

Snapshot

SNAPSHOT 2023-13

UPDATED SEPTEMBER 24, 2024

FASB expands segment disclosure requirements

SEC staff shares additional views on amendments in ASU 2023-07

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

This Snapshot also summarizes views expressed by the SEC staff at the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments and, since its initial publication, has been revised to include additional views about the amendments expressed by the SEC staff in subsequent discussions.

Disclosure of multiple measures of segment profit or loss

The amendments in ASU 2023-07 permit, but do not require, entities to disclose more than one measure of segment profit or loss, provided each measure presented is regularly reviewed and used by the Chief Operating Decision Maker (CODM) to allocate resources and assess the performance of the related segment. A measure of profit or loss that is not utilized by the CODM to evaluate a given reportable segment may not be disclosed in relation to that reportable segment.

If a CODM uses multiple measures of a segment's profit or loss, the measure that is most consistent with the measurement principle under U.S. GAAP must be disclosed. If more than one measure is disclosed, all disclosure requirements, including disclosing significant segment expenses (SSEs—see "Requirement to disclose significant segment expenses" section) and reconciling each measure of segment profit or loss to consolidated income amounts, are required for each measure.



Grant Thornton insight: Disclosure of multiple measures of segment profit or loss

Applying the SEC’s non-GAAP rules to disclose additional measures of segment profit or loss

At the 2023 AICPA & CIMA Conference, Lindsay McCord, who was then Chief Accountant of the SEC’s Division of Corporation Finance (CorpFin), emphasized that under the amendments in ASU 2023-07, entities are allowed, but are not required, to disclose additional measures of segment profitability and that, pursuant to Item 10(e)(5) of SEC Regulation S-K, these voluntarily disclosed additional measurements are considered to be non-GAAP financial measures if they are not computed in accordance with U.S. GAAP. Ms. McCord reminded entities to ensure that such measures comply with the requirements of SEC Regulation G and are not misleading. Further, entities are expected to provide additional disclosures for non-GAAP financial measures as required by S-K Item 10(e) in their filings.

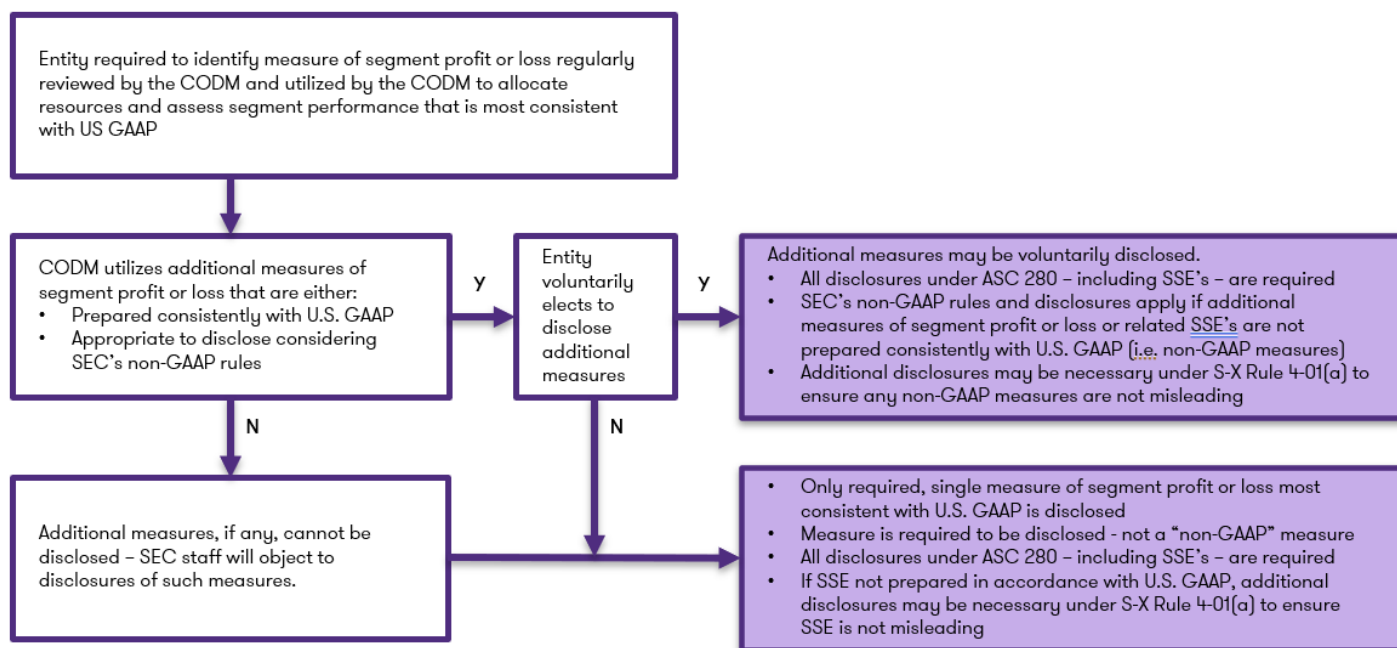
The measure of segment profit or loss regularly reviewed by the CODM that is most consistent with the measurement principles in U.S. GAAP, however, is *not* considered a non-GAAP financial measure because it is required to be disclosed by U.S. GAAP (specifically, the existing requirements of ASC 280).

