The Association of
Accountants and
Financial Professionals
in Business

November 1, 2023

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

RE: File Reference No. 2023-ED500, Exposure Draft, Disaggregation of Income Statement Expenses

Dear Ms. Salo,

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB or Board) Proposed Accounting Standards Update, *Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40) – Disaggregation of Income Statement Expenses* (the Proposed Update).

The IMA is a global association representing over 140,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

The Committee is supportive of the Board's intent to increase transparency and improve disclosures related to the income statement. The Committee understands investors are looking for more information and appreciates the Board's efforts to be responsive to investors' needs. Given that this Proposed Update adds disclosures that are linked to the presentation of a basic financial statement, it will affect almost all, if not every, public filer, as well as companies aspiring to become public filers. Although the changes required will vary widely between companies, we believe that the Proposed Update will require significant changes to how most companies capture and summarize financial statement information. This is because the disaggregation of expenses as required by the Proposed Update will in many cases differ from how management accumulates information and analyzes operating results. These changes will add significant costs to gather, review, and audit this information considering internal control implications as well as changes to systems and processes.

We believe an extended period will be required to prepare for adoption of the Proposed Update. In our view, many of the issues the Board identified in paragraph BC39 of the Basis for Conclusions remain even with the reduced number of natural expenses proposed to be disaggregated. The proposed disclosures require the categorization of expenses by both function and nature, which would be operationally very difficult. We believe it will take at least two years, if not more, before many companies, particularly large multinational organizations, will be able to comply with all of the requirements of the Proposed Update. We also observe that the proposed requirement to further disaggregate inventory and manufacturing expense will be significantly more challenging to implement and we recommend the Board consider whether a phased implementation approach that would require employee compensation, depreciation, and intangible asset amortization to be implemented first would be more responsive to the needs of both users and preparers. Before the Proposed Update is finalized, we recommend the Board and its staff undertake extensive field testing with preparers and system providers to understand the time, effort, and cost that will be required to comply with the proposal.

The Committee has identified certain recommendations for the Board to consider to improve the operability of the Proposed Update including: (1) requiring disclosure of natural expenses in total instead of by relevant expense caption, (2) a phased approach where disclosure of employee compensation, depreciation, and intangible asset amortization is implemented first, (3) requiring the disclosure of only inventory purchases instead of a complete inventory rollforward, and (4) giving companies the option to disclose either inventory purchases or inventory consumption.

The body of this letter focuses on our key observations and recommendations with respect to the Proposed Update. Answers to the specific questions for respondents are included in Appendix I.

For most companies, significant effort will be required to comply with the Proposed Update.

In many cases, how management analyzes financial results and operating costs is different than the disaggregated expense categories in the Proposed Update. Approaches include looking at costs (1) by business or product line, (2) by location, (3) with respect to volumes and product mix, or (4) by accumulating costs in categories other than natural expense, such as maintenance, which may be comprised of multiple natural expenses (e.g., internal labor, outside contractors, spare parts, supplies, etc.). This cost analysis is often done outside of the consolidation system or a common general ledger. The data to do this analysis is likely to be cost systems, financial databases, or in individual location general ledgers or ERP systems. Companies will either need to develop or expand reporting packages to summarize data in the required format for the Proposed Update or redesign existing consolidation systems to expand the number of reported general ledger accounts. As there is a potential disconnect between how management evaluates costs and the proposed disclosures, it may present challenges for management to assess the reasonableness of the amounts disclosed.

Either approach (reporting packages or expanded data in consolidation systems) would require considerable effort to standardize, define, expand, and enforce the use of standardized charts of accounts. This means there could be significant costs and time required to implement systems and approaches to comply with the Proposed Update. As disclosures will be expanded, it will increase audit testing as auditors spend additional time testing amounts at lower levels in the system or in additional systems. Audit procedures performed to detect material misstatements of an expense presented in the income statement may need to be redesigned to detect material misstatements of the disaggregated amounts.

Creating disclosures that require categorization by both function and nature is operationally difficult.

We agree with the incurred cost approach for reporting natural expenses that are recorded in inventory and believe that is the only practicable approach with respect to these costs. Natural expenses quickly lose their identity when they are capitalized in inventory. Reporting the amount of expenses incurred in the current period is also consistent with how entities disclose other specific expense items.

Allocated costs also quickly lose their identity. For example, employment costs incurred in an administrative cost center might be allocated to a research and development department or a selling department and therefore appear in multiple relevant expense captions. Although the company could identify natural expenses when incurred, systems are often not designed to easily track how natural expenses are ultimately allocated to functional income statement line items, particularly if the allocation system is complex or goes through multiple steps or cross-allocations. We are unclear how the Board expects preparers to track this information to disclose it.

