



# 2024 Global Financial Reporting and Valuation Conference

Modernizing Finance: The Journey Ahead

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December 8-10 | Fontainebleau Miami Beach, Florida



# SEC Reporting & Accounting Change

2024 Global Financial Reporting and Valuation Conference

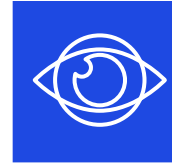
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# The **hot potato** plot of segment reporting



**High on the SEC  
comment letter hit list**



**The SEC has  
strong views**



**ASU 2023-07  
shake-up**



**Not just about  
disclosures**

# Segment reporting – SEC’s focus

## Identification of operating and reportable segments

Reorganization of operating segments, basis for applying aggregation guidance, acquired businesses



## MD&A

CODM review of metrics, contradictory discussion of segments in relation to segments identified



## Common Topics

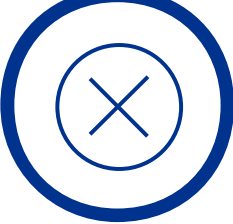
## Non-GAAP

Segment measure of profit/loss included, basis for chosen metrics



## Missing required disclosures

Reconciliation of segment measures to consolidated measures, disclosure of segment for significant customers



# SEC recent views on segment reporting

## 2022 AICPA Conference

Aggregation of segments: *need to consider the 'total mix of information' reviewed by the CODM*

## 2023 AICPA Conference

Segment revenue: *should be GAAP*

Meaning of 'regularly': *quarterly is regularly however regularly could be less frequent*

## 2023 AICPA Conference and many other platforms since

Implementation of ASU 2023 related to:

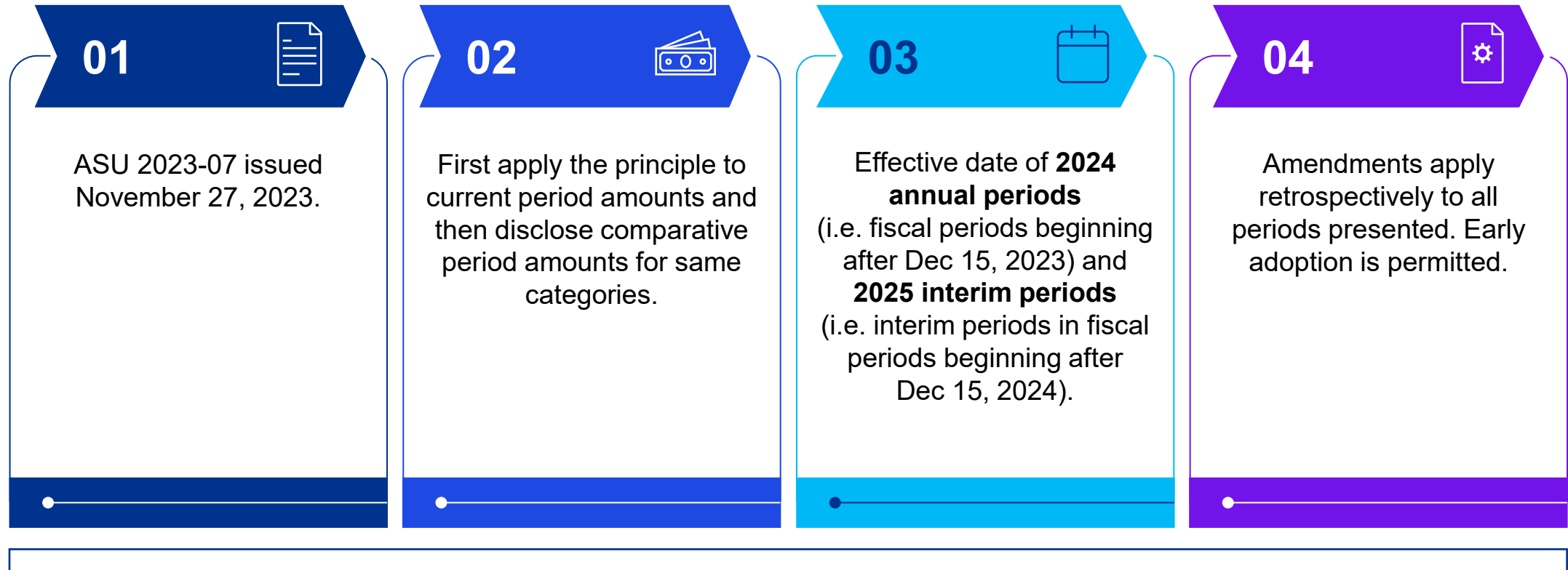
Single reportable segment entities

Non-GAAP measures of segment profit or loss:

