

FASB updates segments guidance

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At a glance

New FASB guidance requires incremental disclosures related to a public entity's reportable segments but does not change the definition of a segment, the method for determining segments, or the criteria for aggregating operating segments into reportable segments.

The FASB issued the new guidance primarily to provide financial statement users with more disaggregated expense information about a public entity's reportable segments.

The new guidance is effective for calendar year public entities in 2024 year-end financial statements, and should be adopted retrospectively unless impracticable. Early adoption is permitted.

This *In depth* was updated on December 19 to incorporate commentary made by the SEC staff at the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments.

Background

The current segments guidance was originally issued in 1997 with very few amendments since then. However, users of financial statements have on multiple occasions asked for more detailed and disaggregated segment information. The ASU addresses much of the concern that more segment information is needed, including allowing the disclosure of multiple measures of segment profit or loss, requiring the disclosure of significant segment expenses, and requiring the qualitative disclosure of other segment items.

Key provisions of the new guidance

On November 27, the FASB issued ASU 2023-07, [Segment Reporting—Improvements to Reportable Segment Disclosures](#).

Significant segment expenses

The biggest change in the ASU is the requirement for a public entity to disclose its significant segment expense categories and amounts for each reportable segment. A significant segment expense is an expense that is:

- significant to the segment,
- regularly provided to or easily computed from information regularly provided to the chief operating decision maker (CODM), and
- included in the reported measure of segment profit or loss.

A significant segment expense is any significant expense incurred by the segment, including direct expenses, shared expenses, allocated corporate overhead, or interest expense that is regularly reported to the CODM and is included in the measure of segment profit or loss. If interest expense is a significant segment expense, it is required to be disclosed separately, even if the public entity otherwise discloses net interest income. This scenario is more likely to exist for financial services entities.

The disclosure of significant segment expenses is in addition to the current specifically-enumerated segment expenses required to be disclosed, such as depreciation and interest expense.

If a public entity does not disclose any significant segment expenses for a reportable segment, it is required to disclose narratively the nature of the expenses used by the CODM to manage the segment's operations.

A significant segment expense category may be reported for one reportable segment but not for others. Similarly, reportable segments may have different significant segment expense categories due to the nature of their operations.

If a segment expense is significant for one of the periods presented, we believe it should be disclosed for all periods presented, even if it was not significant for all periods presented.

The total amount of significant segment expenses is not required to be reconciled to the reported amounts in the consolidated financial statements.

Significant

The ASU does not define the term "significant." While the term already exists in ASC 280, *Segment Reporting*, and in other areas in GAAP, given the additional disclosures required by the ASU, the term will likely result in renewed focus. The ASU also does not prescribe a specific quantitative threshold to assess significance. Rather, it requires significance to be assessed using both quantitative and qualitative factors depending on the facts and circumstances. It also states that an item of segment information may be considered significant if its omission would change an investor's understanding of the segment results to a degree that it would cause the investor to change its investment decisions.

In addition, the significance of a segment item should generally be determined by reference to the segment's results, not solely by reference to the amounts included in the entity's consolidated financial statements. In the Basis for Conclusions, the Board observed that "if segment expense categories are regularly provided to the CODM on a disaggregated basis and included in the measure of segment profit or loss, investors also would likely find that information useful," which creates an expectation that amounts regularly provided to the CODM would be significant.

To assess whether that expectation could be overcome, we believe a public entity should consider all their facts and circumstances, including but not limited to:

- the qualitative and quantitative importance of the segment to the overall operations of the public entity,
- the size and importance of the expense item to the segment's results
- the variability (in relation to revenue) and volatility (period to period) of the expense item
- the size of the segment compared to other segments,
- whether a segment is expected to grow significantly, or whether other relevant expected economic changes are expected for the segment
- segments sharing or incurring the same expense,
- the type of industry or business the segment is engaged in and the associated key expense categories associated with such business,
- the focus of stakeholders (e.g. during earnings calls)

A determination that an expense that is regularly provided to the CODM is not significant should be made on a holistic basis, as no one factor is determinative in assessing what would impact an investor's decision-making.