For additional considerations related to the disclosure of non-GAAP measures, refer to the “Interaction of segment disclosures and SEC’s non-GAAP rules” section.

Are entities permitted to use different measures of segment profitability for different reportable segments?

Yes. Based on discussions with the SEC staff, we understand that entities are permitted to use different measures of segment profitability for each reportable segment.

The following flowchart summarizes matters that entities should consider when electing to disclose multiple measures of segment profit or loss and associated SSEs based on the amendments in ASU 2023-07 and on views expressed by the SEC staff.



Requirement to disclose significant segment expenses

A key change introduced by the amendments in ASU 2023-07 is the requirement to disclose SSEs. The amendments create a “significant expense principle” that requires an entity to evaluate each disclosed measure of segment profit or loss presented for SSEs. An SSE is a category of expenses and amounts regularly provided to the CODM that is included in the calculation of each reported measure of a segment’s profit or loss. Entities need to identify categories of expenses and amounts from the segment-level information regularly provided to the CODM and to disclose those expense categories and amounts as SSEs if the amounts are deemed “significant.” The categories of expense and amounts to be evaluated for disclosure as SSEs also include segment-level expense information that is “easily computable” from the information regularly provided to the CODM (see “Identifying SSEs” shaded box for more discussion).

For example, if the information provided to the CODM includes revenue and gross margin, an entity can easily compute the cost of goods sold based on that information and should therefore evaluate whether the cost of goods sold is an SSE. This practice also applies to certain metrics (for example, a ratio or an expense as a percentage of revenue) provided to the CODM. For instance, if revenues and warranty expenses 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 evaluated for disclosure as an SSE.

The significant expense principle also applies to corporate overhead allocated by segment. For example, an entity should evaluate the amount of corporate overhead allocated to a reportable segment for disclosure as an SSE 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.

Under the amendments, entities should consider both qualitative and quantitative factors in determining whether an expense regularly provided to the CODM that is also included in each measure of segment profit or loss is considered to be “significant.” 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 items to disclose when reconciling certain segment information to arrive at consolidated amounts. Applying the concept of significance to determine SSEs is intended to be consistent with how entities currently use judgment to apply the concept of significance in ASC 280, although the word “significant” itself is not defined by the amendments in ASU 2023-07 or in ASC 280.

Management must exercise judgment in determining the significance of expense categories and amounts, and should reevaluate its determination as facts and circumstances warrant. Additionally, entities are reminded that significant expenses may vary across individual reportable segments.



Grant Thornton insight: Identifying SSEs

What constitutes ‘regularly provided’?

At the 2023 AICPA & CIMA Conference, CorpFin Deputy Chief Accountant Melissa Rocha shared the SEC staff’s views on what constitutes “regularly provided” or “regularly reviewed” within the context of determining operating segments and 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 the individual facts and circumstances of each scenario.

When is a segment expense regularly reviewed by the CODM considered ‘significant’?

Public entities need to use judgment in applying the term “significant” when making their segment disclosures.

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

Factors that may be considered in evaluating significance include, but are not limited to, the following:

- Whether an expense impacts trends within the segment
- Whether management believes an expense is important to current or future segment profitability
- Whether the expense is regularly discussed in communications with investors and analysts

When is an amount ‘easily computable’?

In addition, the term “easily computable” is also not clearly defined in the amendments, so entities need to use judgment in determining whether amounts are easily computable by the entity based on information and metrics provided to the CODM. We believe amounts that can be determined by using simple addition or subtraction, or by applying a rate or percentage that is regularly reviewed, to amounts that are regularly provided to the CODM are all considered to be easily computable measures.

Are entities permitted to disclose an expense that is not calculated in accordance with U.S. GAAP as a significant segment expense under ASC 280?

Yes. The amendments in ASU 2023-07 do not require SSEs to be computed in accordance with U.S. GAAP. In discussions, the SEC staff has indicated that they will not object to the disclosure of significant expenses that are not calculated in accordance with U.S. GAAP, provided such measures are not misleading, considering the requirements in Rule 4-01(a) of Regulation S-X.

