



# Segment reporting (post-ASU 2023-07)

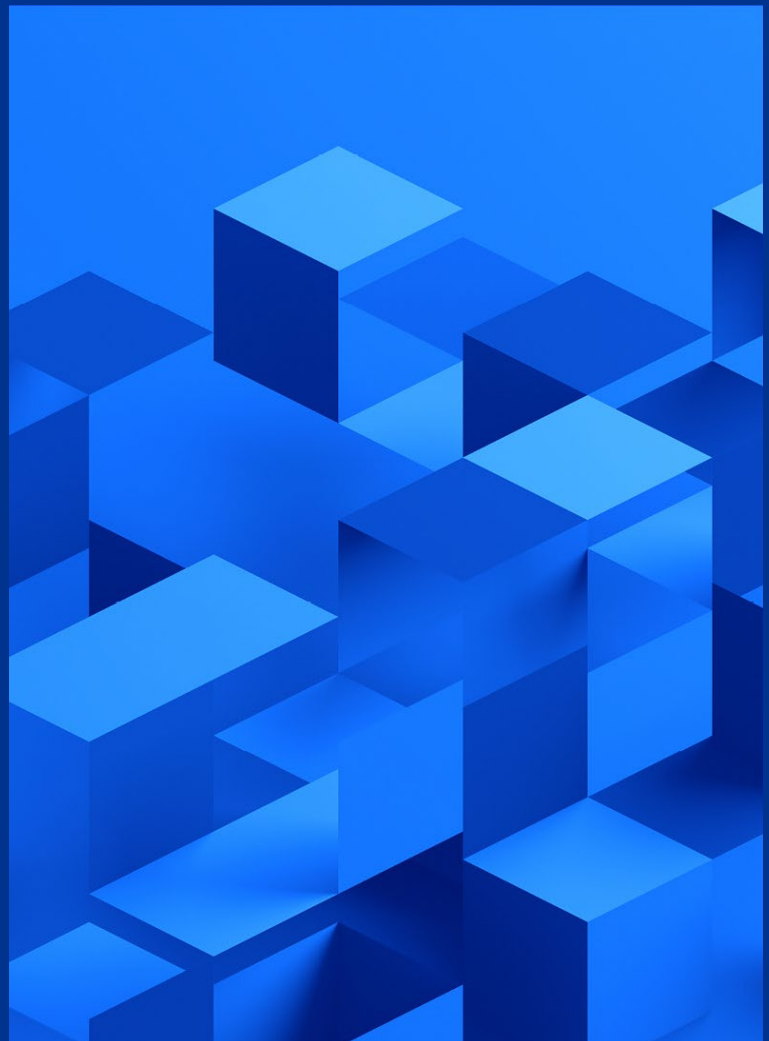
## Executive summary

**US GAAP**

July 2024

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# FASB improves segment disclosures

Segment reporting has consistently been a hot topic for financial statement preparers, auditors, investors and the SEC ever since the FASB first issued guidance on the subject in 1997. That guidance (codified in Topic 280) is designed to provide financial statement users with granular information through the ‘eyes of management’ about a public entity’s business performance.

Despite the FASB’s efforts, the SEC staff has expressed concerns over several years about a lack of compliance. Specifically, the SEC’s concerns are that too few segments are being disclosed and not all required information about reported segments is being presented.

Accounting Standard Update (ASU) 2023-07 marks a response by the FASB to user requests to improve segment reporting, notably requiring disclosure of significant segment expenses and increasing the frequency of segment reporting to interim periods. Calendar-year entities will begin applying many of its provisions in 2024, with the interim-period provisions taking effect in 2025.

Topic 280 remains challenging to apply because an entity’s internal organizational structure dictates how segment information is compiled and presented.

This executive summary provides an overview of the principles of Topic 280 as amended by ASU 2023-07. Our related KPMG Handbook, [Segment reporting \(post-ASU 2023-07\)](#), addresses questions that companies have had in applying these principles through in-depth interpretive guidance and examples.

