by the market and have regularly been seen to attempt to manage the level of disclosures.*
>
> *In 2018 we surveyed CFA Institute members, including portfolio managers and analysts. Among other things, we surveyed their level of satisfaction with existing segment disclosure requirements and solicited their views on areas for improvement. The survey results show that* ***75% of investors rate segment disclosures as very important to their analysis, but that only 13.4% are satisfied with the segment disclosures as currently provided. Indeed, 83.4% of respondents strongly agreed or agreed that segments should be disclosed as a critical audit matter****. The results can be found in our report Segment Disclosures: Investor Perspectives.*
>
> *Geographic disclosures have always been of interest to investors, but the pandemic has highlighted their importance. We witnessed the spread of the virus globally with peaks and troughs of cases at different times in different jurisdictions. For investors to understand the impact of the COVID-19 virus on the company's business — and to consider how it may evolve in the future as the spread of the virus ebbs and flows — companies need to include the effects of the virus on their geographic results and the sensitivity of their business to these regional outbreaks. The virus has taught us the importance of differences in geography and highlight the need for companies to explain those effects.*
>
> *Other changes, such as requiring retrospective restatement when new segments are adopted or modified will help investors understand historical performance and management's current approach. The FASB should also consider whether companies should disclose the metrics that managers use to monitor and evaluate segment performance (e.g., dashboards).*

[5] In 2022 CFA Institute also responded to the Financial Accounting Foundation's Strategic Plan.

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2018 Report: Investor Perspectives on Segment Disclosures

As noted in the 2021 Agenda Consultation comment letter excerpt above, a small percentage of investors are satisfied with what they believe are particularly important segment disclosures. We undertook the member aforementioned survey and thought leadership piece – *Segment Disclosures: Investor Perspectives* – after completing the 2016 Agenda Consultation. Our objective was to inform the FASB and the International Accounting Standards Board ("IASB") regarding the improvements investors sought in segment disclosures. We discussed the findings of our work with the FASB in 2018. We attach the report to this letter at the **Appendix** to provide the complete report for new board and staff members since that time.

We highlight several key aspects of that report below. In the *Specific Question Responses* section, we compare the FASB's changes in the Proposed Update to what investors expressed in 2018 as the improvements in segment disclosures which they believed were necessary.

Importance vs. Satisfaction with Segment Disclosures – First, we highlight the relative importance of segment disclosures, particularly when contrasted to entity-wide disclosures, and the difference in investors satisfaction with segment disclosures relative to their importance. Overall, investors view segment disclosures as particularly important but are not very satisfied with the disclosures. See Page 6 of the report for a complete discussion.

- **Importance versus satisfaction**—For investors, 75% rate segment disclosures as very important to their analysis (see **Exhibit 1**, reproduced below from the full report). The respondents rate segment disclosures as equally, 58.7%, if not more important, 31.4%, for a total of 90.1%, than entity-wide disclosures (see **Exhibit 2**, reproduced below from the full report). That said, their satisfaction, 13.4%, with the segment disclosures is substantially less (see **Exhibit 3**, reproduced below from the full report) than their rating of the importance of segment disclosures. The implication for standard-setters is that there is substantial work to be done to meet segment disclosure investor needs.

Exhibit 1: Importance

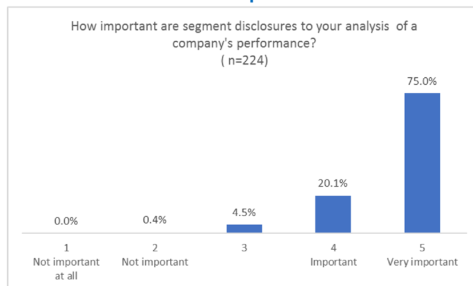


Exhibit 3: Satisfaction

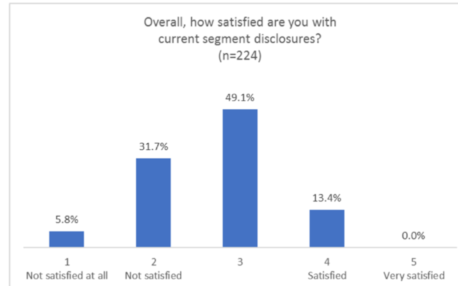
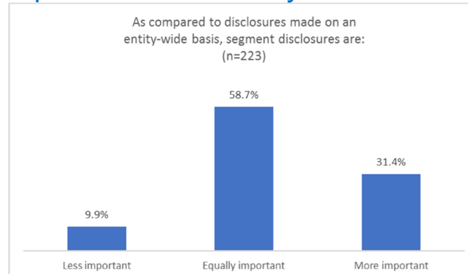


Exhibit 2:
Importance Relative to Entity-Wide Disclosures



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Satisfaction with Specific Elements of Segment Disclosures – Second, we queried investors satisfaction with specific elements of segment disclosures. Their responses are summarized in the table and chart, which have been excerpted from Page 21 and 22 of the report and presented below.

Specific Elements of Disclosures

We asked respondents to assess their agreement or disagreement with a series of 16 statements regarding segment disclosures. As a part of the survey, the statements were randomized. **Table 1** and **Exhibit 7** provide the results, with Table 1 highlighting the percentages visualized in Exhibit 7. Overall, the statements addressed elements of disaggregation, presentation, the need for additional disclosures, segment results relative to management's discussion of results in other venues, and alternative performance measures. Finally, we asked investors to provide their views on enforcement of segment disclosures.

Table 1: Satisfaction with Specific Elements of Disclosure Analysis

QUESTION	DISAGREE & STRONGLY DISAGREE	NEUTRAL	AGREE & STRONGLY AGREE
DISAGGREGATION			
Disclosures regarding segment revenues and expenses are not sufficiently detailed.	4.2%	22.2%	73.6%
Disclosures regarding segment assets are not sufficiently detailed.	4.8%	23.0%	72.2%
Segment liabilities are not, but should be, disclosed.	8.8%	21.9%	69.3%
Segment cash flows are not, but should be, disclosed.	5.1%	14.3%	80.6%
There are items within "other" segments which need further disaggregation.	8.9%	22.5%	68.5%
Reportable segments are not sufficiently disaggregated to perform meaningful valuation and analysis.	8.0%	26.9%	65.1%
Operating segments seem to be aggregated into reportable segments based upon dissimilar characteristics (e.g., margins, growth prospects, etc.) which makes analysis more complicated.	16.3%	34.7%	49.0%
Reportable segments do not seem sufficiently disaggregated for management to be able to make resource allocation decisions.	13.1%	39.8%	47.1%
PRESENTATION			
Segment disclosures are not always clearly presented and reconciled to the basic financial statements (e.g., balance sheet, income statement, statement of cash flows) of the enterprise.	8.3%	13.9%	77.8%
Reportable segments are disclosed by product for some organizations and by region for others, making comparative analysis more difficult.	4.2%	13.4%	82.4%
ADDITIONAL DISCLOSURES			
Disclosures regarding methods of allocation to segments (e.g., expenses) are insufficiently described.	4.2%	21.7%	74.1%
Additional segment disclosures are not, but should be, provided (e.g., capital expenditures, depreciation and amortization, goodwill, etc.).	5.0%	14.6%	80.4%
DISCUSSION OF RESULTS & ALTERNATIVE PERFORMANCE MEASURES			
Alternative performance measures (e.g., Non-GAAP metrics or KPIs) discussed by management in other forums are not, but should be, reconciled to segments reported in financial statements.	5.8%	19.4%	74.8%
Reportable segments are not always consistent with how management discusses their business in other publicly available information.	11.1%	27.1%	61.8%
ENFORCEMENT & SEGMENT CHANGES			
Companies changing segments is a red flag.	12.1%	36.9%	51.0%
Regulators do not seem to effectively enforce segment disclosure requirements.	6.3%	21.0%	72.7%

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Exhibit 7: Satisfaction with Specific Elements of Disclosures

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The FASB's Proposed Changes

FASB's Proposed Changes – The FASB press release notes the key amendments being proposed are as follows:

1. *Disclosure of Significant Segment Expenses – Require that a public entity* ***disclose****, on an annual and interim basis,* ***significant segment expenses*** *that are regularly provided to the chief operating decision maker (CODM) and included within each reported measure of segment profit or loss.*
2. *Other Segment Items – Require that a public entity* ***disclose****, on an annual and interim basis,* ***an amount for other segment items by reportable segment and a description of its composition****. The other segment items category is the difference between segment revenue less the significant expenses disclosed and each reported measure of segment profit or loss.*
3. *Interim and Annual Disclosures – Require that a public entity* ***provide all annual disclosures*** *about a reportable segment's profit or loss and assets currently required by Topic 280, Segment Reporting,* ***in interim periods****.*
4. *Other Measures of Segment Profit and Loss (Most Closely Comparable to GAAP) – Clarify that* ***if the CODM uses more than one measure of a segment's profit or loss****, at* ***least one of the reported segment profit or loss measures*** *(or the single reported measure if only one is disclosed) should be the* ***measure that is most consistent with the measurement principles used in measuring the*** *corresponding amounts in a public entity's* ***consolidated financial statements****.*
5. *Single Segment – Require that* ***a public entity that has a single reportable segment provide all the disclosures required by the amendments*** *in the proposed ASU and all existing segment disclosures in Topic 280.*

Though not listed in the press release, the FASB also proposes several additional items including:
a) the CODM should be disclosed;
b) when segments are changed, they will no longer be referred to as restated but as recast; and
c) there will be changes to the presentation of interest revenue and interest expense.