Non-GAAP segment expenses

# ASU 2023-07: Implementation issues

# Segment reporting: Effective date and transition



# Overview of ASU 2023-07

## Require to disclose...

**Significant segment expenses** included within each reported measure of segment profit or loss.

**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.

**How the CODM uses the reported measure(s) of a segment's profit or loss** in assessing segment performance and deciding how to allocate resources.

All segments profit or loss and assets disclosures (including those introduced by the ASU) on an annual and **interim basis**.

## In addition...

Permit **multiple measures of a segment's profit or loss** under certain conditions.

Clarify **single reportable segment entities** must apply Topic 280 in its entirety.



# Top 5 implementation questions

1

What expenses are regularly provided to the CODM?

2

What is the required profit or loss measure?

3

Can I disclose additional segment measures?

4

Can I disclose non-GAAP expenses?

5

I have one reportable segment. How does this apply to me?

## 1

# What expenses are regularly provided to the CODM?

- “CODM gets the information but does not use it.”
- Electronic dashboards
- Expense information already made available outside the financial statements: call reports, regulatory information, etc.
- Expense variances and earnings bridges
- Ad hoc information

**01**

Regularly provided to the CODM

**02**

Or ‘Easily computable’ from that information

**03**

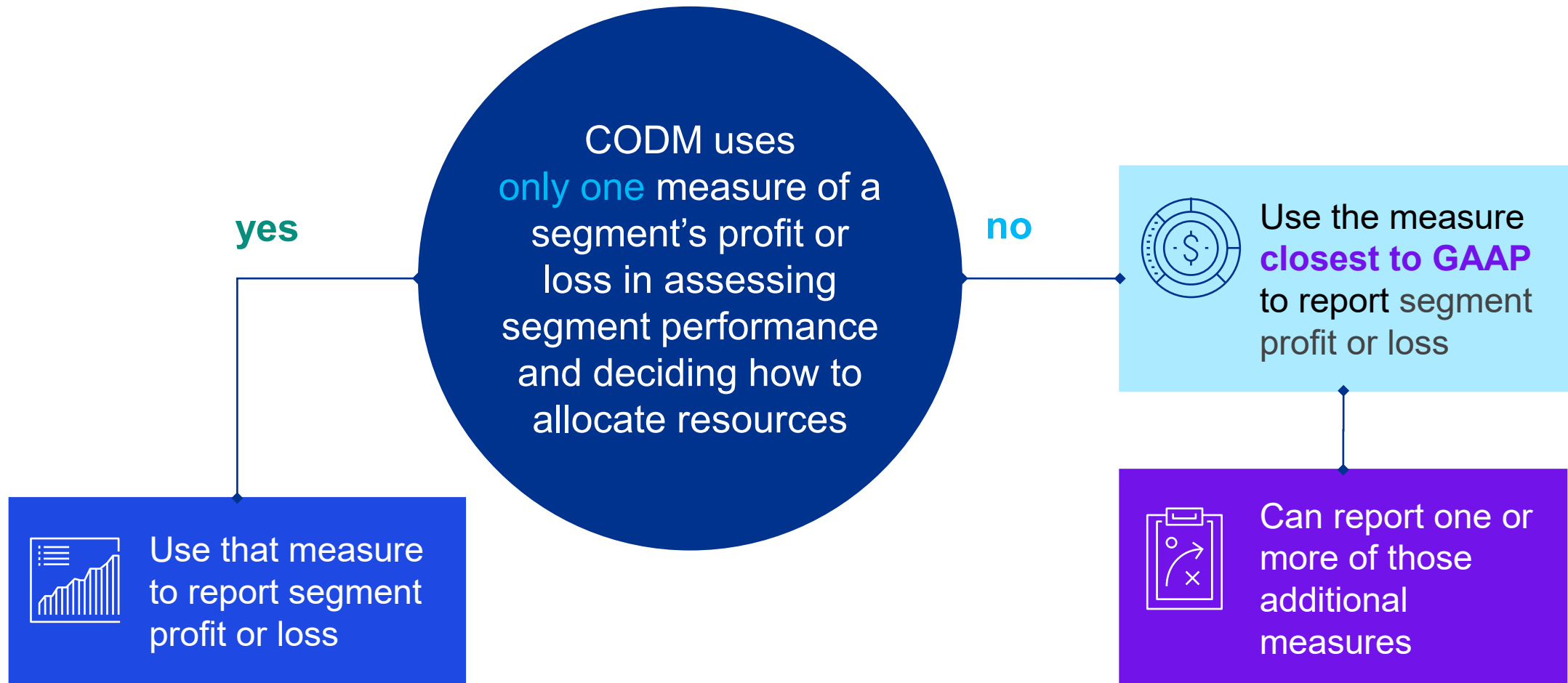
‘Significant’

