FASB ACCOUNTING STANDARDS UPDATE

No. 2023-07
November 2023

Segment Reporting (Topic 280)

Improvements to Reportable Segment Disclosures

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

The FASB Accounting Standards Codification® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

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Financial Accounting Standards Board
801 Main Avenue ▪ Norwalk, CT ▪ 06851

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

Investors, lenders, creditors, and other allocators of capital (collectively, "investors") have observed that segment information is critically important in understanding a public entity's different business activities. That information enables investors to better understand an entity's overall performance and assists in assessing potential future cash flows.

Feedback on the Post-Implementation Review (PIR) Report on FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information,* which was issued in 2012, indicated overall support from stakeholders for the management approach to segment reporting. That report stated that investors were generally satisfied with the segment note disclosures. A minority of investor survey respondents, approximately one-third, indicated that they were somewhat dissatisfied. Those investors were interested in exploring ways to require additional disclosures about segment information by public entities. Practitioner and academic survey respondents were interested in exploring additional guidance for determining and aggregating segments.

In 2016, the Board obtained additional feedback from stakeholders on the Invitation to Comment, *Agenda Consultation,* about the major areas of financial reporting in need of improvement. Investors expressed continued support for the management approach to segment reporting; however, many investors indicated that they would prefer that public entities report more segment information. To address those suggestions, the Board decided to undertake a project in 2017 to improve the segment disclosure requirements. The Board evaluated different ways in which the guidance could be changed to be responsive to that feedback. Investors observed that although information about a segment's revenue and measure of profit or loss is disclosed in an entity's financial statements, there generally is limited information disclosed about a segment's expenses and, therefore, investors supported enhanced expense disclosures.

Accordingly, the Board is issuing this Update to improve the disclosures about a public entity's reportable segments and address requests from investors for additional, more detailed information about a reportable segment's expenses.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all public entities that are required to report segment information in accordance with Topic 280, Segment Reporting.

What Are the Main Provisions?

The amendments in this Update improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The amendments in this Update:

1. Require that a public entity disclose, on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker (CODM) and included within each reported measure of segment profit or loss (collectively referred to as the "significant expense principle").
2. Require that a public entity disclose, on an annual and interim basis, an amount for *other segment items* by reportable segment and a description of its composition. The other segment items category is the difference between segment revenue less the segment expenses disclosed under the significant expense principle and each reported measure of segment profit or loss.
3. Require that a public entity provide all annual disclosures about a reportable segment's profit or loss and assets currently required by Topic 280 in interim periods.
4. Clarify that if the CODM uses more than one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, a public entity may report one or more of those additional measures of segment profit. However, at least one of the reported segment profit or loss measures (or the single reported measure, if only one is disclosed) should be the measure that is most consistent with the measurement principles used in measuring the corresponding amounts in the public entity's consolidated financial

statements. In other words, in addition to the measure that is most consistent with the measurement principles under generally accepted accounting principles (GAAP), a public entity is not precluded from reporting additional measures of a segment's profit or loss that are used by the CODM in assessing segment performance and deciding how to allocate resources.

5. Require that a public entity disclose the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources.
6. Require that a public entity that has a single reportable segment provide all the disclosures required by the amendments in this Update and all existing segment disclosures in Topic 280.

How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The amendments in this Update improve financial reporting by requiring disclosure of incremental segment information on an annual and interim basis for all public entities to enable investors to develop more decision-useful financial analyses.

Currently, Topic 280 requires that a public entity disclose certain information about its reportable segments. For example, a public entity is required to report a measure of segment profit or loss that the CODM uses to assess segment performance and make decisions about allocating resources. Topic 280 also requires other specified segment items and amounts, such as depreciation, amortization, and depletion expense, to be disclosed under certain circumstances. The amendments in this Update do not change or remove those disclosure requirements.

The amendments in this Update also do not change how a public entity identifies its operating segments, aggregates those operating segments, or applies the quantitative thresholds to determine its reportable segments.

When Will the Amendments Be Effective and What Are the Transition Requirements?

The amendments in this Update are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted.

A public entity should apply the amendments in this Update retrospectively to all prior periods presented in the financial statements. Upon transition, the segment expense categories and amounts disclosed in the prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–7. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Topic 280

2. Amend paragraphs 280-10-50-17, 280-10-50-20 through 50-22, 280-10-50-24, 280-10-50-28 through 50-30, and 280-10-50-32 through 50-36 and the related heading and add paragraphs 280-10-50-26A through 50-26C and 280-10-50-28A through 50-28C, with a link to transition paragraph 280-10-65-1, as follows:

Segment Reporting—Overall

Disclosure

> Operating Segments

• > Quantitative Thresholds

280-10-50-16 If management judges an operating segment identified as a reportable segment in the immediately preceding period to be of continuing significance, information about that segment shall continue to be reported separately in the current period even if it no longer meets the criteria for reportability in paragraph 280-10-50-12.

280-10-50-17 If an operating segment is identified as a reportable segment in the current period due to the quantitative thresholds, prior-period segment data presented for comparative purposes shall be ~~restated~~ <u>recast</u> to reflect the newly reportable segment as a separate segment even if that segment did not satisfy the criteria for reportability in paragraph 280-10-50-12 in the prior period unless it is impracticable to do so. For purposes of this Subtopic, information is impracticable to present if the necessary information is not available and the cost to develop it would be excessive.