The Committee acknowledges that entities comply with International Accounting Standard 1 – *Presentation of Financial Statements* (IAS 1), which requires additional information about the nature of expenses. However, IAS 1 does not require an entity to disclose the amount of natural expense for each income statement line. Our understanding is that when an entity discloses or prepares an income statement based on natural expenses, it presents those expenses for the entire entity such that total expenses are summarized by nature and not function. The income statement captions of a functional presentation no longer matter. This eliminates the need to trace or reconcile the amounts presented in one format to subcategories of another. Creating disclosures that require categorization by both function and nature is operationally difficult.

The Board concluded that allocation of natural expenses to different relevant expense captions does not affect its underlying natural categorization, but that capitalization of costs (other than to inventory) does result in a different natural classification. We agree that it would not be practical to subsequently link the amortization of those assets to the former nature of those costs.

Disclosing inventory purchases and preparing a rollforward of inventory activity will be operationally very difficult and require significant and costly system changes.

The proposed requirement to disclose inventory purchases is likely to be challenging for most manufacturers. In our experience, most labor and overhead costs are first accumulated in a general ledger expense account classified by their function (e.g., direct labor, electricity, supplies, etc.). Subsequently, an amount is capitalized in inventory with a debit to inventory and credit to a separate income statement account, resulting in the amount of expense in the income statement netting to zero.

In general, purchases of inventory (whether it be raw materials, work-in-process or finished goods) are directly debited to inventory general ledger accounts. Costs associated with acquiring that inventory (such as in-bound freight) and further processing costs are often debited directly to inventory as well. For some entities applying standard costing, the total inventory purchases are split at the time of receipt between inventory accounts and separate material variance accounts. This means there is no natural expense account (or range of natural expense accounts) that can be referenced to capture the purchases in a period. As a result, the proposed disclosures could not be compiled from a trial balance and information from other systems would be needed. In other words, the Board is requesting companies to disaggregate information that is not in the income statement. As additional systems and processes are needed to obtain disclosures, the cost and complexity increases. Inventory purchases could be captured by creating new natural expense general ledger accounts like those described in the previous paragraph, but doing so would represent a fundamental change in how inventory transactions are recorded.

The Proposed Update requires disclosing incurred costs, but the income statement presents inventory expense, which results in the need to disclose the change in inventory during the period. Rolling forward the inventory balance could be done at each inventory point, but with inventory recorded at multiple stages of production and locations, we believe there will be challenges in reconciling changes in inventory across these production steps and locations to the consolidated inventory change. It would be difficult to produce a consolidated disclosure, particularly for a complex, decentralized and worldwide manufacturing company. The costs of implementing a system that could accurately capture this information could be significant. The consolidated change in inventory can be derived from the balance sheet and is presented on the face of the statement of cash flows, but we expect there to be many disparate and unexplained changes as individual inventory changes are reconciled to the consolidated total. Ultimately, this will be reported in the “other” category, but as it is likely to contain many discrete items, we believe it will be difficult to analyze and explain changes from one period to the next.

Gathering the total purchases in a period would likely require either extensive account analysis by many individuals, putting flags on certain types of transactions in cost systems or general ledgers for later accumulation, or a complete redesign of how transactions for inventory are recorded. This would add additional steps and complexity to the recording of inventory and cost of goods sold. Given the high volume of transactions in inventory, any approach will require significant effort. Frequently, inventory is transferred from one stage in inventory to another at cost. There is no need to separately track whether inventory consumed in one process is coming from an outside purchase or from an earlier production process. Companies would need to develop systems and processes to distinguish between internally sourced and externally sourced inventory to eliminate the internal purchases and transfers from consolidated results. This could be challenging as inventory often goes through multiple steps, inventory points, and is transferred between locations.

Management may be more likely to focus on the amount and cost of inventory consumed in a period instead of the amount purchased. For example, because of a limited shipping season, the company of one of our Committee members does not purchase any of a key raw material during the winter months. This raw material is a significant part of its input costs and is consumed throughout the entire year. This example highlights how the timing of purchases can be significantly different than the recognition of the underlying costs. In this case, management does not ignore the cost of this input during the period it has no receipts. Rather it evaluates and manages its costs based on the value of the material consumed. It takes this approach with all its raw materials. Even if users were using the disclosed purchases number to determine what proportion of total manufacturing and inventory costs were raw materials, the example above highlights how that proportion could be skewed in a reporting period. Therefore, we believe consumption instead of purchases may be a more meaningful metric for some entities and we recommend the Board consider optionality to allow companies to determine which is more relevant.