**04**

Included in each reported measure of segment profit or loss

## 2

# What is the required segment profit or loss measure?



## 3

# Can I disclose additional segment profit or loss measures?

## Yes, but...

### Common segment profit or loss measures

- Gross margin (GAAP or adjusted)
- Operating profit (GAAP or adjusted)
- EBITDA

### Common adjustments

- Share based payments
- Acquisitions
- Restructuring
- Incidents (cyber, quality, litigations)

## SEC staff's view

- The *required measure* is not a non-GAAP measure even if prepared using GAAP principles.
- *Additional measures* are non-GAAP measures if they are not prepared using GAAP principles.
- The SEC staff will not object to additional non-GAAP measures of segment profit or loss being included in the notes 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 (Regulation G and Regulation S-K Item 10(e)).

## 4

# Can I disclose non-GAAP expenses?

**Yes, if that's the expense information received by the CODM**

## **Other information to consider**

- Clear labeling
- Qualitative disclosure
- Reconciliation to equivalent expense GAAP measure

## **SEC staff's view**

- Topic 280 does not require a significant segment expense to be calculated in accordance with GAAP.
- Other requirements may apply when an entity discloses a significant non-GAAP segment expense, to *avoid the information being misleading*.

## 5

# I have one reportable segment. How does this apply to me?

- Understand why one reportable segment:
  - Single operating segment, or
  - Multiple operating segments aggregated into one reportable segment?
- Any profit or loss measure besides net income is an additional measure
- All expenses provided to the CODM are disclosed if significant
- No need to duplicate information already provided in the income statement

## SEC staff's view

- When a single reportable segment entity is *managed on a consolidated basis*, the required measure of segment profit or loss is *consolidated net income*.
- When determining if an entity is managed on a consolidated basis, management should evaluate how budgets are prepared, resources are allocated and performance is assessed.
- 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.

# Illustration: Single reportable segment entity managed on a consolidated basis

## Important:

These may be different and/or more disaggregated than the entity's I/S line-item captions

	Software Segment
Revenue	\$ 81,800
Less:	
Employee expense	41,000
Contractor expense	15,000
Occupancy and equipment expense	8,400
Hosting and data center expense	1,500
Other professional services expense	750
Customer acquisition expense	800
Other segment items <sup>(a)</sup>	2,500
Depreciation and amortization expense	3,200
Interest expense	600
Income tax expense	2,000
Segment net income	6,050
Reconciliation of profit or loss	
Adjustments and reconciling items	-
Consolidated net income	\$ 6,050

(a) Other segment items included in Segment net income includes marketing expense, restructuring expense, foreign currency exchange gains and losses, and other overhead expense.

## New disclosure:

- Significant expense
- Amount of other segment items and description of its composition
- Specified amounts regularly provided to the CODM

# ASU 2024-03: Disaggregation of Income Statement Expenses



# Overview

## It does not ...

- Change the structure of the income statement
- Introduce new subtotals
- Define functions
- Change or remove existing disclosure requirements
- Provide full disaggregation of all income statement line items



### Objective

Improve decision usefulness of the income statement through disaggregated relevant expense captions in notes to financial statements



### Main provision

- Disaggregate inventory purchases, employee compensation, depreciation, amortization, and DD&A for each relevant expense caption



### Scope

- All public business entities



### Effective date

Three years (2027) with interim periods effective after first annual period



### Transition

- Prospective with option for retrospective application



### Annual and Interim

- Applies to annual and interim periods (except for selling expense description)



# Main provisions

01

## Required expense category

**Disaggregate any relevant expense caption that includes:**

1. Purchases of inventory
2. Employee compensation
3. Depreciation
4. Intangible asset amortization
5. DD&A for oil & gas/depletion expense for all other entities.