## Overall objective

This executive summary is written as if ASU 2023-07, Segment Reporting (Topic 280) Improvements to Reportable Segment Disclosures, has been adopted. For guidance on applying Topic 280 before adopting the ASU, see KPMG Handbook, [Segment reporting \(pre-ASU 2023-07\)](#).

Topic 280 requires public entities to disclose information about their operations that typically is not obvious from the financial statements. It essentially allows financial statement users to ‘see through the eyes of management’ to understand how management views the operating results and financial position of the different reportable segments of the entity’s business.

The primary objectives of Topic 280 are to help financial statement users:

See the entity’s operating results and financial position from management’s perspective – disaggregated in a manner that can enhance their ability to assess the entity’s prospects for future cash flows.

Obtain a better understanding of financial performance across the entire entity, including revenues related to products and services and to geographic areas, as well as information about major customers.

Make more informed financial judgments about the entity as a whole.

Although Topic 280 is a ‘disclosure’ Topic, which leverages existing management information, complying with its requirements can involve a great deal of effort. An entity’s financial results and financial position are disaggregated by reportable segment, and identifying reportable segments is a multi-step process.

**Step 1** Identify the CODM (chief operating decision maker)

**Step 2** Identify and aggregate operating segments

**Step 3** Determine reportable segments

**Step 4** Disclose required information for each reportable segment

# Scope

Topic 280 requires a public entity to disclose segment information in the notes to its financial statements.

A business entity is a public entity under Topic 280 if:

- it has issued debt or equity securities or is a conduit bond obligor for conduit debt securities that are traded in a public market – i.e. a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets;
- it is required to file financial statements with the SEC; and/or
- it provides financial statements for the purpose of issuing any class of securities in a public market.

Nonpublic and not-for-profit entities are not required to adopt Topic 280; however, if they voluntarily adopt it, they are required to fully comply with Topic 280 and include the required segment disclosures for all periods presented.

Type of entity	Segment disclosures
Business entity that is a public entity	Required
<ul style="list-style-type: none"> <li>• Business entity that is not a public entity – separate (stand-alone) financial statements</li> <li>• Not-for-profit entity</li> </ul>	Discretionary but encouraged

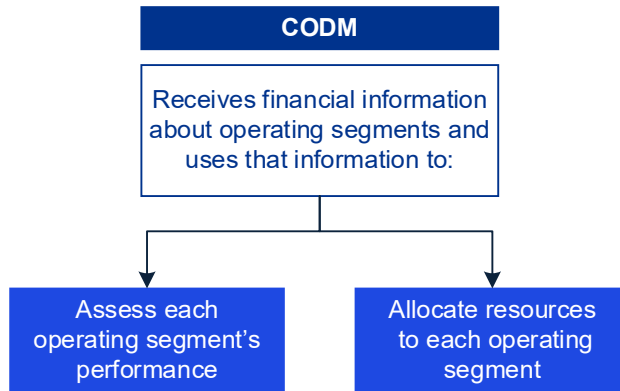
## Step 1: Identify the CODM

The first step in applying Topic 280 is to identify the CODM. This concept is key because segment profit or loss and asset disclosures are based on the information provided to or regularly reviewed by the CODM.

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. Therefore, the function of the CODM could be performed by more than one person (e.g. an executive committee or a management committee).

An entity cannot have more than one CODM.