Consideration of The FASB's Proposed Changes Relative to Our 2018 Report: Investors Seek More Significant Reforms

In the *Specific Question Responses* section which follows, we consider the FASB's changes as put forth in the Proposed Update relative to the investor feedback from our 2018 Report, *Segment Disclosures: Investor Perspectives,* regarding the segment disclosure improvements they believe are necessary.

Our 2018 Report highlighted a variety of investor concerns with respect to the quality of segment disclosures other than simply the disclosure of significant expenses which is the focus of the FASB's Proposed Update. Our Report highlighted investors desire for reform in a variety of ways including, but not limited to, the:

- determination of segments and their aggregation;
- application of the management approach which reflects a true use of data and information to manage the company – not simply the selection of the CEO as the CODM and the selective provision of information to such individual to limit disclosures to investors;
- reconciliations to the consolidated financial statements;
- meaningful expense and profit subtotals;
- disaggregation of assets, liabilities (i.e., IFRS 8 requires disclosure of segment liabilities) and cash flows; and
- improved geographic disclosures.

Further, the Proposed Updated does not provide improved information for analyzing the capital allocation process within a firm – a common analytical practice. Capital allocation is one of the most important management functions in executing their duty to investors, and except in the case of one-product, one-segment companies, the allocation of capital is usually made among competing segments. Those segments may have vastly different capital requirements and returns. Some segments capital allocations are to physical assets while another segment may need capital allocated to research and development or human capital - yet existing disclosures do not facilitate that understanding for investors. We propose that this revised standard improve the information package for analyzing capital allocation by requiring for each reporting period, on both an annual and interim basis:

- Gross intangible assets and their accumulated amortization balance, per segment.
- Gross property, plant & equipment and other tangible assets, and the associated accumulated depreciation balances, per segment.
- The ending and average employee count, per segment.
- The research & development expense, per segment.
- The selling, general & administrative expense, per segment.

While we note – in the Proposed Update's Basis for Conclusions – a discussion of the FASB's efforts since 2016 with respect to disaggregation, we also note that the FASB highlights that one-third of all public companies have but a single-segment. This would suggest that Topic 280 does not provide significant additional information to investors for one-third of public companies. This fact, plus the gaming and lack of enforceability of segment disclosures as we discuss in our *Specific Question Responses* section which follows, highlights that the FASB has not gone far enough in this Proposed Update to address the needs of investors with respect to the segment disclosures they deem as particularly important. In fact, investors believe segment disclosures are

as important as the consolidated financial statements. As such, investors must consider whether, for example, it is appropriate for segment disclosures to lack revenue and expense subtotals by segment, which is a feature of this Proposed Update.

Strategic Considerations

We also evaluate the proposed changes in the context of strategic considerations as Topic 280 is 25 years old.

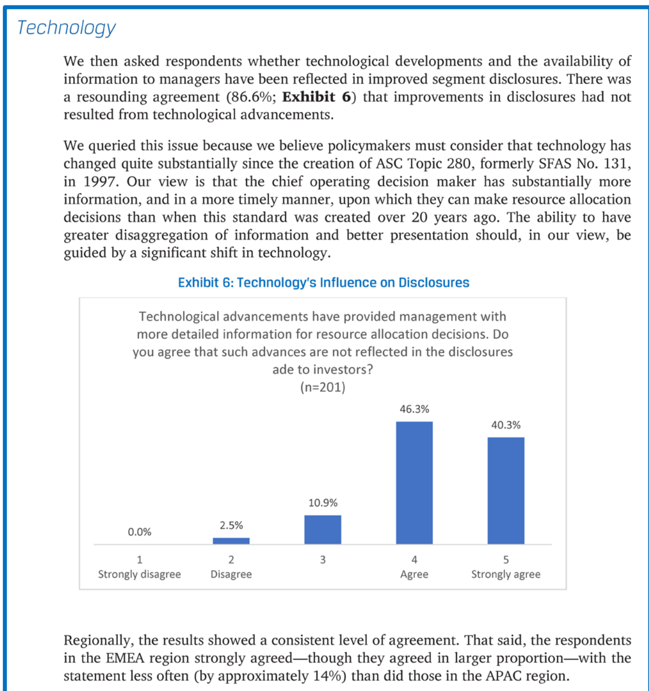
Information, Technology and Business Developments: Demonstrate Further Improvements Are Warranted

The FASB press release notes:

> *The proposed ASU would represent the FASB's most significant change to segment reporting since 1997.*

Given the changes in technology and information technology as well as the globalization of business and the evolution of the US economy from a manufacturing to a service economy in the last 25 years, the changes being proposed by the FASB seem rather modest.

Information and Technology – When the current segments standard was drafted, debated, and issued by the FASB, Google was not yet founded[6]. Today, we face a world where artificial intelligence such as ChatGPT is the topic de jour. How then can the advances in technology not permeate the FASB's decision-making process? Back in 2018 we asked investors whether advances in technology were improving segment disclosures. There was resounding agreement, 86.6%, that they had not. These responses are summarized in the excerpt to the right from our 2018 Report (Page 16).



Technology

We then asked respondents whether technological developments and the availability of information to managers have been reflected in improved segment disclosures. There was a resounding agreement (86.6%; **Exhibit 6**) that improvements in disclosures had not resulted from technological advancements.

We queried this issue because we believe policymakers must consider that technology has changed quite substantially since the creation of ASC Topic 280, formerly SFAS No. 131, in 1997. Our view is that the chief operating decision maker has substantially more information, and in a more timely manner, upon which they can make resource allocation decisions than when this standard was created over 20 years ago. The ability to have greater disaggregation of information and better presentation should, in our view, be guided by a significant shift in technology.

Exhibit 6: Technology's Influence on Disclosures

Regionally, the results showed a consistent level of agreement. That said, the respondents in the EMEA region strongly agreed—though they agreed in larger proportion—with the statement less often (by approximately 14%) than did those in the APAC region.

How can this be? It is likely because Topic 280 allows sufficient flexibility (i.e., some say gaming) and does not incorporate – because of its age – the notion of technology in its design and construction.

Our experience listening to companies talk about their business would suggest companies are

[6] In 1997 Google had yet to be founded; Netscape was the web browser of choice; we used RealPlayer to stream music; only 40% of US household had a PC; we used Palm Pilots; IBMs Deep Blue was the super computer; we shared photos on disk; AOL began bombarding us with floppy discs and CDs with unlimited internet; Motorola StarTAC flip phones became the phone of choice; Apple PowerBook 1400s were $2,499; we used Windows 95; DVD players arrived in the US and MP3 players were being launched. Technology, used by corporations and individuals was markedly different 25 years ago in 1997 – and is set to only change more rapidly going forward with the expansion of data, machine learning and artificial intelligence.

making decisions using increasingly detailed information – they are simply not disclosing it under Topic 280 because they don't have to.

Consider, for example, the discussion of labor costs. Many companies do not disclose labor costs in their consolidated financial statements or their segment disclosures. However, looming concerns over recession and recent press accounts regarding layoffs suggest management – including chief operating decision makers are considering labor costs, yet they are rarely disclosed in a disaggregated manner in consolidated financial statements or segments. These disclosures and press accounts beg the question: shouldn't these labor costs then be a required expense disclosure simply by the fact that CODMs are taking action and those actions are widely communicated in the press when they occur? Can standard setters and preparers really say to investors these are not significant expenses worthy of disaggregation in the consolidated financial statements or segment disclosures, if they warrant press release? This is likely an area where the FASB needs to require specific disclosures – as the flexible provisions of US GAAP and Topic 280 have allowed such expenses to go undisclosed.

Geographic Dispersion of Business – We also note that SFAS No. 131 (SFAS 131), *Disclosure about Segments of an Enterprise and Related Information* – which ultimately became Topic 280 within the Codification in 2009 – when it replaced Statement of Financial Accounting Standard No. 14 (SFAS 14), *Financial Reporting for Segments of a Business Enterprise*, reduced the geographic disclosure requirements – just as business became even more global. Over the last several years, the pandemic has vividly demonstrated the global nature of business and management's discussion and analysis of the impacts of the pandemic suggests more should be done to enhance geographic disclosures.

Also, during the pandemic investors learned from discussions of financial results that not only is geography far more important, but that management has much greater access to detail than is conveyed in the segment disclosures. Investors also noted that decisions are more decentralized, and that reporting detail needs to be improved to convey this important decentralized decision-making. As we describe in our *Specific Question Responses*, we believe investors interpret the management approach not to be the decision-making of a single person at the highest level within the organization, but a collection of managers.

Still further, the current debate on taxes by jurisdiction – and the global minimum tax – only serve to further highlight that segment disclosures need enhancement as it relates to geographic disclosures.