**Additional categories required:**

1. Other items
2. Changes in inventories
3. Other adjustments and reconciling items.

02

## Relevant expense caption

**Examples of relevant captions:**

- Costs of services
- Costs of goods sold
- Research & development
- Selling, general, and administrative expenses
- DD&A for oil & gas/depletion expense for all other entities

03

## Additional items

- One stop shop table
- Other category and reconciling items
- Selling expenses

04

## Basis of presentation

Option to disaggregate on either a **costs-incurred** or **expenses-incurred** basis for relevant expense captions that contain amounts recognized in line with Topic 330, *Inventory*.

# Disaggregation of CoGs

**Disaggregate CoGs into the following categories ...**

**Purchases of inventory**

**Employee compensation**

**Depreciation**

**Intangible asset amortization**

**DD&A or depletion expense**

**Other costs of goods sold**

**... and reconciling items (only relevant for costs-incurred approach)**

## **Changes in inventories**

Equals the difference between PY and CY balance sheets  
Could include adjustments for impairment charges related to inventories capitalized in prior periods

## **Other adjustments and reconciling items, for example:**

- Foreign currency translation
- Inventory derecognized that does not meet the definition of inventory expense (e.g., through deconsolidation)



# Examples of existing GAAP disclosures to be integrated in the one-stop shop table

## Include if recorded in any relevant expense caption



- Impairment loss related to intangible assets or long-lived assets classified as held and used
- Gains and losses on derivative instruments
- Bargain purchase gain in a business combination

## Include only if entirely recorded in one relevant caption



- Provision for expected credit losses
- Amortization/Impairment of costs to obtain/fulfill a contract with a customer
- Loss contingencies
- Warranty expense
- Foreign currency transaction gains or losses
- Operating or short-term lease cost

**This is not intended to add any disclosure requirements.**

# Example disclosures—Manufacturing

Entity XYZ

Consolidated statement  
of operations

For the year ended  
December 31, 20X3



Source: Proposed ASU Subtopic 220-40 and May 8, 2024 Board Handout

	20X3
<b>Revenues:</b>	
Products	\$ 82,144
Services	26,132
<b>Total revenues</b>	<b>108,276</b>
<b>Operating expenses:</b>	
Cost of products sold	63,456
Cost of services	10,496
Selling, general, and administrative	20,849
<b>Total operating expenses</b>	<b>94,801</b>
Operating income	13,475
Interest expense	4,971
Income before income taxes	8,504
Income tax expense	1,786
<b>Net income</b>	<b>\$ 6,718</b>

# Example disclosures—Manufacturing (continued)

## Disaggregation of relevant expense captions (costs-incurred basis)

	20X3
<b>Cost of products sold</b>	
Purchases of inventory	\$ 20,213
Employee compensation	17,578
Depreciation	10,190
Intangible asset amortization	3,914
Warranty expense	4,394
Other cost of products sold <sup>(a)</sup>	7,552
Changes in inventories	157
Other adjustments and reconciling items <sup>(b)</sup>	(542)
<b>Total cost of products sold</b>	<b>\$ 63,456</b>

Source: Proposed ASU Subtopic 220-40 and May 8, 2024 Board Handout

(a)

Other cost of products sold consisted primarily of amounts paid to carriers for freight services related to contract fulfillment, power, fuel, and other utility costs for the year ended December 31, 20X3

(b)

Other adjustments and reconciling terms consisted of reconciling adjustments attributable to differences in the foreign exchange rates used to translate beginning inventory, ending inventory, and costs incurred from various functional currencies into the reporting currency for the year ended December 31, 20X3. For the year ended December 31, 20X3, other adjustments and reconciling items also included the carrying amount of inventory sold to noncustomers in connection with a disposal transaction