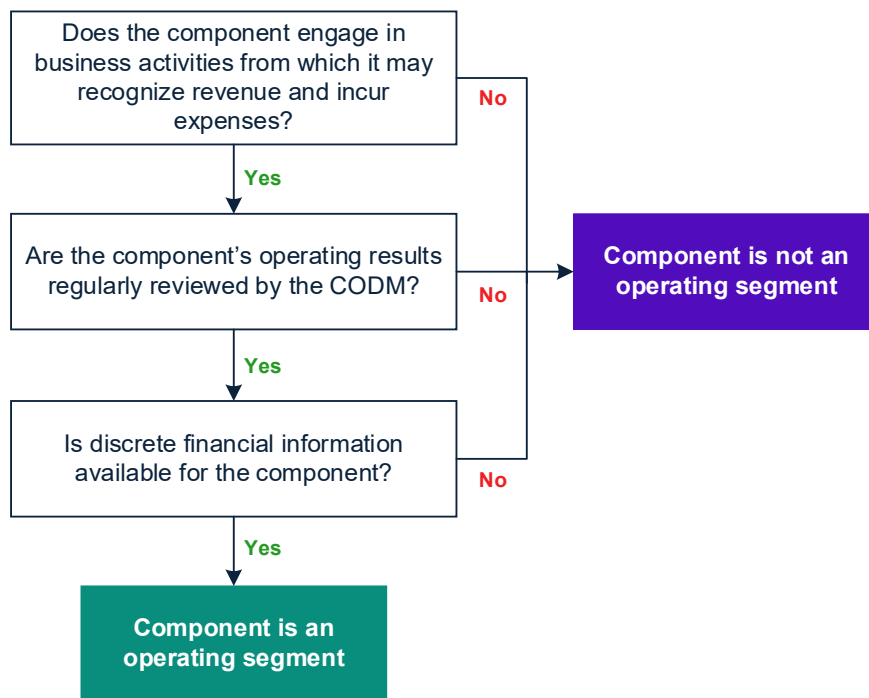


## Step 2: Identify and aggregate operating segments

An entity evaluates each of its components to determine whether they are operating segments. Operating segments reflect how an entity manages its business (e.g. by products and services or geographically); therefore, they are identified based on the management approach.

Operating segments should be evident from the structure of the entity's internal organization. Financial information is usually reported to the CODM consistent with that structure.

In identifying operating segments, there are three questions to ask about each component of the business.