If preparers must incur higher costs to provide this information, we want to make sure there are comparable benefits. We appreciate that users want greater insight into the components of expenses shown on the income statement. However, we believe how users will use the information required by this

Proposed Update needs to be understood. A single number showing inventory purchases for the period could be a combination of many different types of inventory, each with its own relative value and price trends and since the amounts reported will be raw dollars unlinked to quantities, it is unclear how users will use this information to project future costs. Additionally, it does not take into consideration the quantities that will be produced from those purchases. If demand is increasing and more raw materials are purchased to make more finished goods, assuming positive margins, that would increase profitability. Without additional information, how would a user know whether an increase in purchased inventory was the result of higher costs leading to lower profitability or something that would result in higher profits?

The quantity of purchases in a period is likely to be affected by things other than a change in cost. Factors such as the timing of the period-end (weekend or holiday) or purchases in advance of a price increase are just as likely to affect the amount of purchases. The cash flow statement is the most relevant statement for a user to reference for an understanding of whether changes in inventory levels and working capital are affecting cash flow.

We acknowledge that the Board and its staff have already received feedback from users about requests for more granular information on the income statement, but the Board and staff should conduct further outreach with users to confirm that the proposed disclosures are responsive to their intended use (i.e., how users will utilize the newly available information in their models and financial analysis). We believe the Board should understand how the disclosure of an inventory purchases number will result in users being better able to forecast future costs, profits, or cash flows before making the disclosure of that number a requirement.

Although there are challenges with compiling both inventory purchases and performing a complete inventory rollforward, we believe a requirement to disclose only inventory purchases would be less costly than the complete inventory rollforward and it would address user requests to supplement the change in inventory number presented in the statement of cash flows.

See our response to Question 8 in Appendix I in this letter for an elaboration on the issues related to this proposed requirement.

The proposed requirement to distinguish between manufacturing expense and nonmanufacturing expense will create an income statement category that will be new to many companies and may be defined inconsistently.

The Proposed Update is creating a new expense category to distinguish manufacturing costs from nonmanufacturing costs. Although individual companies may have subcategories of expenses within period costs, we believe many companies do not distinguish manufacturing costs from nonmanufacturing costs in cost of goods sold. If an entity had significant nonmanufacturing expenses, we believe in many cases, they would not be included in cost of goods sold. Given the disparate definitions that are likely to arise with respect to nonmanufacturing expense, the benefit from its disaggregation may be limited.

We are uncertain of the purpose of requiring the disclosure of certain expense items in a single table as the amounts will either be duplicative or separated from the context provided in specific footnotes.

Conceptually it makes sense to integrate disclosures where possible and where it provides meaningful connections for users. However, the goal of the proposed requirements in paragraphs 220-40-50-12 and

50-13 is unclear. Is the goal to make it easier for investors to scrape data from one table? Is the purpose to reduce the amounts shown on an “other” line by deducting other natural expense categories? Additionally, since the proposed requirement in paragraph 220-40-50-13 is to disclose these items only if they appear in a single relevant expense caption, it means that many items will be excluded from this requirement. There are multiple screens to arrive at a conclusion as to where or whether to disclose an item. We believe that the use of a flowchart to navigate this decision process may be helpful to not only ensure compliance with the Proposed Update but to better understand whether it is operational.

Disclosing natural expenses in one table separates the disclosure of the amounts from the context provided by the footnotes and may make it less clear as to what is causing the expense, particularly for one-off items like impairments. As a result, we expect disclosures to be less clear or more likely will be duplicative as the amounts are reported in both the new footnote and existing footnotes.

See our response to Question 12 in Appendix I in this letter for further elaboration on this issue.

Depletion should be reported the same way for all companies.

Companies in extractive industries other than oil and gas also recognize depletion expense. Depletion is usually reported in the same manner as depreciation and intangible asset amortization on the cash flow statement and excluded from an Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) metric. The Proposed Update should be clarified to require that all depletion, not just that incurred by oil and gas producers, be disclosed as an item in the tabular format.

Additionally, we believe the Proposed Update as written is confusing as to what is meant by the consistent treatment of depreciation and intangible asset amortization in accordance with Topic 360 and Topic 350. See our response to Question 7 in Appendix I to this letter.

The proposed requirement to disaggregate selling expenses in total has limited value.

Selling costs may be presented in multiple line items on the face of the income statement, including relevant expense captions and revenue captions. Users told the Board that they would like to see the selling expenses portion of SG&A separated from other general and administrative expenses when a company presents SG&A expenses on the face of the income statement. However, not all public business entities present SG&A as a line item. The proposed requirement to separately disclose selling expenses in total will not provide users with an understanding of how to reconcile the total across the various income statement line items if that is the case. We also believe there will be significant disparity as to what companies define as selling expenses.

