

# Snapshot

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## FASB expands segment disclosure requirements

The FASB recently [issued](#) ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, to expand the disclosures for reportable segments made by public entities. The amendments were prompted by stakeholders' requests for more detailed information about expenses within each reportable segment and address the disclosure requirements in ASC 280.

The amendments retain the existing disclosure requirements in ASC 280 and expand upon them to require public entities to disclose significant expenses for reportable segments in both interim and annual reporting periods, as well as items that were previously disclosed only annually on an interim basis, including disclosures related to a reportable segment's profit or loss and assets. In addition, entities with a single reportable segment must now provide all segment disclosures required in ASC 280, including the new disclosures for reportable segments under the amendments in ASU 2023-07. The amendments do not change the existing guidance on how a public entity identifies and determines its reportable segments.

### Requirement to disclose significant segment expenses

The key change from the current segment guidance is the requirement to disclose "significant" segment expenses. The amendments create a "significant expense principle" that requires significant categories of expenses to be disclosed for reportable segments. "Significant segment expenses" are significant expense categories and amounts that are regularly provided to

the Chief Operating Decision Maker (CODM) and are included in each reported measure of a segment's profit or loss. When determining which of those segment expense amounts should be disclosed, entities need to identify expenses from the segment-level information regularly provided to the CODM and to disclose those categories and amounts that are "significant." When evaluating the segment expense information provided to the CODM for significance, entities should also evaluate whether any expense information that is easily computable from the information regularly provided to the CODM is significant and, if so, disclose that information as well.

For example, if the information provided to the CODM includes revenues and gross margins, an entity can easily compute the cost of goods sold from the information provided and should disclose this information as a significant expense category if it is considered significant. This practice also applies to certain metrics (for example, a ratio or an expense as a percentage of revenue) provided to the CODM. If revenues and warranty expense expressed as a percentage of revenues are reviewed by the CODM, then warranty expense could be easily computed based on the percentage of revenue and should be disclosed as a significant expense category if it is considered significant.

The principle also applies to corporate overhead allocated by segment. For example, an entity should disclose an expense category and the amount of corporate overhead allocated to a reportable segment that is significant if the corporate overhead category and allocations are part of the segment information

regularly provided to the CODM and are included within the measure of segment profit or loss.

The concept of *significant* is currently used within ASC 280 when, for example, an entity considers additional significant noncash items to disclose for a reportable segment and which reconciling items to disclose when reconciling certain segment information to arrive at consolidated amounts. The application of the concept of *significant* to expenses to be disclosed is consistent with how entities currently use judgment to apply the concept of significant in ASC 280, although the word *significant* itself is not defined by the amendments or in ASC 280.

### Grant Thornton insight

Public entities need to use judgment in applying the terms “significant,” “easily computable,” and “regularly provided” when making their segment disclosures.

Although the term “significant” is not explicitly defined in ASC 280 or by the amendments, entities are expected to apply the significance threshold in a similar manner to how the threshold is currently applied elsewhere in ASC 280. The amendments in ASU 2023-07 require a public entity to consider both quantitative and qualitative factors when assessing significance, so entities need to apply consistent judgments, policies, processes, and controls when determining which expenses are considered significant.

In addition, the term “easily computable” is also not clearly defined in ASC 280, so entities need to use judgment in determining whether amounts are easily computable by the CODM based on information and metrics provided to the CODM.

Finally, the term “regularly provided” is not a new concept in ASC 280. Public entities should continue to assess and apply judgments related to that term as it has been historically used under ASC 280.

### Insight from 2023 AICPA & CIMA conference

At the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments, SEC Division of Corporation Finance (CorpFin) Deputy Chief Accountant Melissa Rocha shared the staff’s views on what constitutes “regularly provided” or “regularly reviewed” in the context of determining operating segments and the information that must be disclosed under ASC 280. The staff clarified that, ordinarily, information provided to, or reviewed by, the CODM on a quarterly basis

constitutes “regularly” provided or reviewed. However, Ms. Rocha cautioned that information reviewed less frequently may still constitute “regularly reviewed” based on individual facts and circumstances.

A public entity must also disclose *other segment items*, which is the amount needed to reconcile segment revenues, less categories of significant expenses disclosed, to the segment profit or loss measures. A qualitative description of the expense items that comprise the other segment items must also be disclosed.