As such, we are surprised the FASB has not considered additional geographic disclosures given

Presentation: Product/Service versus Region

We asked respondents whether they believed segment results should be presented by product/service or by region. Respondents agreed (73.2%; **Exhibit 9**) that companies should be required to present information by both product/service and region. There was virtually no support for requiring companies to do one or the other, and only minimal support (16.2%) for allowing companies to decide, which is the current approach. Analyzing companies by product/service allows for a better analysis of margins for a company's business, while analyzing regional results allows for better consideration of geographic and demographic trends. Respondents noted:

- *The full matrix should be provided, with any country/product or country/service combination that accounts for 5% or more of the group sales and group EBIT disclosed.*
- *Encouraging companies to report segments by product/service and region…or requiring it subject to exception by application to regulator.*

Exhibit 9: Product/Service vs. Regional Presentation

Regionally, 85% of respondents in the APAC region favored requiring disclosure by both product/service and by region over allowing companies to decide how segments should be reported (7%). In the EMEA region, 23% of respondents believed companies should be allowed to decide how segments should be reported, 72% favored requiring both by both product/service and by region, with only 4% of respondents selecting to require disclosure by product/service only.

the change in the global nature of business over the last 25 years since Topic 280 was issued. As shown in the chart above, our 2018 Survey (Page 27) indicated investors want information by product and by region (i.e., geography).

Non-GAAP Measures & More Robust Analyst Packages – Further, it is important to recall that Topic 280 was issued before Reg G and the rise in the use of non-GAAP measures, both on a consolidated and segment basis. Still further, investors now receive analyst packages which contain more information in some instances than contained in the financial statements – and are many times released before the segment footnote in the financial statements[7]. Investors must ask the FASB: if management can create and adapt non-GAAP disclosures, shouldn't additional segment disclosures be feasible?

FASB Needs to Consider Decisions in the Context of Developments Over the Last 25 Years – Stepping back, we believe the FASB needs to ask themselves: Is management really using the same level of information to make decisions today that they were 25 years ago? If they say they are: is this realistic relative to the advances in technology, the increasingly global nature of their business and the discretionary and ad hoc disclosures to investors? Is this a management, or company, investors would want to invest in? The FASB then needs to evaluate whether they believe it is reasonable – in the eyes of their principal constituency (i.e., investors) – for the only change in segment disclosures they deem necessary to be the modest changes associated with the disclosure of "significant expenses" included in the Proposed Update. ***With this contextualized perspective, we think it is challenging for the FASB to conclude the changes proposed are sufficient. They may be achievable but not sufficient.***

Cost vs. Benefit Analysis: A Bigger Picture Analysis is Warranted

We reviewed the cost-benefit analysis in the Proposed Update at BC 4 to BC 11. Such analysis qualitatively addresses the cost-benefit of the changes being proposed. This cost-benefit analysis does not consider the significant developments as described above over the last twenty-five years and whether the proposed changes are sufficient to ensure the relevancy of financial reporting for investors in the context of a very different technological, information, business, or economic environment – and one that is set to change even more dramatically with things such as artificial intelligence.

We believe the cost-benefit analysis performed should not only consider the cost-benefit of the changes being proposed in the Proposed Update but the cost to investors of not making more significant changes.

Interestingly, we went back to the cost-benefit considerations noted in the Original Pronouncement of SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information* (Paragraphs 112 and 114). That analysis highlights the management approach and the change from requiring both industry and geographical area disclosures. What the cost-benefit analysis does not mention is technology. Developments at that time and looking forward were not a part of the cost-benefit analysis prepared during the development SFAS 131, which became

[7] Even further, far more unofficial information is available from sources outside of companies than 25 years ago (e.g., review of news feeds and data sources).

Topic 280. As such, the development of the original standard and the revisions in the Proposed Update seem to wholly lack a consideration of technology in its cost-benefit analysis. We believe the FASB needs to consider technology as it evaluates the need to modernize this standard.

Strategic Changes Toward Future State or Achievable Tactical Standard Setting?
We agree with the statements made by those in the Alternative Views section of the proposed update regarding these being modest improvements. And as we note above, and in the sections which follow, ***we do not believe the changes are sufficient relative to the investors' perspectives put forth in 2018 or given the bigger picture contextualization*** noted above.

Our question to the FASB is: Are the changes proposed steps in a strategic plan to make more substantive changes on segments in the future? And does the FASB believe these are sufficient improvements relative to the strategic developments over the last 25 years? Said differently, are these changes part of a step-by-step approach to improving segment disclosures toward a future state that addresses the advances above? Or are these the only improvements in segment disclosures investors can expect for another 25 years?

Recently, the term or narrative of "achievable standard setting" has emerged. It is unclear what this phrase means in application. What makes a standard setting change achievable?

As it relates to segment disclosures, the changes included in this Proposed Update may be achievable – because they are modest changes for preparers– but they: a) create reconciliation challenges for investors; b) do not address the improvements investors noted were needed in 2018; and c) don't take account of the vast changes in the business, technological or information ecosystem over the last 25 years (i.e., and those which we can see are on the horizon).

While many of complained of the FASB's slow pace of standard-setting, this has not been the key focus for investors. The more significant concern investors have raised is that the FASB has focused on simplification projects addressing preparer concerns rather than investor needs as outlined in the 2016 and 2021 agenda consultation responses. Investors want the FASB to address key priority topics in a full-throated, comprehensive manner or to outline a plan regarding how they will tackle incremental improvements toward a strategic outcome.

Without a strategic approach to investor priorities, "achievable standard setting" is likely to be interpreted by investors as doing what is easiest and requires the least political will to make changes. Investors need effective, not simply "achievable standard setting." We believe the FASB needs to clarify the meaning of this term – identifying what makes something achievable – and explain how investor priorities and improvements will be met. Investors seek more from the FASB than incremental, tactical changes in standards such as are included in this Proposed Update.

Coordination with Other Standards
Finally, at the heart of this project is the concept of greater disaggregation. Disaggregation is a concept also integral to the income statement presentation project and the tax disclosures project – both of which impact segments. To that end, our question is whether and how the changes

between the projects are being orchestrated and coordinated and what disaggregation principles are underpinning and cross cutting these proposed changes.

SPECIFIC QUESTION RESPONSES

SIGNIFICANT EXPENSE PRINCIPLE (QUESTIONS #1-5, #8 and #9)

Approaches Considered & Selected

The Proposed Update would require that ***"significant expenses"*** be disclosed when they are:
a) ***regularly provided to the CODM*** and b) ***included in each reported measure of a segments profit and loss***.

We note through our review of the alternative approaches in Paragraphs BC 35 to BC 38 that the FASB considered three alternative approaches acknowledging that: *"each alternative approach would have likely resulted in even more incremental segment expense information compared with the approach included in the Proposed Update."* We outline the alternatives in the chart below:

	Approach			
Criteria	1	2	3	4 (Selected)
Included in Profit & Loss	Included in Profit & Loss	Included in Profit & Loss	Not Necessarily Included in Profit & Loss	Included in Profit & Loss
	OR	REGARDLESS OF	BUT	AND
Provided to CODM	Provided to CODM	Whether Provided to CODM or Not	Provided to CODM	Provided to CODM

The FASB selected the alternative that must meet two criteria – not simply one – which will limit the disaggregation of disclosures. Our observations on this approach are as we outline below.

Disclosures Based Upon "Significant Expense" Principle (Question #1)

Definition of Significant Expense Categories May Be Too Subjective – First, we believe the requirement to disclose "significant expense" categories and amounts may not be sufficiently defined and consistently operable. The term "significant" is very subjective and open to varying interpretations by managers who may seek to interpret differently and unevenly by company or across time within a company to manage the segment expense disclosures provided. We are concerned that the subjectivity embedded in the term "significant" may result in it being abused or gamed.

Interplay with SEC & Other US GAAP Disclosure Requirements Needs Clarification – Further, within the SEC Regulation S-X requirements, and even within GAAP, there are disclosure requirements – say, for example, if an item is more than 5-10% of a line item – that are interpreted as levels of "significance" with respect to the need to disaggregate. In fact, the SEC is contemplating a 1% significance threshold for climate disclosures. Our question for the

FASB is: how does their proposed disclosure disaggregation significance definition interact with such thresholds or definitions?

We also wonder if the FASB discerns a difference in the definition of significance between the segments and the consolidated financial statements, particularly when the single segment disclosure requirement is made, because investors and regulators may query why the income statement presentation differs from segment disclosures in the case of the single segment scenario. We believe the FASB needs to address this interplay.

See also our comment which follows regarding the interaction of this principle with the income statement disaggregation project.

Gaming of Segment Disclosures:
Existing Features of Topic 280 are Gamed to Reduce Disclosures,
The Proposed Update Appears to Enhance Gaming & Likely Continue Lack of Enforceability – As currently written, Topic 280 has resulted in a great deal of gaming of segment disclosures. The ***selection of the CODM*** (i.e., always at the highest level possible, e.g., CEO) and the need to ***regularly provide*** the information to the CODM (i.e., information is artfully crafted or provided so as not to be considered regularly provided to the CODM) are existing features of Topic 280 that are gamed by companies to reduce the disclosures provided.

Within the Proposed Update, the FASB rightly notes that ***one-third of all public companies have but a single segment***. That statistic, in and of itself, could be seen by some as evidence of the gaming of Topic 280 and necessitating an exploration of whether Topic 280 is serving investors. What is the point of Topic 280 if one-third of all companies do not provide anything more than the aggregated financial statements?

