Corporate Controller & CAO Hot Topics

Segment Reporting and DISE

New FASB standards updates around segment reporting and disaggregation of income statement expenses (DISE) are top of mind for Corporate Controllers and CAOs.

Key questions center on the appropriate level of information to share, how to compile it, and what new controls, processes or systems may be necessary. As it is still early stages for companies, leaders are trialing different measures to provide a complete view of financials to meet the new standards.

Both standard updates share the common goal of expense disaggregation—segment reporting focuses on how management operates the business, whereas DISE introduces much more prescriptive rules about how expenses have to be disaggregated. Companies are taking many different approaches to how they are reporting internally, leading to great diversity in segment disclosures: some are providing a more granular level of detail, while others are opting to give more high-level, general disclosures. Different effective dates are also dictating approaches and progress—while disaggregation of segment expenses is effective for 12/31/2024 10Ks for calendar-year companies, DISE doesn't go into effect until 2027.

Baseline data suggests that very few companies are disclosing zero significant segment expenses. How companies are choosing to measure and report their financials can be very sector and industry specific. However, regardless of industry, questions abound around which information the chief operating decision maker (CODM) needs, what level of estimation is acceptable, and how best to keep various stakeholders in the loop.

Given how closely KPMG works with many of the world's leading organizations, we have unique insights into how finance leaders are approaching these topics. Below are a few areas that Corporate Controllers and CAOs are focused on as they adapt to the new regulations.

Segment reporting

For many years, segment reporting has been an area of continued focus for the SEC and for finance leaders alike. However, disclosing segment expenses comes with new challenges, specifically striking the right level of detail to ensure compliance with the new requirements without sharing too much. Many finance leaders struggle to identify the information that the CODM is regularly provided with at the segment level, as this forms the basis for the disclosure. While everyone uses the term "regularly provided," there isn't a commonly shared understanding as it can be highly subjective and reliant on judgment.

With many of the new reporting requirements still being tested, executives are determining what information should be "regularly provided" versus "accessible". In many cases, the company's CEO is the CODM and theoretically has access to all of the information available for the company. While financial leaders aren't in a position to limit what the CEO/CODM has access to see, they are implementing processes and controls with their teams to determine what data are relevant and important for the CODM to exercise its decision-making authority versus what information is not necessary for the CODM to see.

Companies are expending significant resources to educate their teams on the new FASB standard and making sure they are in compliance. Some are doing all-out education campaigns with internal "road shows" while others have created specific protocols around reporting to the CODM. Some companies are sharing information with their CODM with an eye toward what they want to disclose to investors and the general public, to ensure the format and granularity of these disclosures will be understandable and relevant to those audiences. Part of that aim includes putting together comparable information for prior periods.

Many preparers didn't understand just how challenging segment reporting would be until they started to prepare their own mock disclosures. It's expected that the lay-out of the disclosures and structure of reconciliation tables will evolve over time as the SEC expresses comments or best practices form. For single reportable segment entities, it's proven difficult to determine the appropriate measure of segment profit or loss to report. While the SEC has advised that single reportable segment entities should use consolidated net income, many claim that they use different profit or loss measures to manage the business, such as adjusted EBITDA.

The FASB standard now explicitly permits to report more than one segment profit or loss measure. This has opened the door to reporting non-GAAP measures in the financial statements. However, the SEC has always maintained rigid rules promoting only disclosure of the measure most consistent with GAAP. Therefore, there is a range of comfort-levels with this, and company leaders are concerned about how any non-GAAP measure might be received by the SEC. As a result, leaders who use non-GAAP measures are taking care to explain and rationalize how they got to the segment numbers that they report.

DISE

The FASB issued the DISE standards update last November, requiring companies to breakdown their income statement expenses line items into prescribed natural expense category (e.g. purchases of inventory, employee compensation, depreciation, amortization). Given the recency of the update, many companies haven't been able to examine it thoroughly to this point. However, at first pass, disaggregating expenses appears much more complex for companies that carry or manufacture inventory, such as consumer packaged goods or auto parts suppliers. Other industries, such as insurance or professional services primarily have employee expenses, which can be easier to track.

Reporting for DISE could conceivably require companies to overhaul their enterprise resource planning (ERP) accounting systems—not a small matter because those kinds of technology upgrades and transformations comprise a significant share of finance budgets. There is a resistance toward doing complete system reconfigurations given the cost and time involved with such projects.

Either way, many are looking into remapping their charts of accounts and planning to rely heavily on estimates and allocation methods, since the FASB has allowed for reasonable estimates and allocations methods to be used, where more precise tracking isn't available. Part of the challenge with using estimates, however, is that expenses aren't static. Rather, they may change from quarter to quarter and month to month. With respect to disclosing purchases of inventory, the thinking seems to have evolved over the past few months. Some companies that were initially planning to use a cost-incurred approach are now leaning toward using estimates to report under an expenses-incurred approach.

In addition, leaders are trying to determine what reporting mechanism they need to use, and at what time intervals. Many companies don't have data systems that are set up to do newly required kinds of reports. Because of the nature of their businesses, companies that carry large inventories are generally set up to report on their financials on a monthly basis, and many have a monthly call reporting those numbers. As a result, they are building out processes to produce disaggregated expense information on a monthly basis. Others, which have expenses mostly related to payroll and service vendors, may develop estimates on a quarterly basis only.

Beyond the data challenge, DISE creates an equally important communications challenge. Many C-Suite leaders, board members and investors are taking a keen interest in the information that will start being reported externally in 2027 for calendar year-end companies. Financial leaders are working to educate these stakeholders about the numbers, and how they are being tracked to anticipate additional demands and questions. For example, even though DISE is prospective, stakeholders may want to see historical data. Financial leaders therefore acknowledge that there may be a need to be able to produce this information, at least for internal purposes. Some are exploring whether to also voluntarily disclose comparative information. Given the added pressure on the timeline this creates collaboration across the all department including Investors Relations is key.

Ultimately, the goal is about structuring financial data for long-term efficiency to be able to comply with the new disclosure requirements. As it is still early in terms of DISE, companies have time to fully review the update and develop the appropriate processes for compliance.

Regardless of industry sector, DISE and segment reporting present new challenges for finance leaders. Increased scrutiny on reporting is expected from the SEC, so leaders must push ahead even amidst questions, making their best efforts to meet expectations and comply. With numerous approaches seemingly available, it will take time and trialing for companies to determine the best processes for their industries and businesses.

Resources

Rolling the DISE

Rolling the DISE: FASB issues final ASU

Handbook: Segment reporting

SEC staff clarifies segment reporting disclosures

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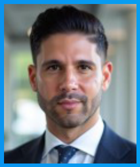

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