For additional consideration related to the disclosure of non-GAAP measures, refer to the “Interaction of segment disclosures and SEC’s non-GAAP rules” section.

Other segment items

Under the amendments in ASU 2023-07, an entity must also disclose “other segment items,” which is the amount needed to reconcile segment revenues, less categories of significant expenses disclosed, to a given segment measure of profit or loss. A qualitative description of the expense items that comprise the other segment items must also be disclosed. This disclosure is required for all reportable segments, including those for which no SSEs are disclosed because no expenses within the reportable segment met the significance criteria.

Interaction of segment disclosures and SEC's non-GAAP rules

The segment disclosure requirements under ASC 280 are premised on a “management view” approach, requiring disclosure of certain amounts regularly reviewed by an entity’s CODM. However, a CODM may review amounts that are not determined in accordance with U.S. GAAP which may be considered “non-GAAP financial measures.”

Regulation G and Item 10(e) of Regulation S-K define a “non-GAAP financial measure” as a numerical measure of historical or future performance, financial position, or cash flow, which either excludes items that are included in the most directly comparable GAAP measure or includes items that are excluded from the most directly comparable GAAP measure. Further, S-K Item 10(e)(5) states that non-GAAP financial measures “exclude financial measures required to be disclosed by GAAP, Commission rules, or a system of regulation of a government or governmental authority or self-regulatory organization” that applies to the entity. However, S-K Item 10(e)(5) continues, the financial measure “should be presented outside of the financial statements unless the financial measure is required or expressly permitted by the standard-setter that is responsible for establishing the GAAP used in such financial statements.”

As a result of this SEC guidance, entities are permitted to disclose non-GAAP financial measures in SEC filings and in other materials presented to investors, as long as all of the following conditions are met:

- Such measures are not misleading;
- The most directly comparable GAAP measure is presented with equal or greater prominence;
- A reconciliation of the non-GAAP financial measure to the comparable GAAP measure is presented; and
- Management discloses the reasons why it believes that presenting a non-GAAP financial measure provides useful information to investors about the entity’s financial condition and results of operations.

Based on our subsequent discussions with the SEC staff, we understand that the staff would not object to the inclusion of additional measures of segment profit or loss that are not prepared in accordance with GAAP in the financial statements, provided that such measures comply with the preparation and disclosure requirements in ASC 280 and with the SEC’s non-GAAP rules. Further, when including non-GAAP measures in the financial statements under the amendments in ASU 2023-07, entities must consider the guidance in Rule 4-01(a) of Regulation S-X, which states that “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 light of the circumstances under which they are made, not misleading.”

Section 100 of CorpFin’s Compliance and Disclosure Interpretations (C&DIs), *Non-GAAP Financial Measures*, contains additional guidance and examples of cases where non-GAAP measures could be considered misleading to investors. The C&DIs clarify that the SEC staff will ordinarily object to or seek information about the appropriateness of the use of non-GAAP financial measures that exhibit, among other things, any one of the following characteristics:

- Reflect individually tailored accounting principles;
- Remove from a performance measure normal, recurring, cash operating expenses necessary to operate the business;
- Exclude from the performance measure nonrecurring charges but not nonrecurring gains;
- Do not present the performance measure consistently from one reporting period to another;

- Do not present the tax effects of the related adjustments if applicable; or
- Are labeled inappropriately or are not clearly described.

The SEC staff has previously noted that a non-GAAP measure could be misleading even if accompanied by extensive and detailed disclosures about the nature and impact of each adjustment.



Grant Thornton insight: Location of the disclosures required by the SEC's non-GAAP rules

Are entities required to duplicate within the financial statements any disclosures related to non-GAAP financial measures that are presented outside the financial statements?

Based on discussions with the SEC staff, we understand that there is no requirement to include additional disclosures provided pursuant to SEC's non-GAAP rules in the financial statements. Such disclosures could be presented outside the financial statements, such as in Management's Discussion and Analysis (MD&A). If such disclosures are included outside the financial statements, entities are not required to duplicate them within the financial statements. As a reminder, entities should not cross-reference within the financial statements any information that is presented outside the financial statements, as this is expressly prohibited under SEC regulations. Similarly, ASC 280 and its amendments do not require entities to repeat non-GAAP disclosures outside the financial statements.

Annual segment disclosures now apply to interim periods

The amendments in ASU 2023-07 require generally all annual disclosures about a reportable segment's profit or loss and assets to now be disclosed for interim as well as annual 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 the disclosures required by ASC 280, including those added by the amendments in ASU 2023-07.



Grant Thornton insight: Applying the amendments to single segment entities

Can an entity with a single operating segment be managed by the CODM on a basis other than consolidated?

