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December 16, 2022

Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Proposed Accounting Standards Update, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* (File Reference No. 2022-ED100)

Dear Ms. Salo:

We appreciate the opportunity to comment on the proposed ASU, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*.

We support the Board's efforts to improve the disclosures about a public entity's reportable segments and address requests from investors for additional, more detailed information about a reportable segment's expenses.

This cover letter describes our key observations and suggestions regarding the proposed ASU. The Appendix provides our responses to the questions for respondents and includes specific recommendations for the Board to consider.

Management approach applied to significant segment expenses

We recognize the benefits of leveraging financial information used by management in assessing segment performance for the purpose of complying with the segment disclosure requirements under Topic 280. However, as mentioned in our comment letter on the Invitation to Comment (ITC), *Agenda Consultation* (File Reference No. 2021-004), we continue to observe that management reporting has changed considerably in recent years with the development and increased use of technology-based information access and data analysis tools. Therefore, identifying which significant segment expenses are 'regularly provided' to the Chief Operating Decision Maker (CODM) has become increasingly judgmental and may prompt entities to reorganize their reporting to avoid extensive new disclosures. We encourage the Board to continue monitoring the benefits of the proposed amendments once implemented and the application of the management approach in practice.

Relevancy of performance measures used in the financial statements

In our comment letter on the ITC, we also encouraged the Board to improve the relevancy and usefulness of performance measures in the financial statements. We believe the proposed ASU is responsive to this objective by requiring single reportable segment entities to report a measure of profit or loss used by the CODM and by allowing all entities to disclose multiple measures of segment profit or loss if the CODM uses more than one. However, we believe further guidance may be needed to ensure that entities do not selectively exclude less favorable measures of profit or loss that are regularly reported to the CODM. We discuss these recommendations further in our responses to Questions 1, 5, and 6 included in the Appendix.

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

Sincerely,

KPMG LLP

KPMG LLP

Appendix – Responses to Questions for Respondents

Question 1:

Are the amendments in this proposed Update that would require that a public entity disclose, by reportable segment, the significant segment expense categories and amounts clear and operable? Please explain why or why not. Is the term significant operable? Please explain why or why not.

We acknowledge the term 'significant' is not new in the context of Topic 280 and agree with the Board that there are limited practice issues with the current use of the term. However, the proposed amendments will require broader use of this concept and we believe further guidance is needed to assist entities in forming judgments in this area. Absent further guidance, we believe practice may be drawn to using the existing 10% threshold in paragraph 50-12. We believe the following additional guidance would help ensure a more consistent application of the significant expense principle:

- Incorporate into the Codification the language in BC32, which explains that quantitative and qualitative characteristics should be considered when making this evaluation.
- Provide guidance and/or examples of what types of qualitative factors entities should consider.
- Clarify whether significance should be evaluated in the context of the segment or the consolidated entity.

Further, paragraph 50-26B(b) makes it clear that an expense that is insignificant and included in 'other segment items' for one segment can be significant for another segment. We recommend that the Board illustrate this scenario in the example provided in paragraph 55-48.

Question 5:

The proposed amendments would require that all public entities, whether they have a single reportable segment or multiple reportable segments, apply the significant expense principle and the current segment disclosure requirements by reportable segment. For investors and other financial statement users, would the application of the significant expense principle and the current segment disclosure requirements to single reportable segment entities provide decision-useful information? If so, how would the information for single reportable segment entities be used and for what purpose?

We agree with the Board's observation stated in BC14 that most single reportable segment entities do not disclose segment information. Further, if an entity is a single reportable segment entity the notion of resource allocations made by management is not as clear as it is for multi-segment entities. Therefore, we recommend that the Board clarify how a single reportable segment entity would apply the requirement in paragraph 50-28A that refers to the measure of profit or loss used by the CODM in 'deciding how to allocate resources'. Additionally, we recommend that the Board provide guidance on what single reportable segment entities should disclose when the measure of profit or loss or the significant expenses regularly provided to the CODM are already disclosed elsewhere in the financial statements. To help clarify the requirements, we recommend adding an example similar to slide 54 included in the materials presented in the November 10, 2022 Small Business Advisory Committee meeting.