Our experience suggests we must agree with the Alternative View expressed in Paragraphs BC 72 through BC 75 that highlights the ability of companies to ***strategically select profit and loss figures provided to the CODM to determine the significant expenses which are disclosed*** to investors. When this definitional feature is combined with the ***new and very subjective and flexible definition of "significant expenses,"*** we believe the Proposed Update only extends the gaming features of Topic 280, which will make it even more unenforceable for the SEC.

In our 2018 Report (Page 21), 72.7% of respondents noted that lack of enforcement is a problem with segment disclosures.

Segment disclosures are routinely one of the top ten topics queried by the SEC in their comment letters to registrants. And, despite segment disclosures being loaded with significant judgements, estimates and assumptions in their preparation, they are the only category of the SEC's top ten comment letter topics that are not also one of the most commonly identified critical audit matters (CAM) disclosed by auditors in their audit opinion. In fact, as of our last review only one company had segments as a CAM – because they were moving from two to one segment. Reducing segment disclosures is not the time when they become critical. They are always

important[8] because they are replete with judgements and estimates and investors deem segment disclosures as important as the consolidated results – as we highlight in charts at the outset of this letter.

As we note in the excerpt below from Page 4 of our 2018 Report, the SEC seems to be asking questions about segment disclosures but not making much progress.

So, the question we believe the FASB must ask is whether implementing and expanding these gaming features related to expense disclosures results in an improvement in disclosures for investors. We are not convinced these represent an improvement.

INVESTOR OBSERVATIONS

Investors find segment disclosures as challenging as the SEC. Amazon—always criticized for their stingy disclosures—did not disclose the profitability of their Amazon Web Services business until 2015. And, as noted in a recent article by Bloomberg, "Amazon Takes Secrecy to a Comic Extremes," it changed the way analysts valued the company:

> Mind you, Amazon has no problem blabbing about its financials when it's in the company's interests to do so. Amazon in 2015 started to disclose the revenue and segment operating profit of its cloud-computing business, Amazon Web Services, and it's not an exaggeration to say that the financial reveal boosted the company's stock market value by tens of billions of dollars. Analysts until then had been able to roughly estimate sales for AWS, but the company's transparent disclosure—especially about the surprising profit of the business—changed the way investors valued the company.[3]

When adopting the new revenue recognition disclosures—disclosures that were designed to provide more detail on revenue than required by the segment level disclosures—the disclosures were less informative than what investors expected. Amazon's and Google's (Alphabet Inc.) early adoption of the revenue recognition were disappointing, and the disclosures prompted comments from the SEC on their segments results—not just their revenue disclosures as highlighted in a Market Watch article, "SEC: Tell Us More about All This Money; Amazon and Google: Nope."

> The SEC is apparently as curious as MarketWatch is about Google's YouTube revenue, Amazon's allocation of R&D spending and a few other matters related to the vast amounts of money coming and going from Big Tech's corporate giants. Along with a back-and-forth with Microsoft Corp. MSFT, +0.38% that mostly involved that company's early adoption of revenue-recognition rules, the SEC has disclosed correspondence with three of the world's largest tech companies so far this year.
>
> While the correspondence was only disclosed this year, it has actually been occurring for a while, as these tech companies became some of the most valuable and important in the world. The SEC engaged in lengthy correspondence with both Alphabet Inc. GOOG, +0.64% and Amazon.com Inc. AMZN, +1.17% AMZN, +1.17% in what ultimately turned out to be futile efforts to get more specifics from each company about certain items in their financial statements.
>
> Specifically, the SEC seemed interested in parts of these companies that have grown into massive companies on their own, such as YouTube, Amazon Web Services and the Alexa line of intelligent speakers. Both Alphabet and Amazon avoid disclosing much about the performance or costs of those businesses, lumping them in to large buckets of money instead of fully breaking them out as segments of their much larger businesses.[4]

These examples highlight why improvements in segment disclosures, particularly aggregation and disaggregation, are necessary.

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8 In our 2018 Report (Page 18), 83.4% of respondents noted that segments should be a critical audit matter.

CFA Institute

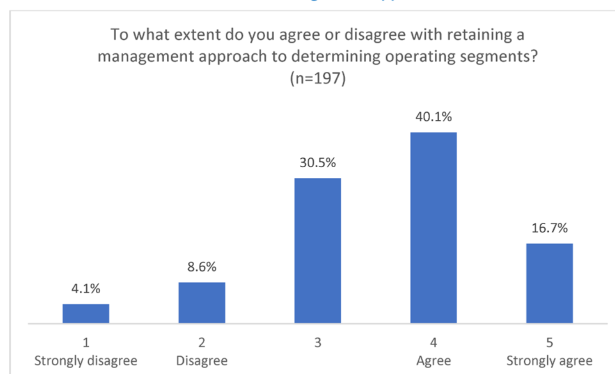
"The Management Approach": Investors Definition and Understanding of the Management Approach Differs from How Topic 280 is Applied in Practice – The aforementioned gamesmanship and lack of enforceability in Topic 280 produces suboptimal information for investors. We support an approach for expenses that is less reliant on such gamesmanship. We believe a key ingredient in this gamesmanship comes from the ill-use of the term "management approach" when applying Topic 280 by preparers and discussing Topic 280 with investors.

We noted on Page 26 of our 2018 Report, that only 16.7% strongly supported retaining the "management approach" with 40.1% agreeing with retaining the management approach, for a total of 56.8%, while a significant minority, 30.5% neither agreed or disagreed with retaining the management approach. While there is agreement with retaining the management approach, it is not as positive or supportive as with other queries regarding improving disclosures.

Management Approach

We asked respondents whether they agreed with retaining the management approach to determining operating segments. Only 16.7% (**Exhibit 8**) of respondents strongly agreed with this statement, though 40.1% agreed, for a total of 56.8%. That said, only 12.7% of respondents disagreed with retaining the management approach. Overall, it seems there is agreement—although not as strong agreement as with other queries—regarding retaining the management approach.

Exhibit 8: Management Approach



We know from our discussion with investors that when they say they support the "management approach" they are using the term colloquially to mean through the eyes of management. Investors are not supporting an approach where only the information the CEO is provided – as management is much broader than simply the CEO. Further, they do not recognize or appreciate the existence of all the accounting nuances, conditions, and stipulations within the management approach as set out in Topic 280 regarding what is regularly provided; the definition of profit and loss; and now with an arbitrary definition of significance overlayed. The use of the term "management approach" is where investors agreement with Topic 280 is manipulated or where the term is ill-used with investors. This likely accounts for the high percentage of those neither agreeing nor disagreeing with retaining the management approach.

Preparers are using the accounting complexity in Topic 280 – or possibly complexity that leads to flexibility – as a means of reducing the information provided to investors. It would likely be better to name the approach in Topic 280 the "what we decide to provide to the CEO approach" rather than the "management approach".

We believe that the current use of the term "management approach" is an accounting caricature of the term and that when speaking to investors it is not what investors mean by the "management approach." Investors expect, in the case of expenses, that there is a ***level of management review and accountability for all of a company's expenses*** – including those directly incurred by segments and those managed centrally. This is the "management approach" investors are speaking of.

Allocations, for example, are an important part of this oversight to investors because they communicate how management manages the business and their view of the resources required by the segment to produce the segment profit. These allocations are – or should be – especially important to segment and divisional leaders – as they are, or should be, measured on them. If they are not, this highlights a lack of accountability which may be important for investors to understand. This is especially important in organizations where they have developed "shared service" centers. Aggregation of expenses to a shared service center should not mean they are not disclosed because they are allocated to the segment and not seen by the CEO. On the contrary, the creation of shared service centers highlights that management is in fact seeking to manage these expenses – and how they get allocated should be an important element of that management. Investors find them important for that reason. If segment managers are not reviewing them or being paid on them, then there is a lack of management oversight.

Many of the reasons for not providing expense information, like allocations, in the Basis for Conclusions are not compelling to those investors who have also had the experience of preparing accounts. Effective management and internal controls dictate there needs to be management of all expenses including a reconciliation of the management reporting of profit and loss to the GAAP reporting of profit and loss – both in the arrival of segment profit and loss and consolidated income from operations. Said differently, any organization not preparing a footing and cross footing of the management presentation of expenses to the consolidated GAAP financial statements cannot be sure they have enabled management to consider all expenses and whether and how they should be managed.

Even if there is a "plug" in the reconciliation of segment expenses and segment profit and loss – as the Basis for Conclusion discussion would suggest – this communicates the level of expenses not managed by segment management, managed at a corporate level, or not managed at all. This too is decision-useful information to investors. It also goes to the reconciliation principle we address in Question #9.

We are concerned that the application of the guidance in the Proposed Update could be easily skewed to present a very limited view of the significant expenses of a segment. As such, ***we prefer an approach to disclosing segment expense categories and amounts that is less reliant on gamesmanship existing in Topic 280 and more reliant on specific rules on disclosure of expenses***. See response to Question #8 for our suggested approach. And, as we outline below, the FASB's own outreach suggests, if required to do so, management can provide segment level expenses.