Yes. However, the determination depends on a careful consideration of all pertinent facts and circumstances. An entity should first consider the guidance in ASC 208-10-55-15D, which addresses situations in which a single reportable segment constitutes part, but not all, of the consolidated entity. An entity may have a single reportable segment that excludes certain assets and operations if they are not regularly reviewed by the CODM. However, based on discussions with the SEC staff, we understand that the mere exclusion of a corporate headquarters or a certain functional department from a measure of profit or loss reviewed by the CODM would not be determinative as to whether an entity is managed on a consolidated basis.

When evaluating whether a single segment entity whose single segment excludes certain assets or operations is nonetheless managed on a consolidated basis, the entity should consider the guidance in ASC 280-10-50-4 in addition to other factors, such as how the CODM prepares budgets, allocates resources, and assesses performance.

May an entity managed on a consolidated basis present a measure of segment profit or loss other than consolidated net income or loss?

Yes. While ASC 280 continues to require entities to disclose the segment performance measure closest to U.S. GAAP, the amendments under ASU 2023-07 allow for additional measurements of segment profit or loss to be voluntarily disclosed, provided the measures are reviewed by the CODM to allocate resources and assess segment performance. At the 2023 AICPA & CIMA Conference, the SEC staff noted that it expects entities managed on a consolidated basis to disclose net income determined in accordance with U.S. GAAP as the required measure of segment profit or loss, as this is considered the measure closest to U.S. GAAP, as required by ASC 280.

Must an entity with a single segment managed on a consolidated basis use net income as its required measure of segment profit or loss?

Yes. At the 2023 AICPA & CIMA Conference, the staff of the SEC's Office of the Chief Accountant (OCA) stated that 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.

Would the SEC staff's views on measures other than net income change if the CODM is not the Chief Executive Officer or Chief Financial Officer certifying Forms 10-K or 10-Q?

Not necessarily. While the certification of Forms 10-K or 10-Q supports the idea that the certifying officer receives and reviews consolidated net income, identifying a noncertifying officer as the CODM does not necessarily support the use of a measure other than net income. Based on recent discussions, the SEC staff is not aware of any instances in which a CODM manages an entity with a single reportable segment on a consolidated basis and has not reviewed a consolidated U.S. GAAP measure of profit or loss, such as consolidated net income.

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.



Example of disclosures required by ASU 2023-07

Entity A, a public company, manufactures widgets and has two reportable segments that align with its two distinct product lines: Segment A and Segment B. On a quarterly basis, the CODM monitors two measures of segment profit or loss to evaluate the performance of Segment A and Segment B and to allocate resources between them: segment gross profit and segment earnings before income taxes (EBIT). Prior to adopting the amendments in ASU 2023-07, Entity A disclosed segment EBIT as the measure of segment profit or loss for both of its segments having concluded that segment EBIT was the measure of segment profit or loss determined most consistently in accordance with the measurement principles in Entity A's consolidated net income before income taxes, which appeared on Entity A's consolidated income statement. After adopting the amendments, Entity A elects to present segment gross margin as an additional measure of segment profit or loss, which is also determined in accordance with U.S. GAAP and therefore is not a non-GAAP measure.

In addition to total segment revenues, segment gross margin, and segment EBIT, the CODM's quarterly reporting package includes several highlighted expense categories that the CODM considers key strategic drivers of Entity A's long-term profitability: research and development expense and salaries and benefits. Accordingly, Entity A determines that both expense categories are SSEs. Additionally, Entity A determines that the cost of sales is easily computed from the amounts reviewed by the CODM and is itself an SSE.

The following illustrates Entity A's segment disclosure.

	Segment A	Segment B	Total
Revenues from External Customers	1,000	1,000	2,000
Intersegment Revenues	250	750	1,000
	<u>1,250</u>	<u>1,750</u>	<u>3,000</u>
Elimination of Intersegment Revenue			<u>(1,000)</u>
Total Revenue			2,000
Less			
Cost of sales	<u>500</u>	<u>600</u>	<u>350</u>
Segment Gross Profit	750	1,150	1,650
Less			
Research and Development	200	300	500
Salaries and Benefits	250	300	550
Interest expense	25	75	100
Depreciation and amortization	25	25	50
Other Segment Items*	<u>25</u>	<u>50</u>	<u>75</u>
Segment Profit or Loss	225	400	375
Unallocated Expenses			
Corporate Overhead			<u>75</u>
Net Income Before Income Taxes			300

***Reconciling "Segment Profit or Loss"**

Other segment items primarily consist of professional services fees and office space lease expense. It excludes income tax expense.

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 SSE categories identified by the 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.

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