In addition, it appears that certain sales incentives provided to existing or potential customers to market a good or service and recorded as contra revenue would be excluded from this disclosure because revenue is not considered a relevant expense caption. In some cases, when negative revenue occurs in a reporting period, companies may record that negative revenue amount as a sales and marketing expense and would need to evaluate whether to include it as part of the selling expense disclosure. The Board should consider whether this result is an intended outcome of the disclosure requirement.

We expect the implementation issues expressed in this letter to also occur in business combinations and when a company transitions from private to public.

The Proposed Update should address additional transition issues, such as the timing of implementing these disclosures for business acquisitions and when a private company becomes public. We recommend adding language to the Proposed Update to allow a transition period for such events and to permit prospective treatment of those disclosures.

The Proposed Update fails to address the interaction between the new tabular disclosures and the pending significant segment expense disclosures.

The Board acknowledges in the Basis for Conclusions that there is the potential for differences in the basis of presentation of similar amounts (e.g., employee compensation) for disclosures of significant segment expenses (pending a Final Accounting Standards Update) and the amounts that would be disclosed in the tabular format required by the Proposed Update. We believe that most companies will need to reconcile these amounts either so they can explain what is being reported to management and investors or will do so as a control to ensure the completeness and accuracy of the required disclosures under both Topics, which will add additional costs to comply.

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We would be pleased to discuss our comments with the FASB or its staff at your convenience.

Sincerely,

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Chair, Financial Reporting Committee
Institute of Management Accountants
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Appendix I – Questions for Respondents

Expense Captions Subject to Disaggregation Requirements

Question 1: The amendments in this proposed Update would require that a public business entity disclose disaggregated relevant expense captions in the notes to financial statements. For preparers and practitioners, are the proposed amendments for identifying relevant expense captions operable? Please explain why or why not. If not, what changes would you make?

> *We believe the proposed amendments for identifying relevant expense captions are operable. That said, we note that the definition of relevant expense caption is limited to expense line items and would exclude any expense amounts that may be recognized and presented as contra revenue. We also believe there are challenges in providing the disaggregated information once the relevant expense captions have been identified. We identify those challenges elsewhere in this letter.*

Entities in Scope

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

> *We agree that the Proposed Update should apply to all public business entities.*

Required Expense Categories

Question 3: The proposed amendments would require that an entity disclose the amounts of (a) inventory and manufacturing expense, (b) employee compensation, (c) depreciation, (d) intangible asset amortization, and (e) DD&A that are included in each relevant expense caption. For investors, would this proposed disclosure provide decision-useful information? If so, how would that information be used? If not, what changes would you make? Would any of the proposed categories not provide decision-useful information? For example, are there categories that would be more decision useful than the ones being proposed?

> *See our response to Question 4.*

Question 4: For preparers, how does requiring disclosure of certain categories of expenses included in relevant expense captions compare with the operability and cost of requiring full disaggregation of income statement expenses into natural categories (including the disclosure of additional categories that would not be required by the proposed amendments)? Are there other broadly applicable expense categories or disaggregation approaches that would provide investors with more decision-useful information, be less costly to provide, or both? Please explain why or why not.

> *The amount of difficultly that will be required to comply with this Proposed Update will vary widely across entities. It will depend on many factors: the industry of the entity, the nature of the expenses that the entity incurs, the number of operating locations, the number and type of information technology systems in place. The more natural expense categories that are required to be disaggregated, the more complex and costly the task of*

gathering that data becomes. We do not propose adding any additional natural expense categories for disaggregation.

As for the certain categories of expenses identified in the Proposed Update, we think that many of the operability issues that the Board identified in paragraph BC39 of the Basis for Conclusions remain even with the reduced number of natural expenses proposed to be disaggregated. Further, the Board has not provided any proposed guidance as to the intended resolution of those operability issues (e.g., internal allocations, intercompany eliminations, and the effects of foreign currency). Without specific guidance, the Board's objective of comparability will not be achieved as companies will make policy elections about how to work around the operability challenges and there is no requirement to disclose those policy elections to users to help them understand the composition of the disaggregated amounts. Although certain expense categories like depreciation and intangible asset amortization may be reviewed in total for the preparation of the statement of cash flows or for non-GAAP metrics like EBITDA, because these expenses may be subsequently recognized on multiple income statement lines, capturing these amounts by relevant expense caption will be much more difficult than determining the amounts in total. We have provided additional details below for each proposed expense category.