CFA Institute

The FASB's Outreach & Cost Benefit Analysis

Preparer Outreach & Feedback

The discussion in the Basis for Conclusions paragraphs related to the alternatives considered (Paragraphs BC 35 to BC 38) seemed to place an emphasis on what *preparers want to provide* as segment disclosures versus what *preparers can provide* and what investors said they would have preferred.

We noted in Paragraph BC 20 that preparers communicated to the FASB their disclosure capabilities as follows:

> ***Financial statement preparers indicated that they generally would be able to identify their segment's expenses for disclosure purposes if required to do so.***
>
> *Additionally, although some indicated that they do not report detailed expense information to their CODMs,* ***more than half of the preparers included in the outreach discussions highlighted that they currently report segment expense information to their CODMs for internal reporting purposes****.*
>
> ***Preparers also generally preferred a principles-based disclosure requirement*** *instead of a more prescriptive requirement to disclose specific segment expenses because the incremental disclosures would reflect information from the CODM's perspective.*

We cite this paragraph as it indicates that more than half of the preparers included in the FASB's outreach discussions highlighted that they ***already currently report segment expense information to their CODMs*** for internal reporting purposes. Said differently, a majority of preparers told the FASB the CODMs already receive segment expense information. The FASB's own outreach indicates that a majority of preparers already have and provide segment expense information to the CODM.

Further the FASB's own outreach suggests that preparers ***would be able to identify for disclosures their segment expenses*….*if required to do so***.

Investor Perspectives Regarding Needed Disclosures

Investors, as noted on Page 21 of our 2018 Report, overwhelmingly agreed, 73.6%, disclosures regarding expenses, and revenues, are not sufficiently detailed.

Table 1: Satisfaction with Specific Elements of Disclosure Analysis

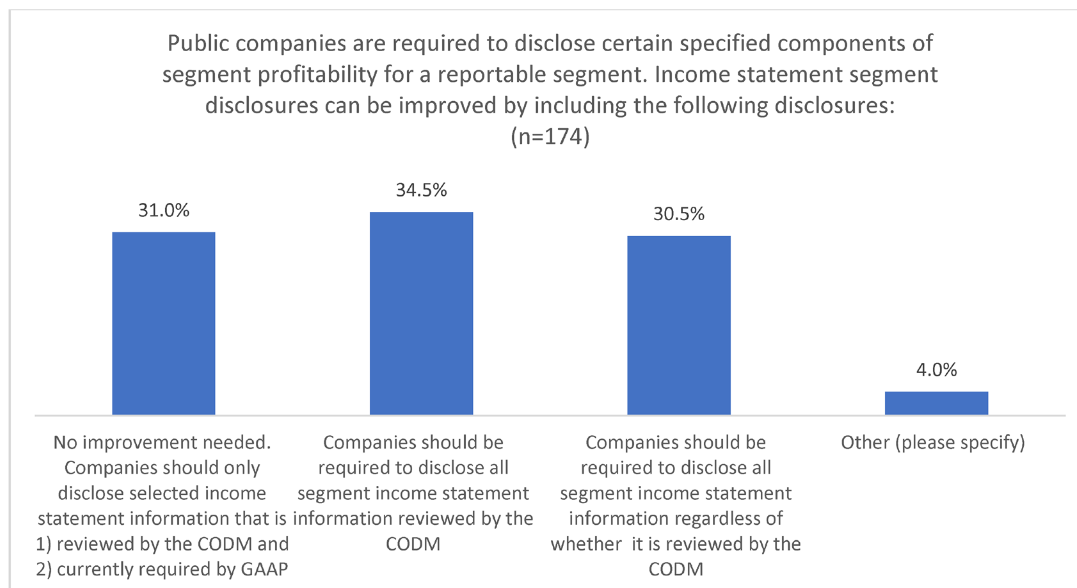
QUESTION	DISAGREE & STRONGLY DISAGREE	NEUTRAL	AGREE & STRONGLY AGREE
DISAGGREGATION			
Disclosures regarding segment revenues and expenses are not sufficiently detailed.	4.2%	22.2%	73.6%

As it relates to the income statement more broadly (See Page 46 of the aforementioned report as excerpted below), only 31% of investors agreed with retaining the existing disclosure of selected income statement items that are required to be reviewed by the CODM. The majority of investors, 65%, wanted all income statement information and only 34.5% of those respondents believe it needed to be provided to the CODM to be disclosed to investors.

Income Statement

We asked about improvements to segment income statement disclosures. As noted in **Exhibit 19**, the results suggest that a minority (31.0%) believed that no improvement was needed, while 65.0% believed companies should be required to disclose all segment income statement information—with 34.5% indicating it should be reviewed by the CODM and 30.5% indicating it should be provided regardless of whether it was reviewed by the CODM or not. These results suggest that a majority of respondents agreed that all income statement information should be disclosed, whether reviewed by the CODM or note.

Exhibit 19: Income Statement Improvements



One respondent noted:

- *It is really important that more full financial statements be disclosed by segment so investors can calculate things such a segmental ROE], ROA, ROIC [return on invested capital], interest coverage, leverage ratios, et cetera. None of this is currently possible.*

Evaluating the Cost Benefit Analysis – Given that: a) investors told the FASB that they want greater detailed information on the income statement and expenses specifically; b) the majority of CODMs already received segment expenses; and c) preparers said they would be able to identify their segment expenses if required to do so, it is not clear why the FASB has not required them to do so. More specifically, it is unclear why the FASB has knowingly selected the alternative that would provide the least information to investors.

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Other Segment Items (Question #3) – "Other segment items" is a caption created by the FASB – rather than a "management approach" based caption – as a byproduct of the disclosure requirements of significant expenses included in this Proposed Update.

During the outreach phase of the project, we understood "other segment items" was to be defined as the difference between total expenses of the segment and those that were to be separately disclosed under the "significant expense principle" in Paragraph 280-10-50-26A. Said differently, a plug to get to total expenses.

As we considered the language in Paragraph 280-10-50-26B (see excerpt below) where "other segment items" is defined, we noted the caption appears to be a catch-all for not only the undisclosed significant expense items but all other items not separately disclosed, including revenues, in arriving at segment profit and loss.

Paragraph 280-10-50-26B which defines "other segment items" is as follows:

> *A public entity shall disclose for each reportable segment an amount for other segment items. The amount for other segment items is the difference between reported segment revenues less the significant segment expenses disclosed in accordance with paragraph 280-10-50-26A [i.e., "significant expense principle".] and reported segment profit or loss. A qualitative description of the composition of other segment items also shall be disclosed. Other segment items may include:*
>
> *a. The total of a reportable segment's expenses that are included in the reported measure(s) of a segment's profit or loss but are not regularly provided to the chief operating decision maker.*
> *b. The total of a reportable segment's expenses that are included in the reported measure(s) of a segment's profit or loss but are not disclosed in accordance with paragraph 280-10-50-26A [i.e. "significant expense principle".]. A public entity is not precluded from separately disclosing an expense that is not significant for one reportable segment but is significant for another of its segments. However, if a segment expense that is not significant is not separately disclosed, it would be included as part of other segment items.*
> *c. The total of a reportable segment's gains, losses, or other amounts that also are included in each reported measure of a segment's profit or loss.*

In our view, if a company can arrive at segment profit and loss it can arrive at separate total revenue and total expenses subtotals by segment and provide that information to investors. We also note the feedback of investors to the FASB in Paragraph BC 40 which states:

> *Investors' feedback indicated* ***that segment expense information has limited usefulness unless the information is considered in a more holistic context****, for example, when the segment expense categories and amounts can be understood in relation to other items that affect segment profitability.*

While our responses to Question #1 and #9 highlight that investors need contextualization through the reconciliation of expense captions, by financial statement line item, to the consolidated financial statements, investors also need contextualization of segment profit and loss through a separate reconciliation of revenue and expense amounts that comprise segment profit and loss.

The "other segment items" caption is an accounting creation of the FASB through this Proposed Update that produces a plug with little information content. The proposed description of its contents is likely to be a boilerplate description that the amount is a plug rather than a description of the items included within the plug.

As we stated above, in our view, "other segment items" is manufactured accounting complexity and is not consistent with a "management approach." There is clearly a management review of

the components of these "other segment items" by some level of management within a company – even if not the CODM – that is more meaningful, disclosable, and decision-useful than this contrived accounting invention.

Reconciliation of Expenses (Question #9)

Our Previous Feedback on Reconciliations – As our discussion above with respect to the management approach and "other segment items" highlights, reconciliations are essential to understanding the significant expenses in context.

As we note in the section above, *Overall Considerations: 2018 Investor Perspectives on Segment Disclosures*, we specifically asked investors about reconciliations in our 2018 Survey and Report. Investors said reconciliations needed to be improved. The excerpt below from Pages 7 and 44, respectively, of the aforementioned report provide more contextualization of the need for improvement in reconciliation of segment disclosures to the financial statements. We find that the Alternative View expressed in Paragraph BC 76 related to reconciliations is consistent with the views expressed by our investor members in the aforementioned report.

- ***Presentation***—We touched on the concept of presentation—specifically income statement presentation—in several questions. First, we queried satisfaction with presentation and then asked what improvements respondents perceived as most important. Respondents, 77.8%, noted that segment disclosures are not always presented clearly and reconciled to the basic financial statements and that presentation by product/service or by region—as currently allowed—made comparative analysis more difficult, 82.4% (see Exhibit 7 and Table 1).