Regularly provided

The ASU consistently uses the term "regularly provided" to the CODM. The Board decided that using the term regularly provided would likely result in more segment information being disclosed rather than focusing on information that is "regularly reviewed" by the CODM. The Board also noted that the CODM may receive segment information by different means, for example by hardcopy, electronic means, or in regularly scheduled meetings. Given the focus on this phrase in the ASU, public entities should review their reporting processes to confirm their understanding of what segment information is regularly provided to the CODM. Also, public entities should consider advances in their management information systems, which may easily provide more detailed information to the CODM that would potentially trigger additional segment disclosures.

At the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments (the 2023 SEC Conference), the SEC staff provided supplemental commentary about this topic. They indicated that in general, quarterly reviews of operating results would typically be considered "regular"; however, this does not mean that a frequency less than quarterly would not be considered "regular." Rather, all facts and circumstances should be assessed in context.

Easily computed

The term "easily computed" is also not defined in the ASU. However, the ASU provides examples of when a segment expense would be considered easily computed. For example, if a segment revenue amount and a segment gross margin percentage are regularly provided to the CODM, segment cost of sales can be easily computed. If segment cost of sales is significant and included in the reported measure of segment profit or loss, it would be disclosed as a significant segment expense.

Another example described in the Basis for Conclusions relates to interest revenue and net interest margin being regularly provided to the CODM for a financial segment, with interest expense considered easily computable from this information.

The Board noted that there could be other ways in which information can be considered easily computed.

Other segment items

The ASU requires a public entity to disclose, for each reportable segment, an aggregate amount and description of other segment items included in each reported measure of segment profit or loss beyond the significant segment expenses, calculated as follows:

$$\begin{array}{rcl} & & \text{Reported segment revenues} \\ & & \textit{minus} \\ \text{Other segment items} & = & \text{Significant segment expenses (disclosed)} \\ & & \textit{minus} \\ & & \text{Reported segment profit or loss} \end{array}$$

In other words, the amount of other segment items is the difference necessary to calculate the reported segment profit or loss measure.

A public entity is required to qualitatively describe the composition of its other segment items included in each reported measure of segment profit or loss for each reportable segment,

even if the entity does not disclose any significant segment expenses. Also, if a public entity does not disclose any significant segment expenses for a reportable segment, it is required to disclose the nature of the expenses used by the CODM to manage the segment operations.

Similar to significant segment expenses, the total amount of other segment items is not required to be reconciled to the reported amounts in the consolidated financial statements.

An example of a disclosure of significant segment expenses and other segment items is included in ASC 280-10-55-48, Example 3, Case B.

Multiple measures of segment profit or loss

If a CODM uses multiple measures of a segment's profit or loss to assess segment performance and decide how to allocate resources, the ASU allows the public entity to disclose multiple measures of segment profit or loss for each reportable segment. However, the public entity will have to disclose, at a minimum, the measure of segment profit or loss that is most consistent with the amounts included in its consolidated financial statements (consistent with current guidance). For example, if the CODM uses gross profit and EBITDA as the measures of segment profit or loss, the public entity could only disclose gross profit since it represents the measure most consistent with the amounts included in its consolidated financial statements, or it could disclose gross profit and EBITDA, but it may not only disclose EBITDA.

If a public entity discloses a new additional measure of segment profit or loss in the current period, it is required to disclose that measure for all prior periods presented if the measure was provided to the CODM in those prior periods. It is acceptable to also disclose the new measure of segment profit or loss in prior periods even if the measure was not provided to the CODM in the prior periods.

