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To the Point

FASB — final guidance

FASB requires public entities to disclose significant segment expenses and other segment items

Public entities are required to disclose significant segment expenses regularly provided to the chief operating decision-maker.

What you need to know

- The FASB issued final guidance that requires public entities to provide disclosures of significant segment expenses and other segment items.
- The guidance requires public entities to provide in interim periods all disclosures about a reportable segment's profit or loss and assets that are currently required annually.
- Public entities with a single reportable segment have to provide all the disclosures required by ASC 280, including the significant segment expense disclosures.
- Entities are permitted to disclose more than one measure of a segment's profit or loss if such measures are used by the chief operating decision-maker to allocate resources and assess performance, as long as at least one of those measures is determined in a way that is most consistent with the measurement principles used to measure the corresponding amounts in the consolidated financial statements.
- The guidance is applied retrospectively to all periods presented in financial statements, unless it is impracticable. The guidance applies to all public entities and is effective for fiscal years beginning after 15 December 2023, and for interim periods beginning after 15 December 2024. Early adoption is permitted.

Overview

The Financial Accounting Standards Board (FASB or Board) **amended**[1] the guidance in Accounting Standards Codification (ASC) 280, *Segment Reporting*, to require a public entity to disclose significant segment expenses and other segment items on an annual and interim basis and to provide in interim periods all disclosures about a reportable segment's profit or loss and assets that are currently required annually. Public entities with a single reportable segment are required to provide the new disclosures and all the disclosures required under ASC 280.

Building a better working world

The FASB issued the Accounting Standards Update (ASU) in response to requests from investors for companies to disclose more information about their financial performance at the segment level. The ASU does not change how a public entity identifies its operating segments, aggregates them or applies the quantitative thresholds to determine its reportable segments.

Key considerations

Significant expense principle

The guidance requires a public entity to disclose for each reportable segment, on an interim and annual basis, the significant expense categories and amounts that are regularly provided to the chief operating decision-maker (CODM) and included in each reported measure of a segment's profit or loss.[2] Additionally, it requires a public entity to disclose the title and position of the individual or the name of the group or committee identified as the CODM.

The significant expense principle is consistent with the management approach public entities already apply for segment reporting. That is, entities are required to disclose information about significant segment expenses based on information that is regularly provided to the CODM, rather than prescribed expense categories.

Regularly provided

Under the principle, an entity first identifies the expenses from the segment information regularly provided to the CODM and included in each reported measure of a segment's profit or loss. While the ASU does not define "regularly provided," ASC 280 uses the term to refer to the frequency with which the CODM receives segment information when determining whether certain segment items and amounts would be disclosed under existing disclosure requirements. The Board acknowledged in the ASU's Background Information and Basis for Conclusions that since the term is undefined, entities will need to continue to exercise judgment when applying the term.

Easily computable

The Board decided that the significant expense principle should apply to segment expenses that are easily computable based on information regularly provided to the CODM. Such information may include segment expenses expressed in a form other than a caption and actual amounts (e.g., advertising expense as a percentage of revenue) or segment expenses computed based on other information provided to the CODM (e.g., cost of sales can be computed when segment revenue and gross margin information are provided to the CODM), as noted in the Basis for Conclusions.

The guidance provides examples, which are not meant to be all-inclusive or limit the types of segment expenses that may need to be disclosed. Entities need to apply judgment to determine what is easily computed and apply those concepts consistently to identify the segment expense categories provided to the CODM.

Significance

Once the public entity identifies segment expenses from the information regularly provided to the CODM, it evaluates their significance to determine which to disclose by considering quantitative and qualitative factors. The Board said in the Basis for Conclusions that a segment expense is significant if its omission from an entity's segment disclosures "would change a user's understanding about a segment to such a degree that it would change the user's capital allocation decisions about an entity as a whole." This means that a segment expense could be significant and is required to be disclosed as a significant segment expense even if another item of a similar magnitude may not be considered significant to the consolidated financial statements.

How we see it

While the guidance leverages the existing ASC 280 management approach, judgment is still required to apply the significant expense principle and interpret the terms "regularly provided," "easily computed" and "significant."

The Board acknowledged in the Basis for Conclusions that the extent of the additional information that entities disclose will vary depending on the level of segment expense information that is regularly provided to the CODM. As a result, an entity could disclose different expense categories for each of its reportable segments, and those categories may differ from what other public entities disclose.