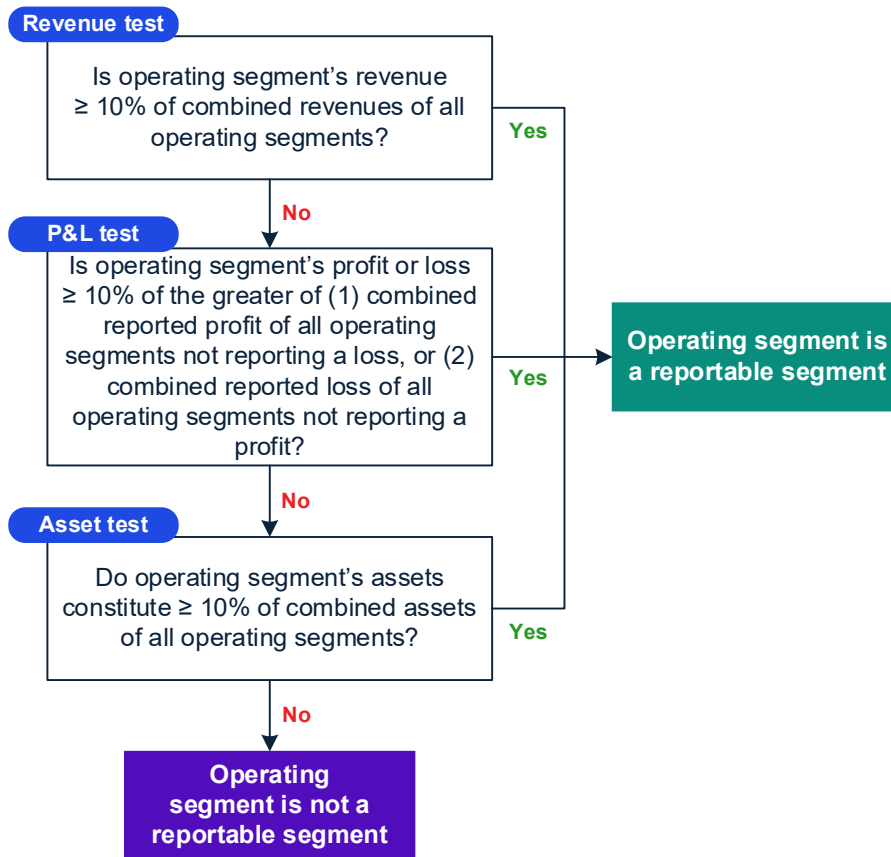


Topic 280 permits operating segments to be aggregated if they have similar economic characteristics and comply with specific aggregation tests. The process of demonstrating similar economic characteristics can be challenging and requires judgment. This is caused by the depth of analysis that is necessary to evaluate economic similarity and the lack of specific guidance in Topic 280 on how to perform this analysis.

The SEC, in its comment letters, regularly inquires about how an entity determines its operating segments and how economic characteristics are considered when operating segments are aggregated.

## Step 3: Determine reportable segments

Topic 280 requires an entity to disclose information about operating segments that meet quantitative thresholds. An operating segment that meets these thresholds is called a reportable segment.



If the operating segments that meet the reportable segment quantitative thresholds do not represent at least 75% of total consolidated revenue, Topic 280 requires additional operating segments to be treated as reportable segments.

If an operating segment does not meet any of the initial reportable segment quantitative threshold criteria, it is an 'insignificant' operating segment. Depending on the circumstances, insignificant operating segments are either presented as a reportable segment, combined with other insignificant operating segments, or included in an 'all other' category.

# Step 4: Disclosures

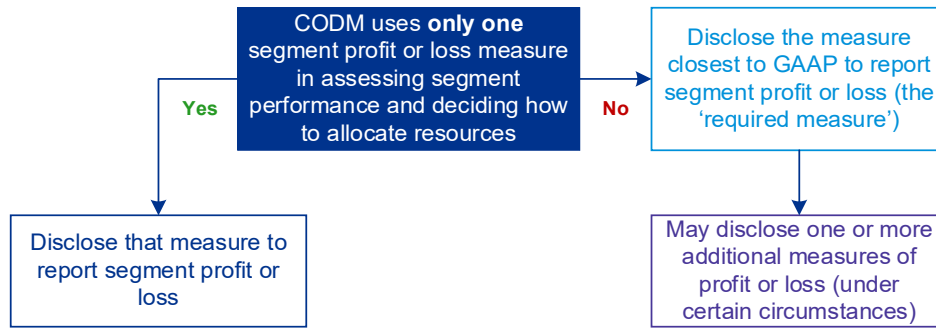
## Segment disclosures

Topic 280 requires a public entity, including a public entity that has a single reportable segment, to provide extensive segment disclosures by reportable segment in annual and interim financial statements. There are three categories of required segment disclosures, which are summarized below.

<b>General information</b>	<ul style="list-style-type: none"> <li>• Factors used to identify reportable segments</li> <li>• Types of products and services that produce revenue for each reportable segment</li> <li>• Title and position of the CODM</li> </ul>
<b>Information about profit or loss and assets</b>	<ul style="list-style-type: none"> <li>• Profit or loss and asset measures for each reportable segment (more than one profit or loss measure per segment permitted with caveats)</li> <li>• Additional quantitative information about profit or loss and assets</li> <li>• Additional qualitative information about profit or loss and assets</li> </ul>
<b>Reconciliations</b>	<p>Reconciled to corresponding consolidated amount:</p> <ul style="list-style-type: none"> <li>• Total reportable segment revenues</li> <li>• Total reportable segment profit or loss</li> <li>• Total reportable segment assets</li> <li>• Total reportable segment amounts for other significant items disclosed</li> </ul>

Topic 280 permits an entity, including an entity with a single reportable segment, to report more than one profit or loss measure that is used by the CODM to evaluate segment performance and allocate resources, as long as one of the reported measures is the one that is most consistent with GAAP.





