

Segment reporting

Important SEC clarifications

August 2024



SEC staff clarifies parameters for disclosing multiple segment performance measures and elaborates on single reportable segment entities.

In 2023, the Financial Accounting Standards Board (FASB) significantly amended the US GAAP requirements for disclosing segment information (Topic 280). One amendment allows entities to disclose multiple measures of a segment's profit or loss in the segment reporting note to the financial statements, under certain conditions. Historically, only a single measure that is the closest to GAAP could be disclosed. [Comments](#) made by the SEC staff in December 2023 led to questions about how the amendments interact with the SEC's rules and regulations regarding disclosing non-GAAP financial measures in SEC filings.

The issue

Regulation G (Reg G) defines non-GAAP measures to exclude any financial measures that are required to be disclosed by GAAP. After the amendments, Topic 280 continues to require disclosure of the segment performance measure closest to GAAP but it also allows for additional measures to be disclosed under certain conditions. Because Topic 280 does not require disclosure of additional measures or specify non-GAAP measures that are required to be disclosed, the SEC staff considers these additional measures to be non-GAAP measures if they are not prepared using GAAP principles.

Additionally, Item 10(e) of Regulation S-K (Reg S-K) prohibits non-GAAP financial measures from appearing in financial statements and related notes, although they are allowed under certain conditions in other parts of SEC filings (e.g. Management's Discussion and Analysis, or MD&A). However, KPMG has recently learned that the SEC staff will not object to additional non-GAAP segment performance measures being disclosed in financial statement notes if registrants comply with the other aspects of the SEC's regulations, rules and guidance on non-GAAP financial measures.

Background

FASB Topic 280: Reporting measures of segment profit or loss

For each reportable segment, Topic 280 requires an entity to disclose a measure of profit or loss that is used by the chief operating decision maker (CODM) to assess performance and allocate resources. When the CODM uses several performance measures, the measure that is required to be disclosed (the required measure) is the one determined in accordance with the measurement principles most consistent with GAAP, i.e. the one closest to GAAP.

Accounting Standards Update (ASU) 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, amended Topic 280 to permit an entity to disclose more than one measure of segment profit or loss if the:

- additional measure(s) is used by the CODM to evaluate segment performance and allocate resources; and
- the required measure is also disclosed.

The CODM may use performance measures that are not necessarily determined in accordance with GAAP – e.g. a measure could be EBITDA, income before restructuring charges or similar measures that are considered non-GAAP.

For effective date and transition information on ASU 2023-07, see [Effective date and transition requirements](#), below.

SEC regulations: Non-GAAP financial measures

A non-GAAP measure is a financial, operating, regulatory or statutory measure that is not determined under GAAP. More specifically, it is a numerical measure or ratio of a registrant's historical or future financial performance, financial condition or cash flows that excludes or includes amounts included or excluded, respectively, in a GAAP measure.

Non-GAAP financial measures are often presented in conjunction with GAAP measures in MD&A, earnings releases and other communications. Management generally decides which non-GAAP financial measures are used and how they are calculated. This is in contrast to GAAP measures, which are prepared based on a financial reporting framework that provides a standardized method for understanding a company's historical and future financial performance, financial position and cash flows.

The regulations that control the disclosure of non-GAAP financial measures are Reg G and Reg S-K Item 10(e). Reg S-K Item 10(e) prohibits disclosing non-GAAP financial measures in financial statement notes. Further, when they are disclosed in other parts of an SEC filing, there are requirements that must be met and disclosures that must be made. Reg G states that a publicly disclosed non-GAAP financial measure must not be misleading and requires the presentation of, and a reconciliation from, the non-GAAP financial measure's most directly comparable GAAP measure. In addition to the requirements of Reg G, Reg S-K Item 10(e) and Instruction 2 to Item 2.02 of Form 8-K (via reference to Reg S-K Item 10(e)(1)(i)) require:

- the comparable GAAP measure to be presented with equal or greater prominence than the non-GAAP measure(s);
- disclosure of the reasons why the company's management believes the presentation of the non-GAAP financial measure is useful to investors; and
- to the extent material, a statement of the purpose (if any) for which management uses the non-GAAP financial measure.

Interplay between Topic 280 and SEC non-GAAP financial measures regulations

At the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments (2023 Conference), the SEC staff stated that it will consider any additional reported measures of segment profit or loss that are not determined in accordance with GAAP to be non-GAAP financial measures. The SEC staff's view is that the ASU does not require or expressly permit disclosure of specific additional segment performance measures (i.e. by requiring or otherwise specifically identifying the additional measures that may be reported). As a result, the SEC staff indicated that these additional measures must comply with Reg G and Reg S-K Item 10(e) in that they cannot be misleading measures and the required non-GAAP disclosures must be provided.

More recently, the SEC staff reiterated that the measure of segment profit or loss required by Topic 280 (i.e. the measure closest to GAAP) is not a non-GAAP financial measure per the regulatory definition. However, any additional measures disclosed that are not based on GAAP are non-GAAP financial measures.

The SEC staff noted that even though its regulations prohibit the inclusion of non-GAAP measures in the notes to the financial statements, it will not object to additional non-GAAP measures of profit or loss being included in the notes to the financial statements if they:

- are regularly reviewed and used by the CODM to allocate resources and assess segment performance; and
- comply with the requirements under both Topic 280 and the SEC's non-GAAP financial measures rules and regulations (Reg G and Reg S-K Item 10(e)).

Under the SEC rules and regulations any additional measure of segment profit or loss that is not based on GAAP must be identified as such, cannot be misleading and must be accompanied by all of the required disclosures. The required disclosures are summarized above (see [SEC regulations](#)).