  When asked whether presentation by product/service and region should be required, 73.2% noted their preference for this alternative, as noted in Exhibit 9. Nearly all respondents believed that reconciliation of segment disclosures to the financial statements was a needed presentation improvement. Exhibit 18 notes that only 10.2% of respondents favored retaining the existing approach or not seeking any improvement. Overwhelmingly, respondents (88.7%) favored disclosures that reconciled to the financial statements—with 46.3% favoring reconciling the disclosure elements and 42.4% favoring a full income statement and balance sheet reconciliation. We believe the ordering of the response options may have impacted the response selection. With reconciliation of selected elements appearing first, we believe a quick read might have caused respondents not to discern the difference in options being the selection of elements of the financial statements and the full financial statements. Our impression is supported by the responses to the question in Exhibit 19, where the results suggest that a minority, 31.0%, believed no improvement was needed in presentation of income statement components (i.e., where there are components that are not reconciled), while 65.0% believed companies should be required to disclose all segment income statement information—with 34.5% indicating it should be reviewed by the CODM and 30.5% indicating it should be provided regardless of whether it has been reviewed by the CODM.

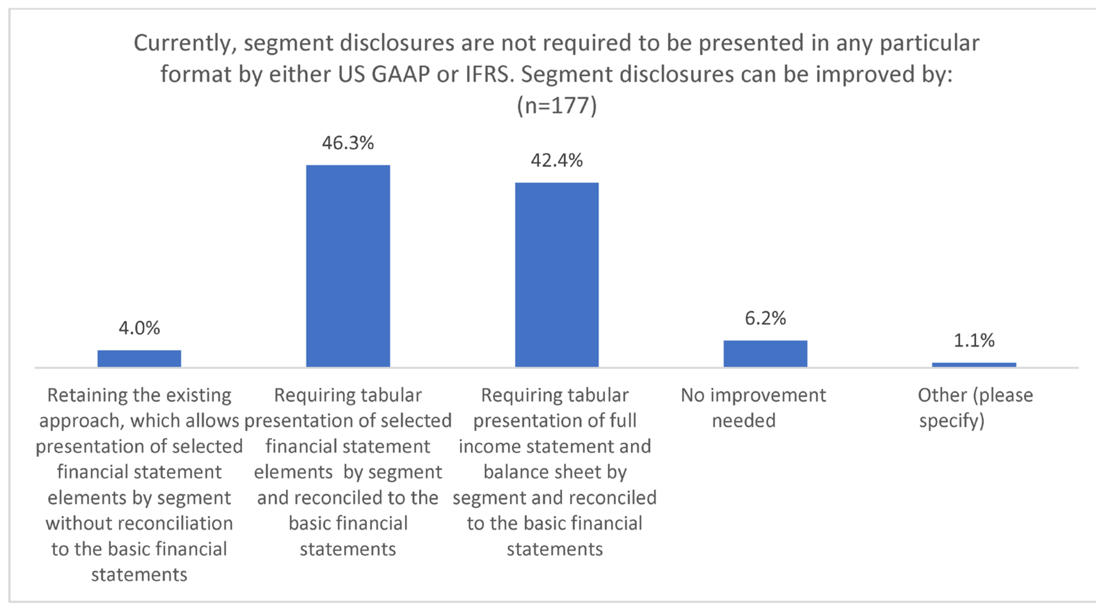
  When we asked respondents about whether segment disclosures should include a disclosure presenting all balance sheet items, a majority of respondents, 53.5% (Exhibit 20) agreed or strongly agreed that all balance sheet line items should be disclosed by segment regardless of whether they were allocated to the segment and reported to the CODM.

Presentation: Improving the Presentation

We then asked whether the presentation of the segment disclosures could be improved. **Exhibit 18** notes that only 4% of respondents favored retaining the existing approach. Overwhelmingly, respondents (88.7%) favored disclosures that reconciled to the financial statements—with 46.3% favoring reconciling the disclosure elements and 42.4% favoring a full income statement and balance sheet reconciliation. We believe the ordering of the response options may have impacted the response selection. With reconciliation of selected elements appearing first, we believe a quick read might have caused respondents not to discern the difference in options being the selection of elements of the financial statements and the full financial statements. We note later in Exhibit 19 the support for all income statement caption—whether or not reviewed by the CODM—is supported in the majority. As we extend this survey with direct outreach to investors and members over the next year, we will clarify the responses here. One respondent noted:

- *Elements—albeit including some which are not currently disclosed—being reconciled would be particularly useful.*

Exhibit 18: Presentation



Disclosures of Significant Expenses without Improved Reconciliation Limits Decision-Usefulness of Information – The additional disclosures of significant expenses without a reconciliation to the expense captions presented in the consolidated financial statements (or to the segment expense subtotal) reduces their usefulness.

Without a reconciliation to the consolidated financial statements, the segment expense disclosures are simply incomplete information that is not meaningful or decision-useful information and creates a cost to investors. This disclosure is akin to a Rubik's Cube where not all sides are the same color. The puzzle is not finished. In the context of expense disclosures, investors are simply left with another reconciliation problem to be resolved.

Question #9 implies a more detailed reconciliation is not operable. It is possible and operable in the same manner that "other segment items" is possible and operable. "Other segment items" is the plug between the segment revenue and expenses disclosed and those recognized in arriving at the segment profit and loss – which is ultimately reconciled in the aggregate to the consolidated GAAP operating profit in the income statement.

The significant expenses disclosed fall within an expense caption on the consolidated financial statements. Those segment expenses disclosed need simply to be cross-footed and compared to the respective expense captions included within the consolidated financial statements. If needed, they could include a plug like "other segment items" (i.e., "other (name expense type) items") to arrive at the respective consolidated expense type total. This "plug" provides investors with information regarding the financial statement caption the expense is included within and a sense of how large the expense numbers are that are not reviewed by the CODM, which provides insight into the governance of expenses for the organization.

Within financial reporting systems expense categories are pointed to consolidated financial statement reporting and, if different, to management reporting. This is a mechanical process undertaken for each ledger account to facilitate the routine production of management and external financial reporting. A reconciliation of the management and external financial reporting amounts is an important internal check for preparers in their production of the financial statements – and segment disclosures. As such, it seems plausible to provide the information, including allocations as we discuss under the management approach above.

Further, the MD&A for the Form 10-K needs to be explained in the context of the consolidated and summary results as well as by segment. If the management approach is used in the segment footnote and the segment MD&A, management needs to reconcile or connect the segment revenues and expenses to the consolidated results to produce a meaningful consolidated MD&A in the forepart of the Form 10-K. Without a reconciliation, consolidated MD&A is not an effective communication. Reconciliation as we propose it facilitates the production of this consolidated MD&A.

We know that the SEC has asked for companies to improve this consolidated MD&A. The challenge for those preparing the consolidated MD&A is that it many times falls to the financial reporting team as the management actually responsible for reviewing results does not have a consolidated view – an indication that the CODM is actually not the CEO but segment or division leaders. We believe the FASB needs to ask whether the stated inability to produce consolidated reconciliations is either an internal control issue or an indication that the CODM is not a single person but a management team at the segment level.

Overall, we are not supportive of the proposed significant expense disclosure without a reconciliation that identifies where the significant expense is included within the consolidated financial statements. Effective internal controls require that there be a reconciliation of a management approach to segments and the consolidated financial statements and an understanding of the allocation methodologies. Without it, management cannot be sure they have determined the significant expenses, allocated the expenses appropriately to the revenue

producing activities of the organization, or understood the efficiency of shared services. If "plugs" are needed to present a more detail reconciliation this provides information to investors.

Single Reportable Segment (Question #5)

It appears that the real driver of such additional expense disclosures for single segment companies is contained in the proposed Paragraph 280-10-55-15C: *"If a public entity discloses a single reportable segment, it should report the measure of segment profit or loss that the chief operating decision maker uses to allocate resources and assess performance. That measure may not necessarily be a profit or loss measure presented on the public entity's consolidated income statement."*

We would welcome any information used by the CODM to make resource allocation decisions even when they do not comport to generally accepted accounting principles – as long as there are reconciliations. Such information could assist investors in their evaluation of management's ability to allocate capital.

That said, we are unsure that this requirement would motivate managers to choose providing more segment expense information instead of simply providing the favorite profit or loss measure of a single-reportable segment company's CODM. The disclosures may provide a slightly different breakdown of expenses, but that disaggregation might contradict their significance determinations for the consolidated income statement presentation. Those disclosures might also call into question the single segment determination if there are many expenses not considered significant. We would have to see this implemented over time to discern if any further meaningful information would be provided.

This question really brings to mind the findings in our 2018 Report – and as expressed in the Alternative View in Paragraph BC 68 – which indicates that investors want greater partitioning or segmentation of a company's operating activities into reportable segments. As we note in the chart in the *Overall Considerations: 2018 Investor Perspectives on Segment Disclosures* section above, and Page 21 of the aforementioned report, 65.1% of respondents indicated that reportable segments are not sufficiently disaggregated to perform meaningful valuation and analysis. Our results also indicate that investors need more information to challenge the overly aggregated disclosures. This is an important issue the FASB has not addressed as part of this Proposed Update.