The SEC staff has indicated that:

- additional measures that are not determined in accordance with GAAP would be subject to the SEC’s non-GAAP financial measures rules and regulations; and
- when a single reportable segment entity is managed on a consolidated basis, the staff expects the required measure to be consolidated net income.

Registrants should watch for announcements or further guidance from the SEC staff since this guidance may be subject to change.

The additional quantitative information about segment profit or loss and assets includes specified items (e.g. external and intersegment revenues, depreciation and amortization) and significant expenses. To determine which information to disclose, an entity generally needs to assess which information is regularly provided to or regularly reviewed by the CODM. This assessment may require judgment.

## Entity-wide information

Topic 280 also requires entity-wide information about an entity’s revenues and long-lived assets, but only in annual financial statements.

### Entity-wide disclosures

- Information about products and services
- Information about geographic areas
- Information about major customers

These disclosures need not be made on an entity-wide basis if they are already provided by segment.

# Ongoing considerations

A change in the composition of reportable segments, in the way significant segment expenses are identified or in the segment measure used by the CODM to evaluate segment performance and allocate resources triggers the following reporting and disclosure requirements.

Accounting for changes to segment reporting		
Reporting period of change	Change in composition of segments or identification of significant segment expenses	Change in segment measures
Annual period:	Recast prior periods presented in annual financial statements, if practicable, to conform to current-period presentation	Disclose nature and effect of the change
Interim period:	Recast prior interim periods and prior annual period presented in interim financial statements, if practicable	Disclose difference in basis of measurement of segment profit or loss; the effect of the change need not be disclosed

For changes in the composition of segments or the identification of significant segment expenses, any item for which recasting is not practicable does not need to be recast. Items that do not qualify for the exception are required to be recast. Whether it is practicable to recast an item depends on the individual facts and circumstances for that item; in our experience, use of this exception is rare.

The SEC requires registrants to provide retrospectively revised financial statements that present segment information under the new basis of segmentation. This requirement applies to periodic filings required under the Securities and Exchange Acts (e.g. proxy statements, Forms 10-Q and 10-K) and registration statements (e.g. Form S-1 filings).

# SEC filings

## US companies (domestic filers)

Certain SEC filings (e.g. Form 10-K and Form S-1) require a registrant to include segment information in the following sections.

<b>Description of business</b>	<b>MD&amp;A</b>
<b>Property</b>	<b>Financial statements</b>

The information required by the SEC is based on the same segment structure developed under Topic 280 for the segment disclosures in the financial statements. However, SEC regulations require additional and different information based on this segment structure.

## Non-US companies (FPIs)

The required segment disclosures in financial statements filed with a Form 20-F by Foreign Private Issuers depend on the basis of accounting used to prepare those financial statements.

- **US GAAP.** Financial statements prepared using US GAAP should already have the required segment disclosures.
- **IFRS® Accounting Standards as issued by the International Accounting Standards Board.** The segment disclosures are sufficient and therefore no additional Topic 280 disclosures are required.
- **Country GAAP.** Additional Topic 280 disclosures may be required.

Similar to domestic filers, FPIs have additional filing requirements for changes in segment structure.

Form 20-F also includes sections other than the financial statements section in which segment information may be presented.