If an entity determines that no significant expense categories are required to be disclosed for one or more of its reportable segments, the entity is then required to disclose the nature of the expense information the CODM uses to manage operations (e.g., whether the CODM uses budgeted or forecasted expense information or consolidated expense information).

An entity is required to disclose for each reportable segment, on an annual and interim basis, an amount for other segment items representing the difference between reported segment revenues, less the disclosed significant segment expenses, and reported segment profit or loss. Entities also have to provide a description of the composition, including the nature and type of the other segment items. The disclosure of other segment items is required even when the entity does not separately disclose expenses under the significant expense principle.

Increased frequency of ASC 280 disclosures

The guidance requires a public entity to provide in interim periods all disclosures about a reportable segment's profit or loss and assets under ASC 280 that are now only provided annually (e.g., interest revenue and expense, depreciation, depletion, amortization expense).

The guidance requires an entity to explain how the CODM uses each measure of segment profit or loss when assessing performance and allocating resources.

Single reportable segment entities

The ASU also explicitly requires public entities with a single reportable segment to provide all segment disclosures under ASC 280, including the new disclosures under the ASU. This aligns with the requirement for multiple reportable segment entities, and the Board said in the Basis for Conclusions that it will provide investors with additional information in a manner consistent with the management approach.

Disclosure of multiple measures of segment profit or loss

Public entities, including those with a single reportable segment, are permitted to report multiple measures of a segment's profit or loss if the CODM uses those measures to allocate resources and assess performance. In these situations, at least one of the reported measures should be a measure that management determines is in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the consolidated financial statements.

All public entities, including those that disclose only one measure of a segment's profit or loss, are required to explain in the notes to the financial statements how the CODM uses each reported measure of a segment's profit or loss in assessing segment performance and determining how to allocate resources.

The Board clarified that existing segment disclosure and reconciliation requirements under ASC 280, along with the new disclosure requirements, apply to each reported measure of a segment's profit or loss.

An entity that reports more than one measure of a segment's profit or loss in the current period is required to report the additional measure(s) for all prior periods presented if the additional measure(s) were provided to the CODM in those periods. However, the ASU does not preclude an entity from disclosing the additional measure(s) for the prior periods even if a CODM was not provided with that measure in a prior comparative period.

How we see it (updated December 2023)

Public entities that want to early adopt the guidance and disclose more than one measure of segment profitability should be cautious. The Securities and Exchange Commission (SEC) staff said recently that because the new guidance neither requires nor expressly permits disclosure of additional segment profitability measures (i.e., by prescribing or otherwise specifying the additional measures that may be reported), it will consider any additional reported measures of segment profit or loss that are not determined in accordance with US GAAP to be non-GAAP measures subject to the SEC rules and staff guidance on non-GAAP financial measures.

The staff also encouraged registrants that want to early adopt the guidance and provide additional measures of segment profitability that would be considered non-GAAP financial measures to consult with the Division of Corporation Finance's Office of the Chief Accountant. See our publication on the **2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments** for more information.

Recasting prior-period information

A public entity that changes its segment information in a manner that causes the identification of significant segment expenses to change is required to recast prior-period segment expense categories and amounts to conform to the current-period expense categories, unless it is impracticable. An entity that does not recast prior-period segment expense information should disclose segment amounts in the current period under both the old and the new significant segment expense categories, unless it is impracticable.

Entities are also required to disclose significant changes from prior periods to the measurement methods of expenses, the method of allocating expenses to a segment or changes in the method for allocating centrally incurred expenses (e.g., changes in the method used to allocate pension expense to reportable segments). Entities also are required to disclose the effect, if any, of those changes on the measure of segment profit or loss.

The ASU also replaces the term "restatement" with the term "recast" throughout ASC 280.

How we see it

Under ASC 280, information is impracticable to present if the necessary information is not available, and the cost to develop it would be excessive. Similar to how entities consider whether information is impracticable when evaluating disclosures for a change in the composition of reportable segments, they need to carefully consider their facts and circumstances before concluding it is impracticable to recast their disclosures for any changes in significant segment expenses, since impracticability is a very high standard to meet.

Effective date and transition

The guidance is effective for public entities for fiscal years beginning after 15 December 2023, and interim periods within fiscal years beginning after 15 December 2024. Early adoption is permitted. The guidance is applied retrospectively to all periods presented in the financial statements, unless it is impracticable. The segment expense categories and amounts disclosed in the prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption.

Endnotes:

[1] ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*.

[2] ASC 280-10-50-26A.

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