As we note previously, the FASB rightly points out that one-third of public companies have only one reportable segment. ***As such, we think our investor outreach and the discussion in the Alternative Views section of the proposed update highlights the issue to be addressed for single segments is not a different presentation of their expenses on the income statement but why a single segment is appropriate for so many public companies. We believe this is work that the FASB should undertake.***

Other Considerations

In addition to the matters noted above, we identified several other considerations when reviewing the Proposed Update related to the "significant expense principle." They are as follows:

Case B Example: Changes to Segment Profit – As part of our review of the implications of the changes proposed we reviewed the changes made to Case B in Paragraph 280-10-55-48 where the changes made are meant to reflect the changes brought about by the Proposed Update. From the changes, several items are not clear:

a) Segment profit and loss changes, which should not be the case if this is simply a different disaggregation of "significant expenses" under the management approach;
b) How the interest revenue and expense changes flow through the example;
c) The "other segment items" are as large if not larger than some of the significant expenses disclosed. This would suggest an insufficient level of disaggregation;
d) Certain of the reconciliations (e.g., segment assets, segment profit, revenues from external customers) would not appear to be accurate given the consolidated financial statements have not changed because the "all other category" is no longer presented; and
e) There is now a reconciliation to income before taxes but there must be items included herein which were previously allocated to the segments.

Finally, as we consider the example, we do not believe the disclosures of expenses adds substantial meaning to investors.

Overall, our point is that a change in the approach is going to create another reconciliation issue for investors.

Income Statement Disaggregation Project – It is not clear how this disaggregation exercise will intersect with the FASB's project on income statement disaggregation. See *Overarching Observations: Strategic Considerations* section. We believe that project should likely proceed or be done in connection with this Proposed Update as investors need better disaggregation in both segment and income statement presentation and the disaggregation needs to work in concert. For example, we believe human capital expenses should be a required disclosure both on the income statement and in the segment disclosures.

Analyst Package Disclosures – It is not clear how the Proposed Update's requirements mesh, connect, or reconcile to disclosures within analyst packages which are likely provided in advance of the full financial statements and the segment disclosures. In short, we are concerned this disclosure could require investors perform a reconciliation to the analyst packages. The FASB likely needs to require there be consistency of presentation within financial statements as disclosures within analyst packages are an indication of the importance of segment expenses.

Would Additional Information Result? (Question #2)
Will Decision-Usefulness Increase? (Question #4)

While we believe that the amendments may increase disclosure about reportable segments' expenses, they might actually decrease disclosures because of the gaming discussed in detail previously. Further, without appropriate reconciliation and contextualization any additional information may not increase decision-usefulness. ***Overall, as crafted, we are not convinced the proposed amendments will result in an improvement in the decision-usefulness of segment disclosures.***

We believe the FASB's outreach indicates the benefit to investors of:

a) requiring companies to provide more specific categorization of expenses with appropriate expense subtotals – rather than "other segments items" – and
b) including a reconciliation of expense line items and expense totals, not simply total segment profit and loss, to the consolidated financial statements;

exceeds the costs to preparers of providing this information because preparers indicated to the FASB that they could provide such information if required to do so.

When Expenses Are Not Disclosed Under the Significant Expense Principle (Question #8)

The inclusion of Question #8 which seeks comment on the existence of a situation where expenses are not disclosed under the proposed amendment for one or more reportable segments highlights to investors that either: a) the principle being proposed is not sufficient to provide investors with the information necessary, b) that the management approach is being gamed, or c) that management is not effectively managing the business. None is an acceptable alternative for investors.

Contemplation by the FASB, via this question, that the changes in the Proposed Update will result in no disclosure of segment expenses is an indication that the changes being proposed are not sufficient. It seems unfathomable that a segment could be reportable and the CODM does not review any, or the segment has no, significant expenses.

To promote the disclosure of expense information, we suggest the FASB include a minimum disclosure threshold that requires the company to provide total expenses and expenses in excess of 10% of the segment expense subtotal.

MORE THAN ONE MEASURE OF SEGMENT PROFIT OR LOSS (QUESTION #6)
Segment Profits and Losses – We agree with the Alternative View expressed in Paragraphs BC77 and 78 that changes to Paragraph 280-10-50-28, 28A and 28B may result in the inclusion of additional non-GAAP measures in the segment footnote specifically and the financial statements more broadly. We also agree with their view that investors prefer measures of profit consistent with GAAP because they know that non-GAAP measures are generally created to present a more profitable(favorable) view of the company's results.

That said, investors are not averse to the development of these non-GAAP measures if they assist in understanding how capital allocation decisions are made by managers based on these measures. Such measures also provide investors with behavioral tells of management. Aggressive non-GAAP measures portend a management willing to push limits.

Investors want, however, all such non-GAAP measures to be reconciled back to GAAP measures, which appears to be the objective of the changes in Paragraph 280-10-50-28B***. Those reconciliations, however, should not simply consist of reconciliations to totals but to detailed financial statement captions such that investors can ascertain where non-GAAP adjustments are classified within the consolidated income statement.***

We would observe, however, the language in Paragraph BC 29 that states*: The Board acknowledges that this decision may include segment profitability measures computed using tailored accounting principles.* This would indicate the FASB is supporting the inclusion of non-GAAP measures which include individually tailored accounting principles (i.e., an oxymoron as they cannot be principles if individually tailored) are generally not non-GAAP measures but alternative performance measures (APMs). Such measures are not simply presentation differences that can be reconciled to GAAP totals – they are different recognition and measurement criteria that require measurement and recognition disclosures. Including such measures in US GAAP financial statements seems incompatible with the integrity of financial statements. We think the FASB needs to distinguish between such measures and true non-GAAP measures.

Segment Assets & Other Measures – We observe that for the measure of segment assets Paragraph 280-10-50-28 does not appear to allow more than one non-GAAP measure as is the case for profit and loss disclosures in Paragraph 280-10-50-28A.

We note from Paragraph BC 31 that the FASB did not observe stakeholders requesting such additional measures. Some investors have told us that any information (e.g., cash flows) that is used by managers to allocate capital would be helpful to investors understanding of how the entity is being managed. Managers use more than just profit or loss measures to run an entity, and insights into how other metrics are used would help investors evaluate management quality. For such reasons, we would not object to the inclusion of other measures of segment assets or cash flows if they included reconciliations – on a detailed basis – to GAAP measures. See also the table and chart from our 2018 Report on investor disclosure preferences in the *Overall Considerations: 2018 Investor Perspectives on Segment Disclosures* section.

Inclusion of Additional Non-GAAP Measures May Enhance Their Quality (or at Least Reduce Their Manipulation – We would also note that the inclusion of additional non-GAAP measures in the financial statements subjects such non-GAAP measures to greater audit scrutiny and legal liability than the provision of such measures solely outside the financial statements. Said differently, they will be harder to manipulate over time. The provisions in Paragraph 280-10-50-29(d) that require an explanation of segment profit and loss measures are also helpful in this regard. Management may choose not include these additional non-GAAP measures in financial statements to avoid such scrutiny.

Recast vs. Restate – In the *Other* section which follows, we highlight the challenge the use of the term recast vs. restate may present when dealing with non-GAAP or alternative performance measures. They could be altered in future periods such that their prior period revision is not simply a recast but a new or restated measure. We believe the FASB should address this possibility.

DISCLOSURE OF CODM (QUESTION #7)

A named decision-maker whose decision-useful information is being publicly disclosed may increase accountability and ensure such information is robust and error-free, compared to an anonymous decision maker.

The disclosure may also result in an improved dialogue as a result of knowing exactly who is using such information internally. It is also useful in allowing investors to ask why this individual, CODM, does not review particular information or to understand why that individual may discuss or remark about information publicly that they seemingly don't review.

That said, this disclosure is more likely to simply confirm investors' view and belief that the CODM is at a level higher than it should be to meet an investor-based definition of the management approach. In the sections above regarding *Gaming of Segment Disclosures* and more specifically the section *The Management Approach* we highlight the challenges with the definitional differences between investors and preparers in the meaning of "the management approach" as it is applied in Topic 280.

In our 2018 Report on Page 9 and 29, we noted that the majority, 61.7%, of respondents believed a change in the definition of the CODM was necessary as summarized in the excerpt immediately below and illustrated in the chart which follows:

> *CODM*—We queried respondents on whether the current definition of chief operating decision maker was sufficient. Only 38.3% (Exhibit 11) thought no improvement was needed. The majority of respondents (61.7%) believed a change was necessary but differed in why or how a change was needed. Substantively, all improvements were related to lowering the level of the decision-making or tying it more directly to compensation.

