KPMG

FASB proposal

Improving segment disclosures

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FASB proposes enhancements to segment disclosures, including significant segment expenses.

Source and applicability

- Proposed ASU, 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

The proposed ASU would enhance segment reporting under Topic 280 by expanding the breadth and frequency of segment disclosures. Its amendments would fall into six categories.

Disclose…	
Significant segment expenses regularly provided to the chief operating decision maker (CODM) and included within each reported measure of segment profit or loss.	The **title and position of the CODM.**
The amount and composition of **other segment items** by reportable segment. This amount reconciles segment revenue less significant expenses, and each reported measure of segment profit or loss.	On an **interim basis**, all reportable segments profit or loss and assets disclosures currently required annually by Topic 280, as well as those introduced by the proposed ASU.
In addition…	
Permit **multiple measures of a segment's profit or loss** to be reported, as long as one is the measure most consistent with how corresponding amounts in the consolidated financial statements are measured.	Require **single reportable segment entities** to apply the existing segment disclosures and reconciliation requirements in Topic 280 and those introduced by the proposed ASU.

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

Stakeholders have until December 20, 2022 to comment on the proposed ASU.

Background

Topic 280 requires public entities to disclose entity-wide and segment information in the notes to financial statements. This allows financial statement users to understand how management views the operating results and financial position of the entity, disaggregated by reportable segments. In particular, for each reportable segment, Topic 280 requires entities to disclose the measure of profit or loss that the CODM uses to assess segment performance and make decisions about allocating 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 is limited information reported about a segment's expenses.

Proposed amendments

Significant expense categories and amounts

The proposed ASU would create a 'significant expense principle'. Under this principle, an entity would disclose for each reportable segment the significant expense categories and amounts that are regularly provided to the CODM and included in each reported measure of a segment's profit or loss. When applying this disclosure requirement, an entity would identify 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 would disclose the nature of the expense information that the CODM uses to manage operations.

Topic 280 does not define the term *significant* or specify how entities may interpret its meaning. However, when entities would evaluate whether segment expense categories and amounts are significant under the significant expense principle, the Board expects that entities would apply the significance threshold in a manner similar to how the threshold is already applied in other parts of Topic 280.

Under the significant expense principle, the Board expects entities to focus on the substance of the segment information that is regularly provided to the CODM rather than on its form. Determining which information is 'regularly provided to the CODM' requires judgment but is not a new concept in Topic 280. However, the phrase 'easily computable' introduces some subjectivity about a calculation's perceived level of difficulty.

Other segment items

The proposed ASU would require a public entity to disclose, for each reportable segment, an amount for other segment items. That amount is the difference between reported segment revenue less significant expenses disclosed under the significant expense principle, and reported segment 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 each reported measure of a segment's profit or loss. A qualitative description of the composition of other segment items also would be disclosed.

Interim period disclosures

The proposed ASU would require all disclosures relating to a reportable segment's profit or loss and assets 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 segment profit or loss and total assets, segment revenue, depreciation and amortization expense), as well as the new significant expense disclosures under the proposed ASU. For each interim period, the total of the reportable segments' measures of profit or loss would also need 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 would remain annual.

Single reportable segment entities

The proposed ASU would explicitly require public entities with a single reportable segment to provide all segment disclosures in Topic 280, not just entity-level disclosures. Even with one reportable segment, the measure of segment profit or loss that the CODM uses to allocate resources and assess performance may not necessarily be a GAAP measure, i.e. one presented on the consolidated income statement. It therefore would need to be reported (along with other segment information) and reconciled to the consolidated income before income taxes and discontinued operations.

Because entities with a single reportable segment often do not disclose segment information, the Board decided that requiring them to report all segment disclosures would reduce potential incentives to aggregate operating segments into a single reportable segment to avoid disclosing segment information.

Multiple measures of segment profit or loss

Currently under Topic 280, if the CODM uses more than one measure of a segment's profit or loss, the reported measure is the one closest to GAAP – i.e. the measure that management believes is determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the public entity's consolidated financial statements.

The proposed ASU would permit an entity to report multiple measures of a segment's profit or loss. When this happens, at least one of the reported measures would need to be the measure closest to GAAP. The significant expense principle in the proposed ASU and other existing profit or loss related disclosure and reconciliation requirements in Topic 280 would apply to all reported measures of a segment's profit or loss.

By allowing more than one measure of a segment's profit or loss to be reported, the proposed ASU would permit public entities to include in their audited financial statements certain additional non-GAAP measures that are prohibited from inclusion today – e.g. segment profitability measures computed using tailored accounting principles.

Title and position of CODM

The proposed ASU would require a public entity to disclose the title and position of the individual or the name of the group or committee identified as the CODM. It does not otherwise change how the CODM is identified under Topic 280.

As a reminder:

- the CODM is usually the highest level of management (e.g. the CEO or COO) responsible for the entity's overall resource allocation and performance assessment;
- the CODM is a function and not a title;
- the function of the CODM could be performed by a group of individuals acting in concert (e.g. an executive committee or a management committee); and
- an entity cannot have more than one CODM.

Effective dates and transition

The proposed amendments would be applied retrospectively to all periods presented in the financial statements. When applying the amendments retrospectively, a public entity would first apply the significant expense principle to identify the significant segment expense categories and amounts for the current period presented (the period of adoption). The entity would then disclose the comparative period amounts for those same categories.

In the period of adoption, an entity would qualitatively disclose any changes in the significant expense categories that are regularly provided to the CODM compared with the most recent comparative period presented in the financial statements.

The provisions in the proposed ASU regarding qualitatively disclosing changes in significant expense categories ensure that entities refrain from changing their internal reporting in the lead time to implement the proposed amendments.

The FASB will determine the effective date and whether to allow early adoption after considering stakeholder feedback.

The proposed amendments will only become US GAAP if and when the FASB issues a final ASU.

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