If a public entity chooses to disclose additional measures of segment profit or loss, the additional measures will trigger additional segment disclosures. Significant segment expenses, other segment items, and the existing disclosures in ASC 280-10-50-22 to 24 and ASC 280-10-50-29 are required to be disclosed for each measure of segment profit or loss reported. Also, the total of each reported measure of segment profit or loss is required to be reconciled to the consolidated amount of income before taxes and discontinued operations. This reconciliation may be voluminous when a public entity has multiple reportable segments with each reportable segment having multiple measures of segment profit or loss.

The ASU includes an example of a reconciliation for an entity with multiple measures of segment profit or loss in ASC 280-10-55-48, Example 3, Case B.

At the [2023 SEC Conference](#), the SEC staff provided their view that additional optional measures of segment profit or loss beyond the single measure required to be disclosed under the ASU would be considered a non-GAAP financial measure (if not calculated in accordance with GAAP) because that measure would not qualify for the exception in the SEC's non-GAAP financial measures requirements. Accordingly, these measures would be subject to the SEC rules and regulations regarding the use of non-GAAP financial measures. Notably, Regulation [S-K Item 10\(e\)](#) includes specific presentation, disclosure, and reconciliation requirements; prohibitions on certain adjustments; and a prohibition on the inclusion of a non-GAAP financial measure in the financial statements, including the footnotes. SEC staff stated that registrants planning to early adopt the new segments guidance and present a measure of segment profit or loss (that is not calculated in accordance with GAAP) beyond the required measure should contact the staff for further discussion. For more on non-GAAP measures, see PwC's publication, [To GAAP or to non-GAAP](#).

Single reportable segment entities

ASC 280 clearly requires entities with one reportable segment to include the entity-wide disclosures. However, before the ASU, practice was not clear as to whether the reportable segment disclosures also applied to single reportable segment entities. The ASU confirms that all of the disclosures required in the segments guidance, including disclosing a measure of segment profit or loss (or multiple measures, if used to assess performance and decide how to allocate resources) and reporting significant segment expenses and other segment items, apply to all public entities, including those with a single operating or reportable segment.

The ASU notes that a reported measure of segment profit or loss used to manage the business and assess performance can be a measure that is not directly determined from the face of the consolidated financial statements (e.g., EBITDA or a measure based on different measurement methodologies), so it often is different from the consolidated totals. Similarly, the operating segment may not represent the entire entity; for example, it may exclude certain functional departments or a corporate headquarters. Accordingly, the segment disclosures required under ASC 280 may differ from the consolidated totals.

At the [2023 SEC Conference](#), the SEC staff commented that they would expect the required measure of segment profit or loss to be consolidated net income for an entity with a single reportable segment managed on a consolidated basis.

If the operating segment is the entire entity, there may be a duplication of information in the segments footnote. In that case, the entity may reference the primary financial statements in the segments footnote rather than duplicating the information.

The ASU includes an example of the required disclosures for a single reportable segment entity in ASC 280-10-55-53 to 55, Example 4.

Interim reporting

The ASU expands the current interim disclosure requirements to require that nearly all of the annual numerical segment disclosures also be made on an interim basis. These include reported measures of segment profit or loss, total assets, revenues, interest revenue and expense, depreciation, depletion and amortization, unusual items, equity in income of investees, income tax expense or benefit, significant non-cash items other than depreciation depletion and amortization, equity method investments, and total additions to long-lived assets. Significant segment expenses and other segment items disclosures are also required for interim periods. However, only the reconciliation of the total of reportable segments' measures of profit or loss to consolidated income before income taxes and discontinued operations is required for interim periods. The reconciliations of the total of reportable segments' revenues and assets are not required for interim periods.

Recasting of previously reported segment information

The ASU updated the terminology used to refer to a change in previously reported segment information due to changes in facts and circumstances, from a "restatement" to a "recasting." This clarification was made to avoid any implication that there is an error in the previously reported segment information when amounts are recast.