For (a) inventory and manufacturing expense:

We agree that inventory and manufacturing expense is an appropriate category. However, we believe that further disaggregation within that category will be challenging. We believe it will be difficult to reconcile changes in inventory across many production steps and locations to the consolidated inventory change. It would be challenging to produce a consolidated disclosure, particularly for a complex, decentralized and worldwide manufacturing company. The costs of implementing a system that could accurately capture this information could be significant. We believe that inventory purchases will be extremely difficult to capture because they are usually recorded directly to the balance sheet and not summarized in general ledger accounts that are part of the income statement. The proposed disclosure will result in the aggregation of many different purchases and the associated quantities will not be disclosed along with the dollar amounts and as such, we believe the information will not be decision useful. Simply knowing how much was purchased in a period would not be helpful in predicting how much will be purchased in the next. Additionally, as the ratio of purchases to other costs will vary from company to company based on the level of the activities performed internally versus externally, it may not provide meaningful insights as to the relative cost structures. One suggestion is to allow companies the option to report either purchases of inventory or consumption of raw materials. See our responses to Questions 8, 9, and 10.

For (b) employee compensation:

We believe an operable alternative would be to disclose employee compensation in total to alleviate the challenges associated with employee compensation amounts included in allocation cost pools that lose their nature when presented on the face of the income statement in multiple relevant expense captions.

For (c) depreciation, (d) intangible asset amortization, and (e) depreciation, depletion, and amortization (DD&A) for oil- and gas-producing activities:

We observe that companies in extractive industries other than oil and gas also recognize depletion expense and we suggest clarifying in the Proposed Update to specify that all depletion, not just that incurred by oil and gas producers, be disclosed as an item in the tabular format. An operable alternative would be to disclose depreciation, intangible asset amortization, and DD&A in total.

Given our concerns over operability and the Proposal's broad impact, before the Proposed Update is finalized, we recommend the Board and its staff revaluate whether the costs associated with providing the resulting disclosures provide decision-useful information with commensurate benefits that justify those costs.

Question 5: For preparers and practitioners, is the proposed definition of inventory expense operable? Please explain why or why not. If not, what changes would you make?

We expect that the proposed definition of inventory expense will be widely understood and would be consistent with how costs flow through most entities that capitalize costs in inventory.

Question 6: The proposed amendments would leverage the existing definition of employee in Topic 718, Compensation—Stock Compensation, and would add a definition of employee compensation. For preparers and practitioners, are the proposed definitions of employee and employee compensation operable, including for entities with international operations, and would the proposed amendments affect entities' current application of the definition of employee in Topic 718? Please explain. What changes, if any, would you make? For preparers, would the proposed practical expedient that would allow certain entities to disclose salaries and benefits in accordance with SEC Regulation S-X Rule 9-04 be less costly to apply than applying the proposed definition of employee compensation? For investors, would permitting the application of that proposed practical expedient affect the decision usefulness of the proposed disclosures? For all stakeholders, should the definition of employee compensation include additional costs or exclude any of the costs proposed? Please explain why or why not.

The inclusion of a definition of employee compensation is helpful and will result in more consistent application of the Proposed Update and minimize diversity in practice. We believe the proposed definition is operable and we do not anticipate any effects on the current application of Topic 718 because of the amendments to the definition. We believe the practical expedient to align with the requirements in SEC Regulation S-X Rule 9-04 would be less costly than the proposed requirements for those entities that already present financial statement captions in accordance with Rule 9-04.

We have not identified any additional costs that should be included in the definition or any costs that should be excluded from the proposed definition. However, we observe that allowing entities to elect to include other amounts as employee compensation (per paragraph 220-40-50-7) will reduce the consistency and comparability of amounts disclosed as employee compensation. It takes the Proposed Update in the direction of a management approach rather than the stated objective of specified requirements. In the *spirit of providing users with relevant information about labor costs, we also note that the Proposed Update lacks consideration for non-employee compensation costs, which is a material expense for certain business models.*

Question 7: For preparers and practitioners, would linking depreciation and intangible asset amortization to existing disclosure requirements in Subtopic 360-10, Property, Plant, and Equipment—Overall, and Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill, be operable? Please explain why or why not.

The Proposed Update indicates that amounts for depreciation and intangible asset amortization should be consistent with the classification of amounts disclosed in accordance with Section 360-10-50 and Section 350-30-50, but then requires a company to choose whether to present amortization of a finance lease right-of-use asset recognized in accordance with Subtopic 842-20 as either depreciation or intangible asset amortization. Some of our Committee members believe that doing so would not be consistent with Section 360-10-50 and Section 350-30-50 and means the amounts will not reconcile to other disclosed amounts for depreciation and intangible asset amortization in the financial statements. We recommend clarifying the language in the Proposed Update to address the contradiction.