## Annual segment disclosures now apply to interim periods

The amendments require all annual disclosures about a reportable segment’s profit or loss and assets to now be disclosed for interim periods. This includes existing disclosures required by ASC 280-10-50-22 through 50-25 (that is, total assets, depreciation, and amortization, among other items), as well as the new disclosures required by the amendments in ASU 2023-07, including the significant expense disclosures.

## Entities with one reportable segment

Historically, public entities with a single reportable segment have not always provided all of the ASC 280 disclosures for that reportable segment. Public entities that have a single reportable segment are now required to provide on both an interim and annual basis all the disclosures required by ASC 280, including those added by the amendments in ASU 2023-07.

## Disclosure of non-GAAP financial measures

If the CODM uses multiple measures of a segment’s profit or loss, the measure that is most consistent with the measurement principles under U.S. GAAP must be disclosed. The new guidance explicitly permits, but does not require, the disclosure of additional measures of profit or loss if utilized by the CODM. A measure of profit or loss that is not utilized by the CODM may not be disclosed. If more than one measure is disclosed, all disclosure requirements, including significant segment expenses and reconciliations to consolidated income amounts, are required for each measure.

### Insight from 2023 AICPA & CIMA Conference

At the 2023 AICPA & CIMA Conference, Lindsay McCord, CorpFin Chief Accountant, emphasized that registrants are allowed, but not required, to disclose these additional measures of segment profitability and that, pursuant to Item 10(e)(5) of Regulation S-K, these measures are considered to be non-GAAP financial measures if they are not computed in accordance with U.S. GAAP. Ms. McCord reminded registrants to ensure that such measures comply with the requirements of Regulation G and are not misleading. Further, registrants are expected to provide additional disclosures required for non-GAAP financial measures by S-K Item 10(e) in their filings. Registrants that intend to early adopt the amendments to ASU 2023-07 and to disclose such additional measures were encouraged to consult with the staff of CorpFin's Office of the Chief Accountant.

For an entity with one reportable segment, the CODM may use a profit or loss measure that is not presented in the entity's consolidated income statement, and this additional measure must also be disclosed.

### Insight from 2023 AICPA & CIMA conference

The guidance notes that a public entity's single operating segment may constitute less than all of the total consolidated entity if, for example, the entity has a corporate headquarters or functional departments that are not part of the operating segment and not regularly reviewed by the CODM. Alternatively, an operating segment may constitute the entirety of the consolidated entity.

The OCA staff shared their view at the 2023 AICPA & CIMA conference: For a public entity with a single operating segment that constitutes the entirety of the consolidated entity, the measure of segment profit or loss that is regularly reviewed by the CODM and prepared in accordance with U.S. GAAP is expected to be net income, as the CODM would be expected to also review the quarterly consolidated GAAP financial statements. A public entity intending to early adopt the amendments in ASU 2023-07 that reaches a different conclusion is encouraged to consult with OCA staff.

## Other disclosure requirements

The amendments also require the following additional disclosures for public entities with one or more reportable segments:

- The title and position of the CODM.
- If more than one measure of profit or loss for a segment is disclosed in the current period, the additional measure must be disclosed for prior periods if it was provided to the CODM in prior periods. If the additional measure was not provided to the CODM in prior periods, the prior period disclosure is optional.
- How the CODM assesses segment performance and allocates resources using the reported measures of segment profit and loss, as illustrated in an example in ASC 280-10-55-47(bb).
- Significant changes in methods to allocate or measure expenses used to determine segment profit or loss must be disclosed.

## Effective date and transition

The amendments in ASU 2023-07 are effective for annual periods for all public entities in fiscal years beginning after December 15, 2023, and in interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted.

The amendments should be applied retrospectively for all prior periods presented unless retrospective presentation is impracticable. Prior period disclosures should be based on the significant segment expense categories identified by a public entity in the current year of adoption. If recasting the segment expense categories in prior periods based on the current year expense classification is impracticable, public entities may present significant expense categories for prior years based on prior year classifications.

At the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments, CorpFin staff reminded registrants to also provide transition disclosures related to the adoption of the amendments in ASU 2023-07 that are required by SEC Staff Accounting Bulletin 74 Topic 11.M, *Disclosure of the Impact that Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant when Adopted in a Future Period*.

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