# Example disclosures—Manufacturing (continued)

	20X3
<b>Cost of services</b>	
Employee compensation	\$ 6,598
Depreciation	763
Intangible asset amortization	642
Other cost of services <sup>(c)</sup>	2,493
<b>Total cost of services</b>	<b>\$ 10,496</b>
<b>Selling, general, and administrative</b>	
Employee compensation	\$ 13,242
Depreciation	1,454
PP&E impairment	412
Intangible asset amortization	523
Other SG&A <sup>(d)</sup>	5,218
<b>Total selling, general, and administrative</b>	<b>\$ 20,849</b>

Source: Proposed ASU Subtopic 220-40

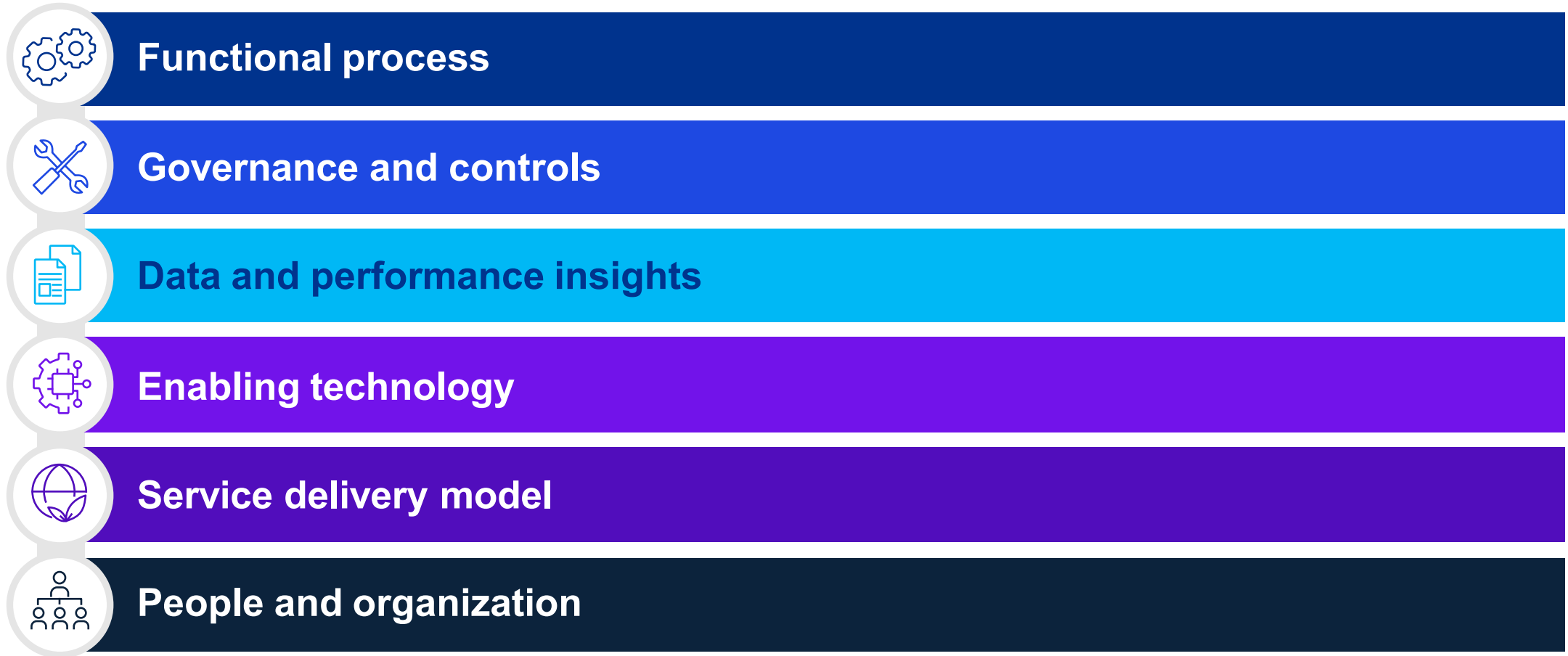
(c)

Other cost of services consisted primarily of operating lease and travel costs for the year ended December 31, 20X3.