Additionally, companies in extractive industries other than oil and gas recognize depletion expense. Depletion is usually reported in the same manner as depreciation and intangible asset amortization on the cash flow statement and excluded from an EBITDA metric. We believe depletion should be reported separately for all companies because it is the recognition in expense of previously capitalized expenditures, like depreciation and amortization. The Proposed Updated should be clarified so that all depletion, not just that incurred by oil and gas producers, should be disclosed as an item in the tabular format.

Further Disaggregation of Inventory and Manufacturing Expense

Question 8: The proposed amendments would require further disaggregation of inventory and manufacturing expense into the following categories of costs incurred: (a) purchases of inventory, (b) employee compensation, (c) depreciation, (d) intangible asset amortization, and (e) DD&A. Those costs incurred categories would include costs that flow into the balance sheet as inventory and also would include manufacturing costs that are expensed directly. The costs incurred categories would not represent costs flowing from inventory on the balance sheet to the income statement when that inventory is sold or impaired. Residual costs incurred would be included in an “other” category. For investors, would this proposed disclosure provide decision-useful information? If so, how would that information be used? If not, what changes would you make? Would any of the proposed costs incurred categories not provide decision-useful information? For example, are there categories that would be more decision useful than the ones being proposed? Should the proposed requirement to further disaggregate costs incurred that flow into the balance sheet as inventory be expanded to include assets other than inventory? If so, which assets?

We believe the incurred cost approach for reporting natural expenses that are recorded in inventory is the only practicable approach with respect to these costs. Natural expenses quickly lose their identity when they are capitalized in inventory.

As discussed in detail in the body of our letter, the requirement to disclose inventory purchases is likely to be challenging. We understand the desire to provide specific information about the amount of raw material costs as it can be a significant portion of cost of goods sold; however, it is unlikely management is controlling costs or inventory levels by tracking purchases. Management is likely to focus on inventory balances and not amounts purchased in a period to control inventory levels.

We believe some companies' focus would be on understanding the cost to produce their inventory and their systems would be geared to track what was consumed to produce that inventory. As a result, they would have better systems to track and report the amount of inventory consumed in their manufacturing processes, rather than the amount of inventory purchased. Particularly, as this information must be gathered to relieve inventory from one stage of production and transfer it to the next. Additionally, we believe extensive system changes also would be required to report the consolidated amount of inventory consumed.

Paragraph 102 in IAS 1 gives an example of an income statement disaggregated by natural expense. That example shows the consumption of raw materials and consumables as a line-item. We believe the IFRS selected consumption and not purchases in this example for the reasons cited above and because it is a common way companies capture information. Additionally, prescribing the disclosure of inventory purchases and not inventory consumption is more likely to lead to differences between U.S. GAAP and IFRS and add complexity for companies that prepare financial statements under both regimes. We acknowledge that in some cases, such as for retailers, purchases might be the more relevant metric. We recommend allowing companies the option to report either purchases of inventory or consumption of raw materials.

Question 9: The proposed amendments would require (a) that the costs incurred that were capitalized to inventory during the current period be combined with other manufacturing expenses and (b) that this total of manufacturing-related expenses be disaggregated and disclosed separately from nonmanufacturing expenses. For preparers, would this proposed requirement be more or less costly to implement than if all such costs (manufacturing and nonmanufacturing) were permitted to be combined? For preparers and practitioners, is this proposed requirement operable? Please explain why or why not.

Combining costs that were capitalized in inventory with costs that were not capitalized in inventory for purposes of then disaggregating that amount into individual expense items should not make the process more costly to implement. It is disaggregation, not aggregation that requires effort.

We do not agree with the proposed requirement to disaggregate manufacturing expenses from nonmanufacturing expenses. See our answer to Question 10 for additional information. If this proposed requirement is retained, it will create additional work as manufacturers will need to identify and map manufacturing and nonmanufacturing expenses to summarize the amounts separately.

Question 10: For preparers and practitioners, is the proposed requirement to classify certain expenses as part of manufacturing activities and disclose how an entity defines other manufacturing expenses (other manufacturing expenses together with inventory expense constitute inventory and manufacturing expenses) operable? Please explain why or why not. If not, what changes would you make?

