KPMG

FASB issues ASU

Improvements to reportable segment disclosures

November 29, 2023

ASU 2023-07 amends Topic 280 to require new segment disclosures, including significant segment expenses.

Source and applicability

- ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures
- Entities that report segment information under Topic 280 (further referred as public entities).

Fast facts, impacts, actions

ASU 2023-07 enhances segment reporting under Topic 280 by expanding the breadth and frequency of segment disclosures. Its amendments fall into the following categories.

Disclose…	
Significant segment expenses regularly provided to the chief operating decision maker (CODM) and included within the reported measure(s) of a segment's profit or loss.	How the **CODM uses the reported measure(s) of a segment's profit or loss** to assess segment performance and decide how to allocate resources.
The amount and composition of **other segment items**. This amount reconciles segment revenue, less significant expenses, to the reported measure(s) of a segment's profit or loss.	On an **interim basis**, all segment profit or loss and assets disclosures currently required annually by Topic 280, as well as those introduced by the ASU.
The **CODM's title and position**.	
In addition…	
Multiple measures of a segment's profit or loss may be reported, under certain conditions.	**Single reportable segment entities** must apply Topic 280 in its entirety.

The ASU does not change how a public entity identifies its operating segments, aggregates those operating segments or applies the quantitative thresholds to determine its reportable segments.

All amendments in ASU 2023-07 are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted.

Background

Topic 280 requires a public entity to disclose entity-wide and segment information in the notes to financial statements. This includes the measure of profit or loss that the CODM uses to assess segment performance and decide how to allocate resources, as well as certain specified amounts included in that measure – e.g. revenue, depreciation and amortization, interest and income tax expense. However, investors have observed that there has been limited information reported about a segment's expenses.

ASU 2023-07 amendments

Significant expense categories and amounts

The ASU creates a 'significant expense principle'. Under this principle, a public entity discloses for each reportable segment the significant expense categories and amounts that are regularly provided to the CODM and included in the reported measure(s) of a segment's profit or loss. When applying this disclosure requirement, an entity identifies the segment expenses that are regularly provided to the CODM or 'easily computable' from information that is regularly provided to the CODM.

Example: Easily computable concept

ABC Corp regularly provides management reports to the CODM that include a segment revenue amount and a segment gross margin amount.

> *Segment cost of sales can be easily computed from this information. Therefore, if cost of sales is significant, ABC would disclose the expense category and amount.*

XYZ Corp regularly provides management reports to the CODM that include a segment revenue amount and segment warranty expense expressed as a percentage of segment revenue.

> *Segment warranty expense can be easily computed from this information. Therefore, if the warranty expense is significant, XYZ would disclose the expense category and amount.*

If an entity does not disclose significant expense categories and amounts under the significant expense principle for one or more of its reportable segments, it discloses the nature of the expense information that the CODM uses to manage operations – e.g. budgeted, forecasted or consolidated expense information.

The significant expense principle relies on two key concepts: whether the expense information is *regularly provided to the CODM* and whether it is *significant*. These concepts are not new to segment reporting but are not defined and therefore require judgment.

Expense significance is assessed from a user's perspective, considering both quantitative and qualitative relevant factors. 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."

Other segment items

The ASU requires a public entity to disclose, for each reportable segment, an amount for other segment items – i.e. the difference between reported segment revenue less segment expenses disclosed under the significant expense principle, and the reported measure(s) of a segment's profit or loss. It may include the total of segment expenses that are not disclosed under the significant expense principle and the total of gains, losses and other amounts that are included in the reported measure(s) of a segment's profit or loss. A qualitative description of the composition of other segment items is also required.

Interim period disclosures

The ASU requires all segment profit or loss and assets disclosures to be provided on an annual and interim basis. This includes existing annual requirements in paragraphs 280-10-50-22 to 50-25 (e.g. measure of a segment's profit or loss and total assets, segment revenue, depreciation and amortization expense), as well as the new disclosures under the ASU. For each interim period, the total of the reportable segments' amount for the measure(s) of profit or loss is to be reconciled to the public entity's consolidated income before income taxes and discontinued operations.

Reconciliations of segment balance sheet amounts and entity-wide disclosures remain annual.

Multiple measures of a segment's profit or loss

The ASU changes current GAAP by permitting a public entity, including a single reportable segment entity, to report multiple measures of a segment's profit or loss as long as:

- all the reported measures of a segment's profit or loss are used by the CODM for purposes of assessing performance and allocating resources; and
- the measure closest to GAAP is also provided.

By allowing more than one measure of a segment's profit or loss to be reported, the ASU permits public entities to include in their audited financial statements certain segment profitability measures used by the CODM that may be considered non-GAAP today – i.e. measures computed using tailored accounting principles. Further, it subjects the additional information to auditing and internal controls over financial reporting.

> We expect the SEC to continue to focus on potentially misleading non-GAAP measures. However, it is unclear whether segment profitability measures considered non-GAAP today but permitted under the ASU are subject to SEC non-GAAP measure requirements (e.g. Reg G and Reg S-K Item 10(e)). Until this issue is clarified, we recommend caution when selecting additional measures of a segment's profit or loss to disclose.

CODM's use of reported measure(s) of segment profit or loss

The ASU requires a public entity to include a narrative explanation of how its CODM uses each reported measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources. This requirement applies even if an entity discloses only one measure of segment profit or loss.

CODM's title and position

The ASU 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, but does not change how the CODM is identified.

Single reportable segment entities

The ASU clarifies that single reportable segment entities are subject to Topic 280 in its entirety. Therefore, if the CODM of a single reportable segment entity uses more than one measure of segment profit or loss to assess performance and decide how to allocate resources, the reported measure is the one closest to GAAP. This may be a measure that is not presented in the public entity's consolidated income statement.