(d)

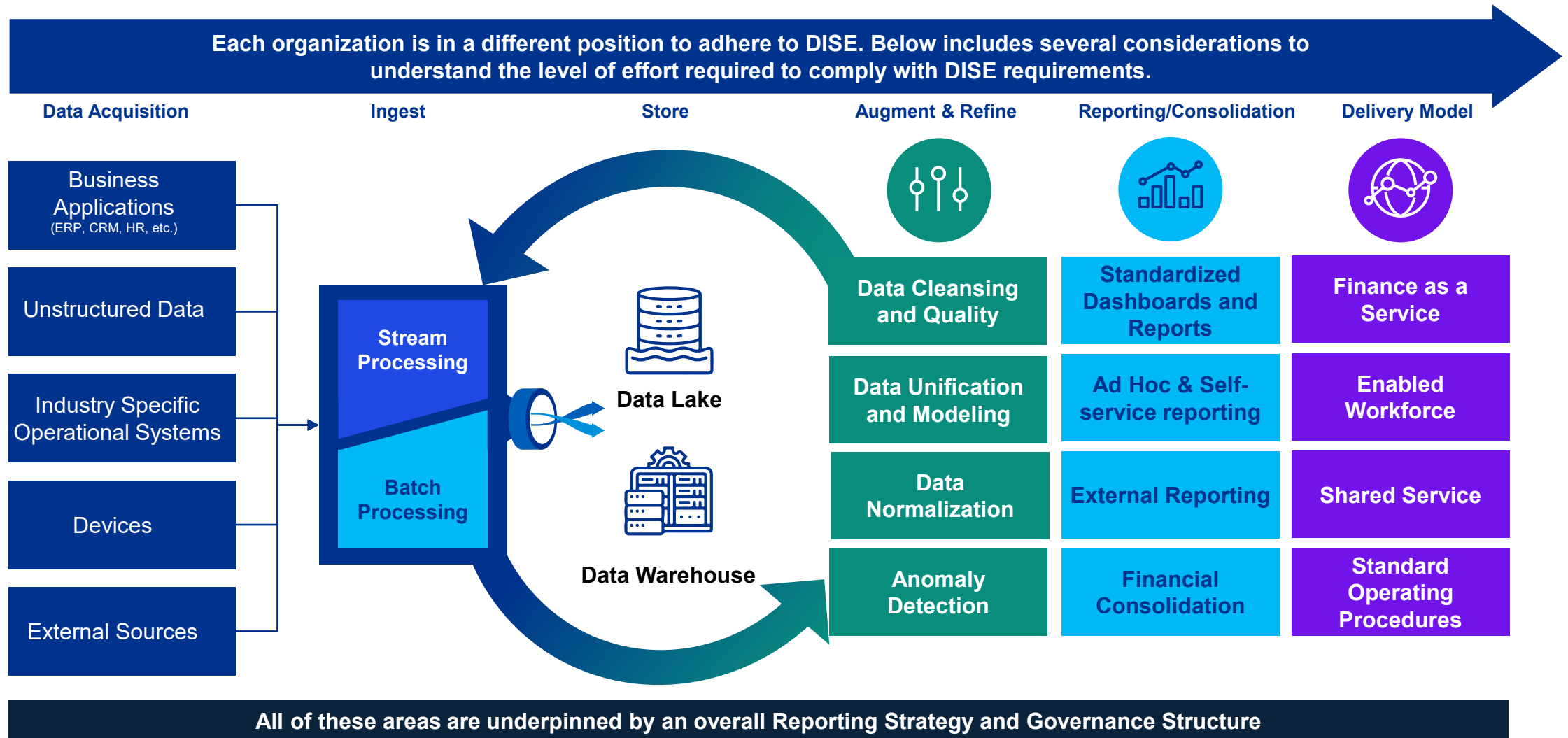
Other SG&A consisted primarily of professional services fees; operating lease expense; and the cost paid to third parties for printing, publications, and advertising for the year ended December 31, 20X3.

# The finance function must consider several dimensions as they implement DISE






# Where is your organization starting?



# Who needs to be engaged?

Although DISE is an accounting requirement, there are several areas of the organization that may be impacted and involvement should be considered