> *The requirement to disaggregate manufacturing expenses from nonmanufacturing expenses will create a new expense classification. Although individual companies may have subcategories of expenses within period costs, we believe many companies do not distinguish between manufacturing and nonmanufacturing costs in cost of goods sold. One could argue that if a company was a manufacturer, then all costs within costs of goods sold are manufacturing expenses. We believe that if a manufacturer has significant costs that are not manufacturing-related, those costs are not included in cost of goods sold. Given the disparate definitions that are likely to arise, we believe the resulting disaggregation of information will not be comparable between entities. Manufacturing and nonmanufacturing expenses within each relevant expense caption should be combined for purposes of disaggregating expenses within that caption.*
>
> *If the Board does require manufacturing and nonmanufacturing expenses to be disclosed separately, we find the example included in the Proposed Update in paragraph 220-40-55-11 to be unnecessarily complex. Although the examples provided in Accounting Standards Updates are not prescriptive, we find many companies replicate the format in the examples in their filings. We believe the example disclosures could be better streamlined by reorganizing as shown in Appendix II of this letter.*

Question 11: For preparers and practitioners, are there any potential practical expedients that would simplify or reduce the costs associated with disaggregating inventory and manufacturing expense but would not significantly diminish the decision usefulness of the information provided to investors? For any potential practical expedients suggested, please explain your reasoning.

> *Potential practical expedients would be to give entities the option to report either inventory purchases or inventory consumption. Another potential practical expedient would be to allow an entity to derive the amount of inventory purchases indirectly. This could be done by deducting all other natural expenses incurred from the total amount of inventory and manufacturing expenses. After accounting for inventory changes and other adjustments, the remaining amount likely would not be materially different from the amount of material costs for the period.*

Integration of Existing Disclosure Requirements

Question 12: The proposed amendments would require that an entity include certain existing disclosures of expenses in the same tabular format disclosure as the disclosures that would be required by the proposed amendments. For investors, would including those expenses in the same tabular format disclosure provide decision-useful information? Would this improve your ability to locate relevant expense information in the notes to financial statements? Please explain why or why not. For preparers and practitioners, is this proposed requirement operable? Please explain why or why not. For all stakeholders, are there other existing disclosures that are not reflected in the proposed amendments and should be included in the lists in paragraph 220-40-50-12, paragraph 220-40-50-13, or both? Please explain why or why not.

We understand the desire to increase the usability of financial statements and make sure users can easily identify relevant expense information; however, we are not sure how effective the requirements in this Proposed Update will be. We recognize that presenting expense information in one table could make it easier for users to find information and by deduction reduce the amount of expenses reported in an "other" line. However, it separates the disclosure of the amounts from the context provided by the relevant footnotes and may make it less clear as to what is causing the expense, particularly for one-off items like impairments. Accordingly, it is likely to be less effective or result in information being repeated in the new tabular format and the existing footnotes, which adds unnecessary cost into the financial reporting process.

Additionally, since the proposed requirement in paragraph 220-40-50-13 is to disclose these items only if they appear in a single relevant expense caption, it means that many items will be excluded from this requirement. For example, an entity might have significant lease expenses that would be included in multiple relevant expense captions and it would not be required to disclose that lease expense in the tabular format. We understand the desire to make this requirement operational and eliminate the need to reconcile the amounts reported to each relevant expense caption; however, we are not sure how many items will end up in the tabular format in accordance with paragraph 220-40-50-13.

Question 13: In addition to the disclosure requirements being proposed, should other expenses that are currently disclosed in the financial statements also be required to be integrated into the tabular format disclosures (for example, other expenses that an entity voluntarily discloses in total in the notes to financial statements)? Please explain why or why not.

We have the same concerns as those expressed in our response to Question 12 if these disclosures were required.

Qualitative Description of Other Items

Question 14: The proposed amendments would require that an entity provide a qualitative description of any other items remaining in relevant expense captions and any costs remaining in inventory and manufacturing expense after the specific disaggregation requirements are applied. For investors, would this proposed requirement provide decision-useful information? If so, how would that information be used? If not, what changes would you make? For preparers and practitioners, is this proposed requirement operable? Please explain why or why not.

We believe the proposed requirement would be operable. As this Proposed Update applies only to public business entities, any significant expenses, particularly if they affect operating results, are likely to have already been described in an entity's MD&A and earnings releases.

Selling Expenses

Question 15: The proposed amendments would require that an entity disclose selling expenses and how it defines selling expenses. Should a definition of selling expenses be developed, or should an entity be required to determine what constitutes a selling expense? For investors, would the proposed requirement provide decision-useful information? If so, how would that information be used? If not, what changes would you make? For preparers and practitioners, is the proposed requirement operable? Please explain why or why not.