Question 6:

The Board decided to clarify that if the CODM uses more than one measure of a segments 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 the public entity's consolidated financial statements. For preparers, would the proposed amendments likely result in disclosure of additional measures of a segments profitability? For investors, would disclosure of additional measures of a segment's profitability that are used by the CODM provide decision-useful information? If so, how would the information be used? For all respondents, should the Board extend this decision to other measures that are used by a CODM, such as multiple measures of a segments assets? Please explain why or why not.

We welcome the Board's clarification of paragraph 50-28 with respect to reporting one or more measures of segment profit or loss. The use of plural in this paragraph when referring to segment measures has led to a view that Topic 280 currently allows entities to disclose multiple measures of a segment profit or loss; however, the SEC has expressed a dissenting view on this interpretation of paragraph 50-28 through comment letters instructing preparers to only disclose the measure of segment profit or loss closest to GAAP.

As mentioned in our cover letter, we are supportive of allowing entities to disclose multiple measures of segment profit or loss and believe it may increase the relevance of the financial statements. However, we recommend that the Board provide the following additional guidance:

- Explain how entities should select the measures of segment profit or loss to disclose when not all segment profit or loss measures regularly reviewed by the CODM are disclosed.
- Require entities to consistently disclose segment profit or loss measures from one period to the next absent a change in the information regularly reviewed by the CODM.
- Expand the guidance in paragraphs 50-29 and 50-36 to require disclosure of the nature of any changes from prior periods in the selection of segment profit or loss measures that are disclosed.
- Clarify whether an entity is permitted to disclose multiple bases of the same measure of segment profit or loss. For example, would a company be permitted to present gross profit at current exchange rates and gross profit at a constant exchange rate? If this is permitted, it would be helpful to illustrate in an example.
- Illustrate the disclosure and reconciliation requirements stated in paragraphs 50-28B and 50-30(b) for a situation where an entity reports multiple measures of segment profit or loss and/or different measures of profit or loss for different reportable segments. These paragraphs require that the total of the reportable segments measures of profit or loss be reconciled to the entity's consolidated income before income taxes and discontinued operations.
- For single reportable segment entities, require that each measure of segment profit or loss be reconciled to its most directly comparable GAAP measure.

We believe that investors and other financial statement users are best positioned to provide input on whether the Board should extend the decision allowing multiple measures to other measures that are used by a CODM and whether that information would be useful to them.

Question 11:

The proposed Update would require that the amendments be applied on a retrospective basis. Is that transition method operable? If not, why not and what basis would be more appropriate and why? Would the information disclosed by that transition method be decision useful? Please explain why or why not.

We believe the proposed transition method to require the amendments to be applied on a retrospective basis is operable.

Question 12:

Upon transition, the segment expense categories and amounts that an entity would disclose in comparative prior periods would be based on the significant segment expense categories identified in the period of adoption. An entity also would be required to provide a qualitative transition disclosure that explains what the differences in the segment expense categories would have been if the significant expense principle had been applied in the most recent comparative period. Is this transition disclosure clear and operable? Please explain why or why not. For investors, would such a transition disclosure provide decision useful information? If so, how would the information be used?

We believe the proposed transition requirement to provide a qualitative transition disclosure is clear and operable. This transition requirement is consistent with current guidance when an entity changes the composition of its reportable segments.

Question 13:

In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should early adoption be permitted? Please explain your reasoning.

We believe the time to implement the proposed amendments need not be longer than one year given the availability of the information needed to apply the standard. We also believe this is necessary to respond to financial statement users' needs as timely as possible. We are supportive of permitting early adoption.