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FASB Updates Requirements for Segment Reporting Disclosures

December 15, 2023

On November 27, 2023, the Financial Accounting Standards Board ("FASB") issued a final Accounting Standards Update ("ASU") requiring increased disclosure about public companies' reportable segments. The ASU applies to all companies that are required to report segment information in accordance with Topic 280, including companies that have a single reportable segment.

The ASU will be effective for fiscal years beginning after December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024. Companies will be required to apply the new disclosure guidance on a retrospective basis, unless it is impracticable to do so. For example, calendar-year-end companies must include in their 2024 financial statements updated segment disclosures for the 2022 and 2023 fiscal years.

Key provisions of the ASU include:

- A requirement to disclose, on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker ("CODM") and are included within each reported measure of a segment's profit or loss.
- A requirement to disclose, on an annual and interim basis, an amount for "other segment items" (as further described below) for each reportable segment as well as a description of its composition.
- A requirement to provide in interim periods all disclosures about a reportable segment's profit or loss and assets that are currently required annually.
- Clarification that multiple measures of a segment's profit or loss may be reported if the CODM uses more than one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources. However, at least one of the reported measures should be the measure that is most consistent with how corresponding amounts in the consolidated financial statements are measured.

- A requirement to disclose the title and position of the CODM, and an explanation of how the CODM uses reported measures in assessing performance and deciding how to allocate resources.
- A requirement that entities with a single reportable segment provide all segment disclosures required by the ASU and existing segment disclosures in Topic 280.

Significant Expense Principle

One of the primary elements of the ASU is the introduction of the significant expense principle. The significant expense principle requires disclosure of segment expenses that are (i) regularly provided to the CODM, (ii) included within the segment's reported measure of profit or loss and (iii) determined to be significant by management.

In determining whether information is *regularly provided* to the CODM, companies are advised to use their judgment in line with the approach for existing segment disclosure requirements under Topic 280.[1] While the FASB considered limiting the significant expense principle to information that is "regularly reviewed" by the CODM, the ASU retains the broader "regularly provided" standard, as the FASB believes this generally aligns with the way in which management's reports are prepared for internal use.

In determining whether information is *significant*, companies are advised to consider both quantitative and qualitative factors.[2] The FASB noted that entities are generally able to apply reasonable judgment in line with the interpretation of the significance threshold for existing Topic 280 disclosure requirements.

If a company determines that there are no significant segment expenses for any given reportable segment, it is required to instead disclose the nature of the expense information used by the CODM to manage that segment's operations (e.g., if the CODM is regularly provided with budgeted or forecasted expense information, or if the CODM uses consolidated expense information).

Other Segment Items

The ASU requires companies to disclose for each reportable segment an amount and qualitative description of "other segment items". Other segment items represent the difference between (a) segment revenue less significant expenses disclosed and

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[1] While the ASU does not define "regularly provided", some commenters believe that "regularly provided" would include information provided on at least a quarterly basis (see Deloitte).

[2] While the ASU does not define "significant", the FASB observed that segment information is significant when, if omitted, it "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."

(b) reported segment profit or loss. Other segment items may include, for example, measures that are not regularly provided to the CODM; segment expenses that are not significant; or the total of gains, losses and other amounts that are included in each reported measure of a segment's profit or loss. The requirement for companies to disclose an amount and qualitative description applies even if the company does not separately report significant segment expense categories and amounts for one or more of its reportable segments.

Multiple Measures of a Segment's Profit or Loss

If the CODM uses more than one measure of a segment's profit or loss to allocate resources and assess performance, the ASU permits companies to disclose one or more additional measures of segment profit or loss. At least one of the reported measures should be that which management believes is most consistent with the measures used for corresponding amounts in the company's consolidated financial statements. Furthermore, the total of each measure of profit or loss for all reportable segments must be reconciled to the company's consolidated income before income taxes and discontinued operations.

In recent years, the Securities and Exchange Commission ("SEC") staff has issued comment letters to companies that disclose multiple measures of profit or loss for a reportable segment, requesting that the company include only a single measure for each segment. As such, the ASU's change provides additional flexibility for companies that wish to provide more than one measure of segment profit or loss. However, the staff of the SEC has indicated that, if a company reports more than one measure of segment profit or loss, and such measures are non-GAAP measures, they will be subject to Item 10(e) of Regulation S-K.

Entities with a Single Reportable Segment

Historically, entities with a single reportable segment were not required to provide disclosures beyond those provided on a consolidated basis. In contrast, the ASU requires entities with a single reportable segment to make all segment disclosures, including disclosures currently required for entities with multiple segments as well as disclosures required by the ASU. For example, entities with a single reportable segment will be required to identify one (or more) measures of profit or loss used by the CODM. The staff of the SEC has stated that the one *required* measure of profit or loss in this instance should be net income.

Takeaways

Although the ASU increases disclosure requirements for segment expenses and single-segment companies, it does not change how companies identify or aggregate their operating segments, including how companies apply quantitative thresholds to determine their reporting segments. For companies that elect to disclose more than one measure of profit or loss, care should be taken to comply with Regulation S-K, and consultation with counsel, and potentially the staff of the SEC, may be prudent.

Companies should begin to prepare for the new disclosure requirements during 2024 by reviewing their segment reporting framework, identifying the information regularly provided to their CODM, and evaluating their capacity to prepare retrospective and prospective disclosure for annual and interim periods.

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Please do not hesitate to contact us with any questions.

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