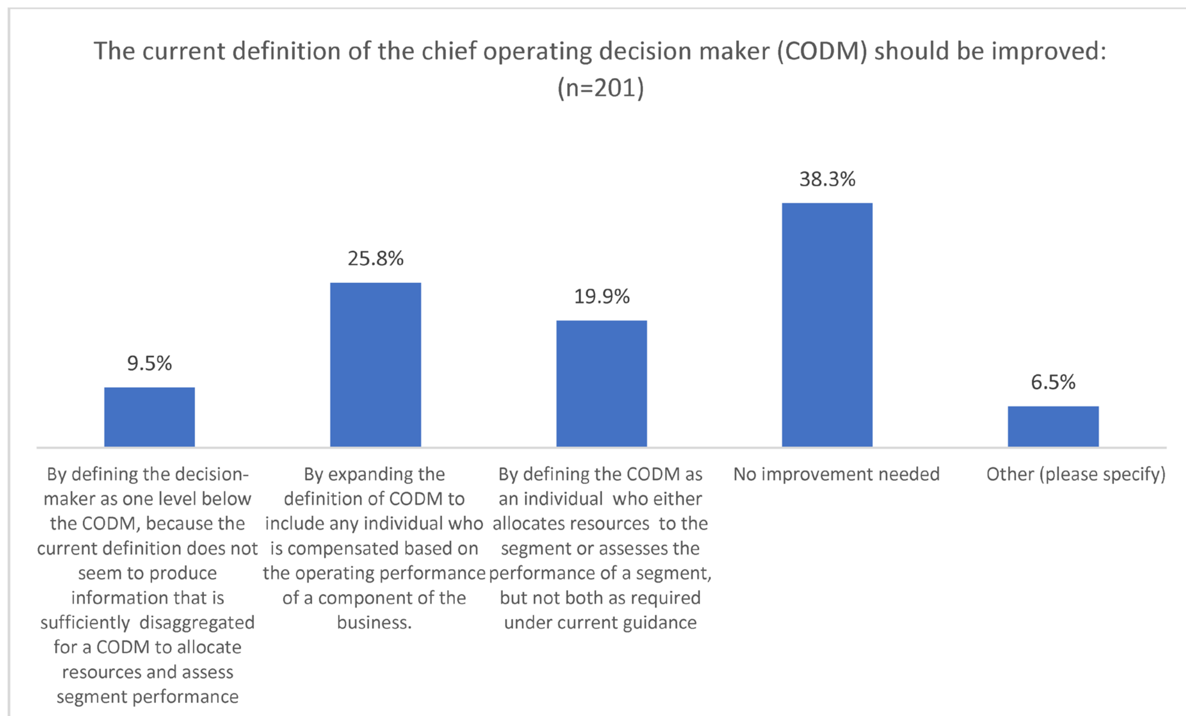
Chief Operating Decision Maker

We queried respondents on whether the current definition of chief operating decision maker was sufficient. Only 38.3% of respondents thought that no improvement was needed (**Exhibit 11**). The majority of respondents (61.7%) believed a change was necessary but differed in why or how a change was needed, as follows:

- 25.8%—definition should include any individual who is compensated based on the performance of the business
- 19.9%—definition should include any individual who allocates resources or assesses performance, but does not have to do both based on existing requirements
- 9.5%—definition should be refined because current disclosures aren't sufficient to allocate resources or assess performance
- 6.5%—most of the respondents responding "other" alluded to a definition that would improve disaggregation or auditing of the information

Overall, each of the alternatives for an improved definition of the CODM were about reducing the level in the organization where resource or performance allocation decisions were made—substantively, a disaggregation or more detailed assessment level—or simply increasingly the level of disaggregation.

Exhibit 11: Improvements to CODM Definition



INTERIM REPORTING (QUESTION #10)

Investors would welcome the proposed amendment to interim information in Paragraph 280-10-50-32 that would require the information in Paragraph 280-10-50-22 to 24 be presented not only at annual but interim periods.

Investing takes place continually, not simply annually, and segment disclosures, as we note in the *Overall Considerations* section of this letter, are as important to investors as consolidated results. As such, we believe this proposal would improve interim financial reporting in terms of performance and capital allocation evaluation.

This is likely the most useful feature of the Proposed Update.

TRANSITION AND EFFECTIVE DATE (QUESTIONS #11, #12 and #13)

Support Retrospective Adoption Basis (Question #11) – Investors nearly always support application of new accounting standards on a retrospective basis because it provides better comparative and trend information. As such, we support the retrospective approach proposed by the FASB and we believe it is operable as it is based upon information already provided to the CODM. We would not support a prospective application of the Proposed Update.

Transition Disclosures if Change in Significant Expense Categories (Question #12) – We are supportive of using a transition approach that follows the definition of significant expenses in the current period of adoption as this is likely most meaningful in assessing future trends and prospects of the business. We always prefer a quantitative articulation of such recasting of prior periods as it better informs investors and enables them to adapt their modeling efforts to the additional information. We believe that if there are significant changes that such changes will likely appear, and be quantified, in analyst packages. We would not object to the qualitative disclosures proposed given this fact.

Time to Implement (Question #13) – We always support the earliest possible adoption. Uncharacteristically, we would support early adoption as the Proposed Update is not likely to produce comparable results among companies, so having all of them start on the same date does not provide much added benefit to investors.

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OTHER

Recast vs. Restate – We would not object to the use of the term recast versus restate, but we have several considerations we would like to highlight:

1) ***Addition to Codification Glossary*** – The term recast likely needs to be added to the Codification glossary as we believe this distinction may need to be made throughout the Codification not simply this Proposed Update. Only then will the nuances of this new language fully be identified and realized by stakeholders.
2) ***Changes in Allocations & Classifications Between Segments*** – There may be instances where allocation changes and classification of expenses between segments are not recasting due to a management approach change but actual errors in the allocation methodology or classifications. As noted in our investor survey, 51% of investors believe segment changes are a red flag. As such, the ability to use the term recast vs. restate may likely create liberal interpretations of the difference between the two.
3) ***Changes in Non-GAAP Measures Are Not Recasting, But Restating*** – We want to make sure the term recast is not used for the continual changing of non-GAAP measures presented in accordance with Paragraphs 280-10-50-28, 28A and 28B. We are concerned that this term may be used to label changes to non-GAAP measures as recasts when they really amount to different measures or where measures are presented differently to "manage" the communication of earnings. We believe it may be challenging for auditors to discern and enforce the difference.

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Thank you for your consideration of our views and perspectives.

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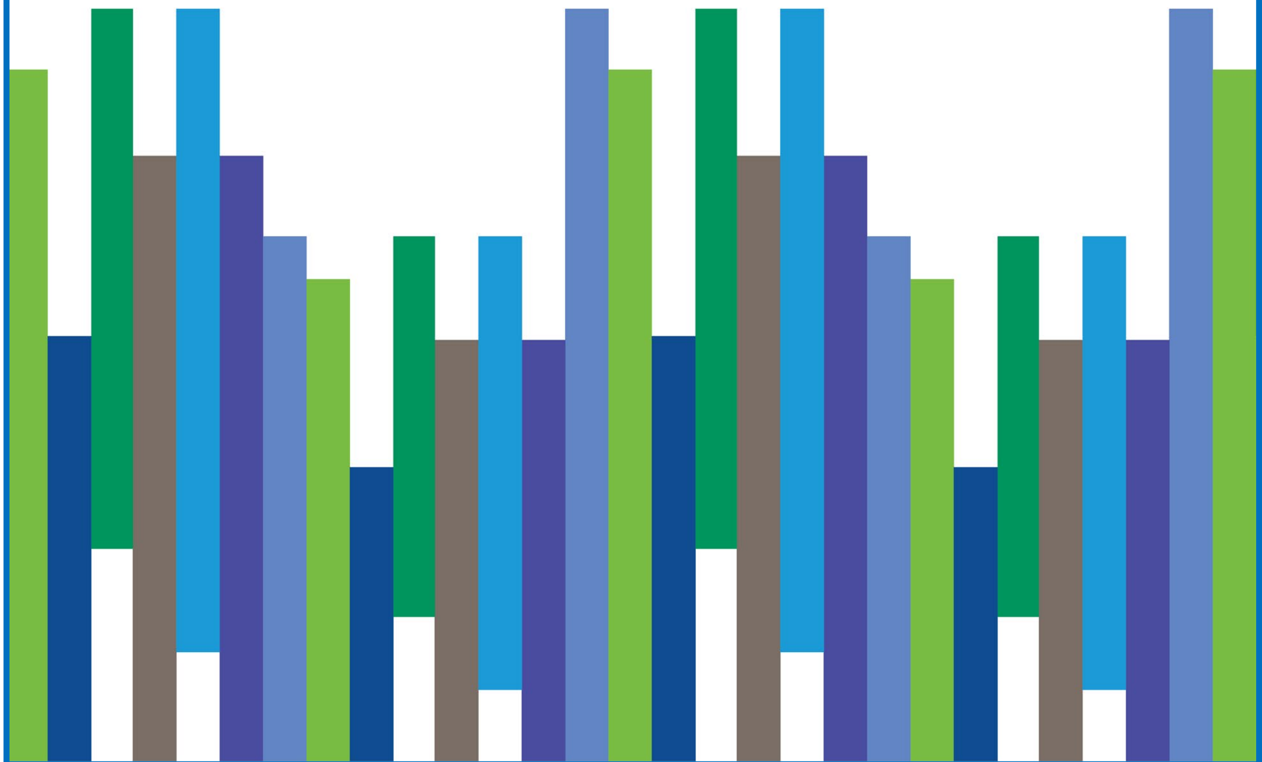
APPENDIX

SEGMENT DISCLOSURES: INVESTOR PERSPECTIVES



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