



# Segment reporting highlights for technology companies

Important disclosure considerations

January 2025



All public technology companies should be aware of the new disclosure requirements regarding segment reporting for the December 31, 2024 financial statements.

The Financial Accounting Standards Board (FASB) amended, in November 2023, the US generally accepted accounting principles (GAAP) requirements for disclosing segment information, known as Topic 280, through ASU 2023-07.

**This publication is intended to be a reminder as you prepare the required disclosures. In this publication, we cover:**

- 01** A reminder on changes introduced by Accounting Standards Update (ASU) 2023-07 and Securities and Exchange Commission (SEC) staff clarifications.
- 02** Challenges faced by technology companies, including the SEC's recent focus on segment reporting disclosures.
- 03** What companies can still do to ensure successful implementation of changes.

## 01 A reminder on changes introduced by ASU 2023-07

### 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 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.
- The **title and position of the CODM**.
- **How the CODM uses the reported measure(s) of a segment's profit** or loss to assess segment performance and decide how to allocate resources.
- On an **interim basis**, all segments profit or loss and assets disclosures currently required annually by Topic 280, as well as those introduced by the ASU.

### In addition...

- **Multiple measures of a segment's profit or loss** may be reported, as long as one is the measure most consistent with how corresponding amounts in the consolidated financial statements are measured.
- **Single reportable segment entities** must apply Topic 280 in its entirety.

## SEC staff's clarifications

The SEC has been particularly vocal about the new segment reporting changes since the issuance of the ASU, emphasizing their significance as well as providing clarifications at various American Institute of Certified Public Accountants (AICPA) conferences and other professional platforms. These discussions have highlighted the SEC's commitment to enhancing transparency and consistency in financial reporting, ensuring that stakeholders receive more detailed and relevant information. The SEC's active engagement in these forums underscores its dedication to fostering a robust dialogue with industry professionals, aiming to facilitate a smoother transition to the updated reporting standards and ultimately improve the quality of financial disclosures. Some of the highlights from those clarifications are below.

### 01 Can I disclose additional segment profit or loss measures?

Yes, but under certain circumstances, such as:

*Common segment profit or loss measures:*

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

*Commonly observed 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
  - 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).

### 02 Can I disclose non-GAAP expenses?

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

Other information to consider includes:

- Not materially misleading
- Clear labeling
- Qualitative disclosure

#### SEC staff's view

- Topic 280 does not require a significant segment expense to be calculated in accordance with GAAP.
- Other requirements, such as a reconciliation to the GAAP equivalent, may be necessary when an entity discloses a significant non-GAAP segment expense to *avoid the information from being misleading*.
- Non-GAAP measures should comply with both the provisions of ASC 280 as well as the SEC's non-GAAP rules (Reg G and Item 10(e) of Reg S-K).

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

- Understand why one reportable segment:
  - *Single operating segment*
  - *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, if identical.

### 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.

Other clarifications include:

- At the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments, the SEC staff indicated that because revenue from external customers is a specified amount defined in Topic 606 (revenue from contracts with customers), the disclosure of revenues from external customers under Topic 280 should be consistent with the defined amounts in Topic 606. The staff further noted that it has objected to amounts prepared under different measurement methods being referred to as segment revenue in the disclosure, even if they are regularly provided to the CODM. This is because those amounts are not consistent with the Topic 606 requirements about what comprises revenue from external customers.
- The SEC staff has also clarified the meaning of "regularly provided." *Quarterly is regularly; however, regularly could be less frequent.*

## 02 Challenges faced by technology companies, including the SEC's recent focus on segment reporting disclosures

A survey recently conducted by KPMG of our Technology industry clients indicated the following:

- 55% of the respondents reported that they made or plan to make changes to the CODM package as part of revisiting the information provided to the CODM in connection with the planned adoption of ASU 2023-07.
- 25% of the respondents said they have multiple operating segments that are aggregated into one or more operating segments.
- 55% of the respondents said they currently disclose a single reportable segment in notes to the financial statements.
- Employee and Technology expense were the two most commonly identified significant segment expense categories among others.
- 80% of the participants reported that they plan to disclose one measure of segment profit or loss, predominantly net or operating income/loss.

Technology companies often identify only one operating segment or aggregate their operating segments into one reportable segment due to the integrated nature of their products and services, customers, methods of distribution, etc.

- Appropriateness of segment aggregation is the second-highest theme of the SEC's comments on segment reporting disclosures.
- SEC staff expects to see changes in segments after certain events—e.g., acquisitions, disposals, organizational changes, changes in key personnel.
- SEC staff performs its review and will aggregate and triangulate public information—e.g., press releases, Form 8-K disclosures, company websites, earnings calls.

The SEC staff frequently questions registrants on how they have identified their operating segments and aggregated them into reportable segments, reflecting a significant interest in ensuring transparency and compliance with reporting standards. The SEC staff also scrutinizes the rationale behind aggregating multiple operating segments into a single reportable segment, seeking to confirm that such aggregation adheres to the quantitative and qualitative thresholds outlined in the relevant accounting standards as well as how the business is viewed by the CODM. This focus aims to prevent companies from oversimplifying their reporting at the expense of providing meaningful insights into their financial performance and operational dynamics.

Since January 2024, the SEC has issued **85 comment letters** across **43 companies**.