The SEC staff also clarified that the Reg G and Reg S-K Item 10(e) disclosures related to the additional measures of segment profit or loss are not required to be provided in the notes to the financial statements. The staff will not object to the accompanying disclosures appearing in either the segment note or another section of the filing that includes the additional measure of segment profitability, such as MD&A. Further, a registrant is not expected to provide a reference to another section of the filing indicating where the required non-GAAP disclosures are located because there is no requirement to do so in Topic 280 or the SEC regulations, and disclosure referencing from the financial statements to information outside of the financial statements is prohibited by SEC regulations. SEC Compliance and Disclosure Interpretations (C&DI's) and other non-GAAP guidance from the SEC all provide staff interpretations of the regulations and would similarly apply to the presentation of non-GAAP measures.


Single reportable segment entities

Another important issue relates to single reportable segment entities. At the 2023 Conference, the SEC staff indicated that when a single reportable segment entity is managed on a consolidated basis, it expects the required measure of segment profit or loss to be consolidated net income.

The SEC staff recently shared its views on three specific questions relating this topic.

Questions	SEC staff views
Would an entity managed on a consolidated basis be permitted to disclose a measure of segment profit or loss other than consolidated net income?	Yes, but only as a voluntarily disclosed additional measure of segment profit or loss. The SEC staff continues to expect that entities managed on a consolidated basis will use consolidated net income as the required measure of segment profit or loss because Topic 280 requires disclosure of the measure used by the CODM that is closest to GAAP.
Would the SEC staff's views on the previous question differ if the CODM is not the CEO or CFO certifying the Form 10-K or 10-Q?	Not necessarily. Certifying the Form 10-K or 10-Q is simply one data point indicating that the certifying officer receives and reviews consolidated net income. The SEC staff is not aware of a circumstance where a CODM manages a single reportable segment entity on a consolidated basis and does not regularly

Questions	SEC staff views
	review a consolidated GAAP measure of profit or loss, such as consolidated net income.
<p>Could there be circumstances where an entity is organized as a single operating (and reportable) segment but not managed on a consolidated basis?</p>	<p>It depends on facts and circumstances. The SEC staff stated that an entity should consider the guidance in Codification paragraph 280-10-55-15D, which explicitly addresses this question.</p> <p>An entity should also consider the guidance in paragraph 280-10-50-4 to determine whether it is managed on a consolidated basis. The guidance helps determine how to distinguish the business activities of the single operating segment from other activities of the entity and whether there is evidence that the entity is truly managed on a consolidated basis. For example, an entity may need to assess whether a corporate headquarters or certain functional departments should be considered an operating segment. As part of this determination, an entity may want to evaluate how budgets are prepared, resources are allocated and performance is assessed.</p> <p>The SEC staff stated that the mere exclusion of a corporate headquarters or certain functional department from a measure of profit or loss reviewed by the CODM is not determinative as to whether an entity is managed on a consolidated basis.</p> <p>Entities should carefully consider all relevant facts and circumstances when reaching a conclusion.</p>



Based on our discussion with the SEC staff, we believe an entity that aggregates multiple operating segments into a single reportable segment is not managed on a consolidated basis.

Other Issues

The SEC staff also shared its views on questions relating to significant segment expenses and measures of segment profit or loss.

Questions	SEC staff views
<p>Is it acceptable for an entity to disclose an expense that is not calculated in accordance with GAAP as a significant segment expense under Topic 280?</p>	<p>Yes. Topic 280 does not require a significant segment expense to be calculated in accordance with GAAP. However, the SEC staff noted that other requirements may apply when an entity discloses such an expense. For example, Reg S-X Rule 4-01(a) states “The information required with respect to any statement shall be furnished as a minimum requirement to which shall be added such further material information as is necessary to make the required statements, in the light of the circumstances under which they are made, not misleading.”</p>



In our view, the SEC staff expects robust and transparent disclosure of non-GAAP significant segment expenses, including a clear labelling of the expense. If the financial statements would be misleading absent additional disclosures, the SEC staff expects the segment note to include detailed disclosure. The level of disclosure should be adapted to the circumstances. We believe this may include a qualitative description of the expense composition and its measurement basis, the reason the CODM uses the non-GAAP expense to manage the business or a reconciliation to the equivalent income statement GAAP expense.

Questions	SEC staff views
Would the SEC staff object to a different measure of segment profit or loss being used for different reportable segments?	No. The SEC staff believes it would be acceptable for an entity to disclose different measures of segment profit or loss for different reportable segments if the CODM uses those measures to assess performance and allocate resources.

Registrants that have questions on the application of GAAP, the use of non-GAAP expenses or performance measures can submit them to either the Office of the Chief Accountant, the Division of Corporation Finance's Office of the Chief Accountant, or both.

Effective date and transition requirements (ASU 2023-07)

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

KPMG resources

For further guidance on segment reporting, we recommend the following KPMG resources as a starting point.

- [Defining Issues: SEC's Corp Fin explains its priorities and concerns](#)
- [Defining Issues: FASB issues ASU requiring new segment disclosures](#)
- [Handbook: Segment reporting](#)
- [Issues In-Depth: Non-GAAP financial measures](#)

Contact us

Timothy Brown
Partner, Dept. Of Professional
Practice, KPMG US

tdbrown@kpmg.com

Valerie Boissou
Partner, Dept. Of Professional
Practice, KPMG US

vlesageboissou@kpmg.com

Tim Phelps
Partner, Dept. Of Professional
Practice, KPMG US

tphelps@kpmg.com

Learn about us:



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Hot Topic: Segment reporting | 6
Important SEC clarifications