# Interaction with other Topics

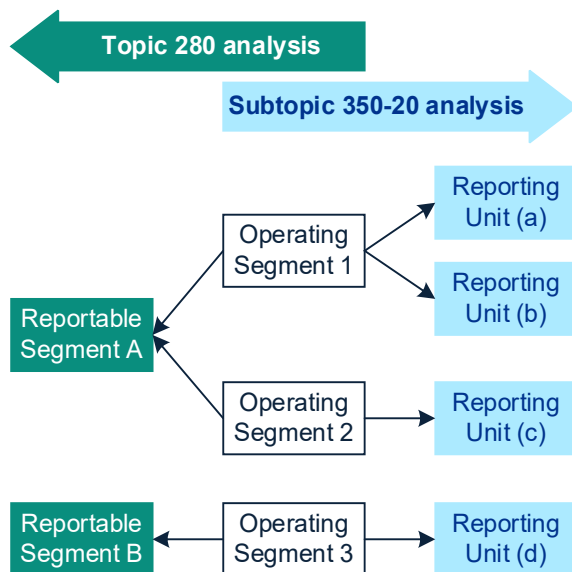
There is an interrelationship between segment reporting and several other Topics.

An entity discloses the following by reportable segment:

- discontinued operations;
- total costs expected to be incurred in connection with an exit or disposal activity;
- goodwill and changes in goodwill;
- the amount of goodwill acquired in a business combination; and
- impairments of long-lived assets and disposals of asset groups.

In addition, revenue is disaggregated and disclosed in categories that depict the nature, amount, timing and uncertainty of revenue and cash flows affected by economic factors. Sufficient information must be disclosed about the relationship between the disaggregated revenue and revenue information for each reportable segment.

Goodwill is assessed for impairment at the reporting unit level, which is defined as an operating segment, or one level below an operating segment. The following diagram illustrates the relationship between reporting units, operating segments and reportable segments. The concepts can be confusing because they both use operating segments as the starting point for analysis.



## Effects of ASU 2023-07

ASU 2023-07 enhances segment reporting under Topic 280 by expanding the breadth and frequency of segment disclosures. The amendments in ASU 2023-07 include the following key changes.

Topic	After ASU 2023-07	Before ASU 2023-07
<b>CODM</b>	Disclose the title and position of the CODM.	No similar requirement.
<b>Segment expenses</b>	Disclose significant segment expenses that are regularly provided to the CODM and included within each reported segment profit or loss measure.	No similar requirement.
	Disclose an amount for other segment items by reportable segment and a description of its composition. The other segment items category is the difference between segment revenue less significant segment expenses and each reported segment profit or loss measure.	No similar requirement.
<b>Segment profit or loss measure(s)</b>	Option to report multiple segment profit or loss measures if the CODM uses more than one to assess segment performance and allocate resources. However, at least one of the reported measures (or the single reported measure, if only one is disclosed) must be the measure that management believes is most consistent with GAAP measurement principles.	Only one segment profit or loss measure is disclosed – i.e. the measure that management believes is most consistent with GAAP measurement principles.

Topic	After ASU 2023-07	Before ASU 2023-07
	Disclose an explanation of how the CODM uses the reported segment profit or loss measure(s) in assessing segment performance and allocating resources.	No similar requirement.
<b>Interim reporting</b>	Provide in condensed interim financial statements all reportable segments profit or loss and assets disclosures currently required annually by Topic 280, as well as those introduced by the ASU.	Provide only limited segment disclosures in condensed interim financial statements
<b>Single reportable segment entity</b>	Provide all segment disclosures in Topic 280, not just entity-level disclosures.	No specific guidance for single reportable segment entities.

## Effective date and transition requirements

<b>Effective date</b>	Fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024.
<b>Early adoption</b>	Early adoption is permitted.
<b>Transition</b>	Retrospectively to all periods presented in the financial statements, unless retrospective application is impracticable.

To apply the ASU's amendments retrospectively, a public entity recasts the segment expense categories and amounts disclosed in comparative periods based on the significant segment expense categories identified and disclosed in the period of adoption, regardless of whether those segment expense categories were significant or regularly provided to the CODM in the comparative periods.

A single reportable segment entity is required to provide all segment disclosures in Topic 280, not just entity-level disclosures. Therefore, upon adoption, a single reportable segment entity must retrospectively apply Topic 280 in its entirety.

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