Common themes:

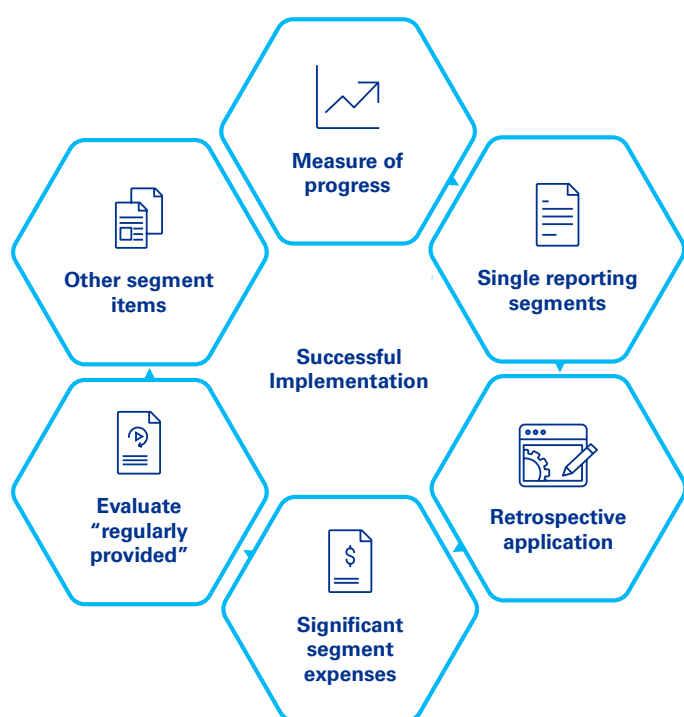
- Information reviewed by the CODM and its impact on segment determination
- Appropriateness and evidence supporting any segment aggregation
- Revenue and entity-wide segment information disclosures
- Reconciliation of segment data to consolidated balances
- Inconsistencies between other information communicated by the registrant (management’s discussion and analysis, earnings calls, or revenue disaggregation disclosures)

### Always remember

- Operating segments are identified in substantially the same manner as operating results are reported internally.
- The aggregation of operating segments is not required by GAAP but rather is voluntary. The SEC staff will remind a registrant of this during any comment letter process.
- Analysis of similarities and differences across segments must be supported by detailed and persuasive evidence.
- SEC staff will most likely request supporting documents—e.g., management package used by CODM or other accounting memorandum, and organizational charts.

## 03 What companies can still do to ensure a successful implementation

Risks associated with the new requirements might not be addressed by the entity’s existing controls and will require careful risk assessment and timely implementation and testing of internal controls:



As companies are in their final stages of the implementation of ASU 2023-07, it is crucial to adopt a strategic approach to ensure a smooth transition and robust compliance. By proactively addressing these areas, companies can mitigate potential challenges and ensure a seamless adoption of ASU 2023-07.

Other considerations to ensure success;

- Involve key stakeholders early in the process, including preparers and reviewers of the disclosure, internal and external auditors, and senior leadership.
- Achieving alignment on the risk of material misstatements and internal controls scoping with both internal and external auditors is crucial.
- Accelerate the preparation of disclosures and do not wait until the draft financial statements are prepared.
- Expedite internal controls testing by both internal and external auditors.
- Critically evaluate the use of information in the controls, as this is a common area of control deficiencies.
- Ensure that the ICFR and disclosure controls and procedures are appropriately designed for segment disclosures.

## KPMG Resources

For more guidance on segment reporting, we recommend the following KPMG reports as a starting point:

- Hot Topic: Segment reporting—Important SEC clarifications<sup>1</sup>
- Handbook: Segment reporting<sup>2</sup>
- Defining Issues: SEC's Corp Fin explains its priorities and concerns<sup>3</sup>
- Defining Issues: FASB issues ASU requiring new segment disclosures<sup>4</sup>
- Issues In-Depth: Non-GAAP financial measures<sup>5</sup>

## KPMG Financial Reporting View

Insights for financial reporting professionals.

Delivering guidance, publications and insights, KPMG Financial Reporting View is ready to inform your decision-making. Stay up to date with our books, newsletters, articles, podcasts, and webcasts.

Visit [kpmg.com/us/en/frv.html](https://kpmg.com/us/en/frv.html) for news and analysis of significant decisions, proposals, final standards, and trending issues.

## Contact us



**Katherine Hilkemeyer**  
**Audit Sector Leader, Technology**  
**KPMG LLP**  
T: 415-963-7462  
E: [khilkemeyer@kpmg.com](mailto:khilkemeyer@kpmg.com)



**Kyle Schlumpf**  
**Audit Managing Director**  
**KPMG LLP**  
T: 415-963-5585  
E: [kschlumpf@kpmg.com](mailto:kschlumpf@kpmg.com)



**Ali Vapra**  
**Audit Managing Director**  
**KPMG LLP**  
T: 862-252-4860  
E: [avapra@kpmg.com](mailto:avapra@kpmg.com)

<sup>1</sup>Hot Topic, Segment reporting—Important SEC clarifications, KPMG LLP, August 2024, Updated November 2024.

<sup>2</sup>Handbook: Segment Reporting, KPMG LLP, July 2024

<sup>3</sup>Defining Issues: SEC's Corp Fin explains its priorities and concerns, KPMG LLP, December 2023

<sup>4</sup>Defining Issues: FASB issues ASU requiring new segment disclosures, KPMG LLP, December 2023

<sup>5</sup>Issues In-Depth: Non-GAAP financial measures, KPMG LLP, February 2018

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

Learn about us:



[kpmg.com](https://kpmg.com)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2025 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. USCS023423-3A