There are several situations that require recasting of segment information unless it is impracticable to do so, including:

- *When there is a change in the composition of reportable segments*

We believe this is the case whether there is an increase or decrease in reportable segments.

- *When there is a change in the identification of significant segment expenses*

For example, if R&D expense is determined to be a significant expense in the current period, but was not in the prior period, the segment information would be recast to reflect R&D expense as a significant expense in the prior period.

ASC 280-10-50-17 states that “information is impracticable to present if the necessary information is not available and the cost to develop it would be excessive.” We expect such situations to be rare as it is usually possible to obtain the necessary prior period information. The SEC staff has been skeptical that revising prior periods is impracticable.

In the rare event a public entity is unable to recast reported segment information, it should disclose both the old and new segment information in the period of change. The old segment information would be disclosed in the prior periods presented and that disclosure would continue until all periods presented in the financial statements reflect the new segment information.

Recasting of prior period information is not required for a change in the measurement of a reported segment profit or loss measure; however, the ASU encourages public entities to show all segment information on a comparative basis to the extent practicable. If such a change is not recast, a public entity is required to disclose the changes in measuring the segment profit or loss measure, including changes in the expense allocation methods, expense measurement methods, or policies for allocating expenses to the segment profit or loss.

Other disclosure requirements in the ASU

The ASU requires a public entity to disclose the title and position of the individual or the name of the group identified as the CODM in the consolidated financial statements.

A public entity is also required to disclose how the CODM uses each reported measure of segment profit or loss to assess performance and allocate resources to the segment.

Effective dates and transition

The ASU is effective for public entities for fiscal years beginning after December 15, 2023, and interim periods in fiscal years beginning after December 15, 2024. A calendar year public entity will adopt the ASU for its 2024 Form 10-K.

The ASU should be adopted retrospectively unless it is impracticable to do so. Upon adoption, a public entity will adopt the ASU as of the beginning of the earliest period presented. However, the significant segment expense categories are based on those identified in the current period of adoption, regardless of how expenses may have been reported to the CODM in the prior periods. See the [Recasting of previously reported segment information](#) section for guidance on what is considered impracticable.

Early adoption of the ASU is permitted, including in an interim period. If a public entity elects to early adopt the ASU in an interim period, the guidance should be applied as of the beginning of the fiscal year that includes the interim period. For example, if a calendar year-end public entity adopts this guidance in the fourth quarter of 2023, it will adopt the guidance as of January 1, 2023, with comparative information for 2021 and 2022.

Nonpublic entities are not required to apply segment disclosure guidance. A nonpublic entity may adopt the ASU; however, it would be required to adopt all the provisions in ASC 280.

Impact of adoption on SEC filings

As described in the [Effective dates and transition](#) section, when adopting the new guidance on a retrospective basis, an entity will adopt it as of the beginning of the earliest period presented. Public entities will need to assess the materiality of the retrospective adoption and the impact to previously issued financial statements (Form 10-K/10-Qs) in connection with any new or amended registration statements, and should consult with their auditors and SEC counsel to determine whether previously issued Form 10-K/10-Qs may be required to be recast (e.g., via a Form 8-K) in connection with capital markets transactions and/or registration statements. If it is determined that previously issued Form 10-K/10-Qs do not need to be recast, the entity will conform the prior period to the current period presentation in subsequent Form 10-K/10-Q filings.

Public entities may also need to consider the impact of the adoption on segment level disclosures elsewhere within the Form 10-K/10-Qs (e.g., business overview, management's discussion & analysis) to determine if recasting of these disclosures is necessary.

Upon adoption, any post-adoption Form 10-Q and Form 10-K filings should also include appropriate disclosure of the adoption of the new accounting principle.

Lastly, public entities should consider if there were any changes in internal control over financial reporting (ICFR) that have materially affected, or are reasonably likely to materially affect, the entity's ICFR in the period of adoption that may need to be disclosed in Item 4 of the Form 10-Q or Item 9A of the Form 10-K.

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