> *We do not believe it is necessary to develop a definition of selling expenses as most entities will have already defined such a category for financial reporting purposes. Allowing a company to maintain consistency will facilitate operability and comparability to prior periods. We also believe that selling activities vary greatly between industries and entities and it would not be practical to develop a common definition. We support a disclosure of how an entity defines selling expenses to allow financial statement users to understand the composition.*
>
> *We observe that the proposed requirement to disclose selling expenses separately is based on the premise that companies present a combined Selling, General, and Administrative (SG&A) line item on the face of the income statement. While it may be a common presentation, not all public business entities present such a line item and the Proposed Update does not contemplate other financial statement line item presentations and how selling expenses might interact. For example, selling expenses may be included in multiple relevant expense captions, but there is no proposed requirement to disaggregate total selling expenses across each relevant expense caption.*

Interim Reporting

Question 16: The proposed amendments would require the disclosures on both an annual basis and an interim basis. Do you agree with those proposed amendments? Please explain why or why not.

> *Once systems have been developed to capture the required data, reporting the data on an interim basis should not require significantly more cost or effort. Given that users have asserted that this information is useful for modeling future earnings, once what should be disclosed is resolved, we agree those disclosures should be provided on both an annual and interim basis.*

Transition and Effective Date

Question 17: The proposed amendments would be applied on a prospective basis with an option for an entity to apply the guidance retrospectively. Is that proposed transition method operable? If not, why not and what transition method would be more appropriate and why? Would the information disclosed under the proposed transition method be decision useful? Please explain why or why not.

> *For many entities, adoption will take significant effort and time. Requiring retrospective adoption would require a longer period for adoption of the Proposed Update. As this is a change in disclosure and not in recognition or measurement, we believe it is appropriate*

to implement the Proposed Update prospectively. We support giving companies the option to provide information retrospectively.

Question 18: For preparers, would you expect to apply the proposed amendments retrospectively, even if not required, to assist investors in comparing performance to previous periods? Please explain why or why not.

We believe most preparers will provide the information prospectively to avoid the costs associated with the preparation and audit of information in prior periods.

Question 19: Regarding the effective date, how much time would be needed to implement the proposed amendments? Should early adoption be permitted? Please explain why or why not.

There should be extensive field testing before the finalization of the Proposed Update. Information gathered during this step should be helpful in making the determination of how much time would be needed to implement. Given the extensive changes that we believe will be required for most companies, we believe that even with prospective adoption, at least two years, if not more, will be required to develop the systems to gather the required information and to validate that the information is being collected properly before this Proposed Update can be adopted.

We also urge the Board to consider whether a phased implementation approach would be more appropriate given the higher degree of difficulty associated with the proposed requirement to further disaggregate inventory and manufacturing expense.

Appendix II –Proposed Change to Illustration in Example 1 of Implementation Guidance in 220-41-55-5

As Proposed	**20X3**	**20X2**	**20X1**
Cost of products sold			
Inventory and manufacturing expense (a)	$53,688	$51,935	$48,680
Employee compensation	2,046	1,827	1,279
Depreciation	1,395	1,311	1,232
Warranty expense	4,394	3,952	3,894
Other cost of products sold (b)	1,933	1,873	2,159
Total cost of products sold	$63,456	$60,898	$57,244
Cost of products sold: inventory and manufacturing expense			
Purchases of inventory	$20,213	$19,199	$16,319
Employee compensation	15,532	14,712	12,799
Depreciation	8,795	8,678	8,418
Intangible asset amortization	3,914	4,050	3,929
Other inventory and manufacturing costs (directly expensed or capitalized to inventory) (c)	5,619	5,733	5,834
Total inventory and manufacturing costs (directly expensed or capitalized to inventory)	54,073	52,372	47,299
Other adjustments and reconciling items (d)	(542)	424	538
Changes in inventories	157	(861)	843
Total inventory and manufacturing expense	$53,688	$51,935	$48,680

Recommended	**20X3**	**20X2**	**20X1**
Inventory and manufacturing expense			
Purchases of inventory	$20,213	$19,199	$16,319
Employee compensation	15,532	14,712	12,799
Depreciation	8,795	8,678	8,418
Intangible asset amortization	3,914	4,050	3,929
Other inventory and manufacturing costs (directly expensed or capitalized to inventory) (c)	5,619	5,733	5,834
Total inventory and manufacturing costs (directly expensed or capitalized to inventory)	54,073	52,372	47,299
Other adjustments and reconciling items (d)	(542)	424	538
Changes in inventories	157	(861)	843
Total inventory and manufacturing expense	53,688	51,935	48,680
Nonmanufacturing expense			
Employee compensation	2,046	1,827	1,279
Depreciation	1,395	1,311	1,232
Warranty expense	4,394	3,952	3,894
Other cost of products sold (b)	1,933	1,873	2,159
Total cost of products sold	$63,456	$60,898	$57,244