<b>Engage operations</b> (Finance Business Partners) 	<b>Incorporate FP&amp;A</b> (Corporate Planning) 	<b>Build the solution</b> (IT Finance) 	<b>Scale the delivery</b> (Service Delivery Model) 
<ul style="list-style-type: none"><li>• Strategic advisor to business and Function leaders</li><li>• Provides insights into data availability upstream</li><li>• Necessary to understand capability and accuracy of applicable incoming data sets</li><li>• Look to obtain investment beyond the finance / accounting organization</li></ul>	<ul style="list-style-type: none"><li>• Determine what planning is done today for the breakouts applicable to DISE</li><li>• If applicable, identify process updates required for additional planning activities</li></ul>	<ul style="list-style-type: none"><li>• Develop the design from source system to reporting output from a technical perspective</li><li>• Determine if data inputs provide reporting requirements or if additional logic is required for allocations</li><li>• Highlight the system mechanisms for controls to perform reconciliations</li></ul>	<ul style="list-style-type: none"><li>• Determine where the reporting, analysis and reconciliation activities will occur with the proper oversight</li><li>• Update Standard Operating Procedures</li><li>• Migrate towards a more streamlined model of delivery as the process matures.</li></ul>

FASB standard-  
setting update

# Accounting for government grants (FASB project)



## Model



Uses the main principles in IAS 20 with targeted improvements, including scope and recognition threshold



## Scope/definition of government grant



Includes transfers of monetary and tangible nonmonetary assets from a government to a business entity

## Recognition



Recognize a government grant when it is probable that



the entity will comply with the conditions attached to the grant

and

the grant will be received



**Grants related to assets**



**Grants related to income**

# Accounting for environmental credit programs (FASB project)

## Purpose



Provide guidance for participants in programs that result in the creation of environmental credits

## Scope



Environmental credit assets (EC)



Environmental credit obligations (ECO)

## Recognition



Recognized as an asset when it is probable that it will be used to settle an ECO, sold, or traded



Liability recognized when activities or events occurring on or before a balance sheet date indicate the existence of an ECO

## Measurement



Initially measured at historical cost



Subsequently measured based on how the entity will use the credit



Funded portion: carrying amount of EC



Unfunded portion: fair value of credits needed to settle obligation

# Accounting for internal use software

## Objectives:

To modernize the software cost accounting guidance in US GAAP and enhance the transparency of entities' accounting for those costs.

## Background:

- **On June 22, 2022, the FASB added a project to its technical agenda to:**
  - Modernize the accounting for software costs and
  - Enhance the transparency about an entity's software costs.
- **Scope of the project:**
  - Original: Recognition, measurement, presentation, and disclosure of costs to internally develop or acquire software, including internal- and external-use software.
    - *FASB considered two models for these changes (see next slide)*
  - Revised (3/20/24): Consider "Targeted improvements" to ASC 350-40 to better reflect agile software development and enhancements software development cost disclosures. The Board tentatively decided not to make any changes to entities' accounting under ASC 985-20.



# Targeted improvements to ASC 350-40

**Explicitly links ‘probable’ in the “probable to complete” capitalization threshold to the Master Glossary definition of ‘probable’.**

*It is not currently linked to the Master Glossary definition, and a different definition was referred to in SOP 98-1 so there is diversity in practice*

**Internal-use software cost capitalization would no longer consider project development “stage” (e.g. preliminary project stage vs. application development state); capitalization would consider only, and begin, when (1) management authorizes and commits to funding the project and (2) it is probable the project will be completed and the software used to perform the function intended (the “probable-to-complete threshold”).**

## Proposed Amendments

**New ASC paragraph would instruct entities to consider “significant development uncertainties” (e.g. novel, unique, unproven functions and features or technological innovations, and whether the entity has determined what software’s significant performance requirements) when assessing the probable-to-complete threshold.<sup>1</sup>**

**Require cash outflows for capitalized internal-use software costs (*which do not include capitalized cloud computing arrangement implementation costs*) to be separately presented within the investing section of the statement of cash flows.**

<sup>1</sup> Board members observed that the result of these amendments would likely be less cost capitalization by entities that develop software to sell to customers on a software-as-a-service (SaaS) basis, and potentially be more consistent with that of most entities that develop external-use software subject to ASC 985-20.

What questions  
do you have?

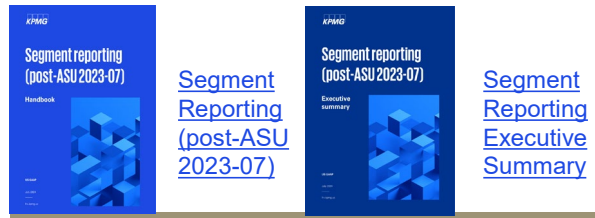


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