NATIONAL STONE, SAND
& GRAVEL ASSOCIATION

October 24, 2023

Ms. Hilary H. Salo
Technical Director
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 2023-ED500

Dear Ms. Salo:

The National Stone, Sand and Gravel Association (NSSGA) would like to take this opportunity to provide comments in response to the Financial Accounting Standards Board's (FASB) Exposure Draft, Proposed Accounting Standards Update: Income Statement – Reporting Comprehensive Income-Expense Disaggregation Disclosures (Subtopic 220-40) – Disaggregation of Income Statement Expenses.

NSSGA members consist of stone, sand and gravel producers; industrial sand suppliers; and the equipment manufacturers and service providers who support them. With upwards of 9,000 locations, the aggregates industry produces 2.5 billion tons of materials used annually in the United States. Aggregates are the building blocks of our modern society and are needed to construct and maintain communities, roads, railways, bridges, tunnels, water supply, sewers, electrical grids and telecommunications.

Our comments on selected questions regarding the proposed disaggregation amendments are below.

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?

***NSSGA Comment*:** The relevant expense captions seem to be a 'one size fits all' proposal regardless of industry and may not be beneficial for investors for all industries. If there are guidelines, both qualitative and quantitative, to identify relevant expense captions, the

disclosures may be more meaningful even if captions aren't uniform amongst entities. For example, in certain businesses, employee compensation may not be a large component of costs; however, energy costs may be significant but not predictable due to external market forces.

Consistent with Global Accounting Firm interpretation on the suggested guidance, the proposed ASU does not provide prescriptive guidance on how an entity classifies certain expenses. As a result, entities may present certain expense amounts inconsistently and thus not be comparable, even between those in similar industries. This does not align with the documented objectives and improvements of the proposal.

Furthermore, FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting ("the Conceptual Framework") indicates the purpose of financial reporting is to provide financial information about the entity that is useful to existing and potential investors, lenders and creditors in making decisions about providing resources to the entity. To make decisions, users need information concerning the resources of the entity and claims against those resources to help them assess the prospects for future cash flows – information that has predictive value. We do not believe the proposed disaggregation of the proposed expense captions provide information that can be used by stakeholders to project or predict future cash flows or operating performance.

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?

NSSGA Comment: The categories and breakouts as currently suggested by the ASU may be misinterpreted. As an example, within cost of sales, there are relevant expense captions presented separately (e.g., employee compensation, depreciation, and intangible asset amortization) and these same categories are also sub-components of inventory and manufacturing expense. Disaggregation between relevant expense categories versus a component of manufacturing expense is time consuming and investors likely would not receive a comparable benefit vs. the cost and effort required by the reporting entity to provide this information.

Depreciation and intangible amortization are both fixed noncash charges and sunk costs. We recommend the FASB reconsider if the disaggregation between the two is meaningful. There is no mention of depletion expense, which is similar in nature to depreciation and amortization, and it is currently unclear if this would require separate disclosure. Combining into a single depreciation, depletion and amortization (DDA) caption would resolve these issues.

Based on our member companies' experiences, investors and analysts have never requested/inquired about production and SG&A expenses at a more granular level of disclosure

than as currently presented in the income statement. Given investors have historically never asked for this information, nor would they make investment decisions based on this proposed disclosure, disaggregation of these expensesadds no value to stakeholders and investors, but adds cost, complexity and risk of misinterpretation of data based on periodic reporting.

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.

NSSGA Comment: From a cost perspective, it would be more meaningful and easier to present a breakout of total cost of sales into natural expense categories, as determined by an entity, and not try to separate manufacturing versus nonmanufacturing, as nonmanufacturing cost of goods sold is typically immaterial. If cost categories are excessively disaggregated, comparability across companies will not be meaningful nor useful due to timing of expenses. Furthermore, this can cause focus on short-term results rather than long-term trends of margin performance and profitability. Additionally, our members indicate stakeholders have never asked for the level of detail in the proposed ASU.

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.

NSSGA Comment: We believe that MD&A currently includes the disaggregated measures on the income statement important to investors that align to business and industry objectives and includes contextual explanations for changes period over period. Duplication of these disclosures and data in the notes to financial statements, without adequate context and explanation, may not be useful.

<u>Further Disaggregation of Inventory and Manufacturing Expense</u>

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.

NSSGA Comment: Separating manufacturing from nonmanufacturing costs seems to be an excessive breakout of cost of sales and will require costly and time-consuming changes in reporting systems for minimal value as nonmanufacturing costs are usually immaterial in nature. Stakeholders are typically focused on gross margin, and it is unlikely that such a breakout would enhance an understanding of a company’s business and outlook.

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.

See NSSGA Comment under question 9.

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 7 not, what changes would you make? For preparers and practitioners, is the proposed requirement operable? Please explain why or why not.

NSSGA Comment: We believe the entity should be required to determine what constitutes a selling expense based on its business. However, many companies do not segregate selling expenses from other general and administrative expenses and, as a result, will require costly changes to reporting systems for minimal value as investors typically only look at SG&A spending in total or as a percentage of revenues vs. the components.

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.

NSSGA Comment: Depending on the industry and type of business, seasonality and other factors may impact the usefulness of interim disclosures and result in investors not evaluating businesses/companies for the long term (i.e., investors may focus more on the near term). Most companies do not provide quarterly guidance and including these types of interim disclosures will inevitably focus investor attention back to the short term. We believe that the costs of providing the proposed disclosures on an interim basis exceed any potential benefits.

Transition and Effective Date

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.

NSSGA Comment: Retrospective implementation would further escalate the difficulty and complexity with implementing the standard as proposed and add little value to investors and stakeholders reviewing the company's quarterly and annual financial statements. As a result, if not required, it is likely our member companies would not present retrospectively.

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.

NSSGA Comment: Implementation timing should consider the following factors:

- Assumptions that companies need to significantly modify systems to capture the required data as the proposed disclosures do not match internal reporting needs. It is expected this will impact many aspects of a company's ERP system and to properly change and test changes, our member companies estimate 2-3 years will be required to facilitate the proposed changes.
- Substantial complexities to implement due to disparate ERP systems, local GAAP requirements, foreign exchange impacts, acquisition activity and related integration complexities.
- Consider the effective date for ASU Segment Reporting (Topic 280) – Improvements to Reportable Segment Disclosures and allow companies adequate time to prepare if both the disaggregation of expense disclosures and the segment disclosure updates are issued within a short time.

Sincerely,

Michael W. Johnson
President and CEO
National Stone, Sand & Gravel Association