A single reportable segment entity should not rely on entity-wide disclosure to satisfy the requirements of Topic 280. It should identify and report the measure(s) of a segment's profit or loss that the CODM uses in assessing segment performance and deciding how to allocate resources.

Example: Single reportable segment entity

ABC Corp is a single reportable segment entity. ABC's CODM uses both net income and EBITDA (earnings before interest, taxes, depreciation and amortization) as the measures of profit or loss to assess segment performance and allocate resources. EBITDA is not presented on the face of the income statement.

> *ABC may report EBITDA as a performance measure if the measure closest to GAAP is also provided (i.e. net income).*

> *ABC reconciles the total of the reportable segment's amount for each measure of profit or loss to consolidated income before income taxes and discontinued operations.*

Because the FASB clarified that single reportable segment entities are subject to Topic 280 in its entirety, we believe the SEC is likely to increase its focus on whether registrants with one reportable segment comply with all the requirements of Topic 280.

Effective dates and transition

The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted.

The amendments in the ASU apply retrospectively to all periods presented in the financial statements unless it is impracticable to do so. The segment expense categories and amounts disclosed in prior periods are based on the significant segment expense categories identified and disclosed in the period of adoption.

Illustration of select segment disclosures

The following excerpt from Example B in paragraph 280-10-55-48 as amended by the ASU illustrates the disclosure of information about reported segment revenue, measures of a segment's profit or loss, significant segment expenses, and required reconciliations.

	Auto Parts	Motor Vessels	Software	Electronics	Finance	Total
Revenues from external customers	$ 3,000	$ 5,000	$ 9,500	$ 12,000	$ 5,000 [(a)]	$ 34,500
Intersegment revenues	-	-	3,000	1,500	-	4,500
	3,000	5,000	12,500	13,500	5,000	39,000
Reconciliation of revenue						
Other revenues						1,000 [(b)]
Elimination of intersegment revenues						(4,500)
Total consolidated revenues						$ 35,500
[Content moved from the illustration in paragraph 280-10-55-49.]						
Less: [(c)]						
Cost of revenue	1,700	3,100	2,000	6,800	-	
Segment gross profit	1,300	1,900	10,500	6,700	- [(d)]	$ 20,400
Less: [(c)]						
Research and development expense	-	-	3,300	-	-	
Nonmanufacturing payroll expense [(e)]	500	900	2,600	2,700	750	
Professional services expense	-	-	1,700	500	800	
Interest expense (finance segment)	-	-	-	-	3,000	
Other segment items [(f)]	700	1,130	2,300	1,600	(50)	
Segment profit/(loss)	100	(130)	600	1,900	500	$ 2,970
Reconciliation of profit or loss (segment profit/(loss))						
Other profit or loss						100 [(b)]
Interest income/(expense), net (excluding finance segment)						1,125 [(g)]
Elimination of intersegment profits						(500)
Unallocated amounts:						
Litigation settlement received						500
Other corporate expenses						(750)
Adjustment to pension expense in consolidation						(250)
Income before income taxes						$ 3,195

	Auto Parts	Motor Vessels	Software	Electronics	Finance	Total
Reconciliation of profit or loss (segment gross profit)						
Total segment gross profit						$ 20,400
Segment operating expenses, net (excluding finance segment)						(17,930) (h)
Segment profit (finance segment)						500
Other profit or loss						100 (b)
Interest income/(expense), net (excluding finance segment)						1,125 (g)
Elimination of intersegment profits						(500)
Unallocated amounts:						
Litigation settlement received						500
Other corporate expenses						(750)
Adjustment to pension expense in consolidation						(250)
Income before income taxes						$ 3,195

[Content amended and moved from the illustration in paragraph 280-10-55-49.]

(a) The revenue from external customers for the finance segment relates to interest and noninterest income.

(b) Revenue and profit or loss from segments below the quantitative thresholds are attributable to four operating segments of Diversified Company. Those segments include a small real estate business, an electronics equipment rental business, a software consulting practice, and a warehouse leasing operation. None of those segments has ever met any of the quantitative thresholds for determining reportable segments.

(c) The significant expense categories and amounts align with the segment-level information that is regularly provided to the chief operating decision maker. Intersegment expenses are included within the amounts shown.

(d) For the finance segment, the chief operating decision maker uses only pretax profit or loss as the measure to allocate resources and assess segment performance. As a result, segment gross profit is not reported for the finance segment.

(e) The nonmanufacturing payroll expense does not include amounts capitalized on the balance sheet or included within other expense categories.

(f) Other segment items for each reportable segment includes:

Auto parts—maintenance, professional services expense, and repairs expense and certain overhead expenses.

Motor vessels—marketing expense, professional services expense, occupancy expense, and certain overhead expenses.

Software—depreciation and amortization expense, travel expense, office supplies expense, and certain overhead expenses.

Electronics—depreciation and amortization expense, marketing expense, occupancy expense, and certain overhead expenses.

Finance—depreciation and amortization expense, property tax expense, certain overhead expenses, and other gains or losses.

(g) Interest income/(expense), net (excluding finance segment) of $1,125 comprises (i) consolidated total interest revenue (excluding finance segment) of $3,825 and (ii) consolidated total interest expense (excluding finance segment) of $2,700.

(h) Segment operating expenses, net (excluding finance segment) of $17,930 includes research and development expense, nonmanufacturing payroll expense, professional services expense, and other segment items for the auto parts, motor vessels, software, and electronics segments.

Contributing authors

Valerie Boissou, John Barbagallo

KPMG Financial Reporting View

kpmg.com/us/frv

This newsletter is part of our Defining Issues® collection of newsletters and articles with insights and news about financial reporting and regulatory developments.

Sign up here to receive news and insights delivered to your mailbox.

kpmg.com/socialmedia