• > Disclosure Requirements

280-10-50-20 ~~A public entity~~ <u>All public entities, including those public entities that have a single reportable segment,</u> shall disclose all of the following for each period for which an income statement is presented. However, reconciliations of balance sheet amounts for reportable segments to consolidated balance sheet amounts are required only for each year for which a balance sheet is presented. Previously reported information for prior periods shall be ~~restated~~ <u>recast</u> as described in paragraphs 280-10-50-34 through 50-35. <u>(See paragraphs 280-10-55-15D through 55-15F for additional guidance for public entities that have a single reportable segment.)</u>

• • > General Information

280-10-50-21 A public entity shall disclose the following general information (see Example 3, Case A [paragraph 280-10-55-47]):

a. Factors used to identify the public entity's reportable segments, including the basis of organization (for example, whether management has chosen to organize the public entity around differences in products and services, geographic areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated)
b. Types of products and services from which each reportable segment derives its <u>revenues</u> ~~revenues.~~
<u>c. The title and position of the individual or the name of the group or committee identified as the chief operating decision maker.</u>

• • > Information about Profit or Loss and Assets

280-10-50-22 A public entity shall report a measure of profit or loss and total assets for each reportable segment. A public entity also shall disclose all of the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss (see Example 3, Case B [paragraph 280-10-55-48]):

a. Revenues from external customers
b. Revenues from transactions with other operating segments of the same public entity
c. Interest revenue
d. Interest expense
e. Depreciation, depletion, and amortization expense
f. Unusual items as described in paragraph 220-20-45-1
g. Equity in the net income of investees accounted for by the equity method
h. Income tax expense or benefit
i. Subparagraph superseded by Accounting Standards Update No. 2015-01.
j. Significant noncash items other than depreciation, depletion, and amortization expense.

A public entity shall report interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest and the chief operating decision maker relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources to be allocated to the segment. In that situation, a public entity may report that segment's interest revenue net of its interest expense and disclose that it has done so. <u>Nonetheless, a public entity shall separately disclose interest expense if it is a significant segment expense in accordance with paragraph 280-10-50-26A.</u>

280-10-50-23 Disclosure of interest revenue and interest expense included in reported segment profit or loss is intended to provide information about the financing activities of a segment.

280-10-50-24 If a segment is primarily a financial operation, interest revenue probably constitutes most of segment revenues and interest expense will constitute most of the difference between reported segment revenues and reported segment profit or loss. If the segment has no financial operations or only immaterial financial operations, no information about interest is required <u>unless interest expense is a significant segment expense to be disclosed in accordance with paragraph 280-10-50-26A</u>.

280-10-50-25 A public entity shall disclose both of the following about each reportable segment if the specified amounts are included in the determination of segment assets reviewed by the chief operating decision maker or are otherwise regularly provided to the chief operating decision maker, even if not included in the determination of segment assets:

a. The amount of investment in equity method investees
b. Total expenditures for additions to long-lived assets other than any of the following (see Example 3, Case B [paragraph 280-10-55-48]):
    1. Financial instruments
    2. Long-term customer relationships of a financial institution
    3. Mortgage and other servicing rights
    4. Deferred policy acquisition costs
    5. Deferred tax assets.

280-10-50-26 If no asset information is provided for a reportable segment, that fact and the reason therefore shall be disclosed.

<u>**280-10-50-26A** A public entity shall disclose for each reportable segment the significant expense categories and amounts that are regularly provided to the chief operating decision maker and included in reported segment profit or loss. When determining the segment expense categories and amounts that shall be disclosed, a public entity shall first identify the expenses from the segment level information that is regularly provided to the chief operating decision maker and then disclose those segment expense categories and amounts that are significant. A public entity shall consider relevant qualitative and quantitative factors when determining whether segment expense categories and amounts are significant. When applying this guidance, a public entity shall evaluate for disclosure a segment expense that is regularly provided to the chief operating decision maker as well as a segment expense that is easily computable from information that is regularly provided to the chief operating decision maker. Paragraphs 280-10-55-15A through 55-15B provide additional guidance on determining whether segment expense amounts can be easily computed for purposes of applying the guidance in this paragraph.</u>

<u>**280-10-50-26B** A public entity shall disclose for each reportable segment an amount for other segment items. The amount for other segment items is the difference between reported segment revenues less the segment expenses disclosed in accordance with paragraph 280-10-50-26A and reported segment</u>

profit or loss. A qualitative description of the composition of other segment items also shall be disclosed. Other segment items may include:

a. The total of a reportable segment's expenses that are included in the reported measure(s) of a segment's profit or loss but are not regularly provided to the chief operating decision maker.
b. The total of a reportable segment's expenses that are included in the reported measure(s) of a segment's profit or loss but are not disclosed in accordance with paragraph 280-10-50-26A. A public entity is not precluded from separately disclosing an expense that is not significant for one reportable segment but is significant for another of its segments. However, if a segment expense that is not significant is not separately disclosed, it shall be included as part of other segment items.
c. The total of a reportable segment's gains, losses, or other amounts that also are included in each reported measure of a segment's profit or loss.
d. The items and amounts required by paragraph 280-10-50-22 when those specified items and amounts are included within the reported measure of segment profit or loss but are not disclosed in accordance with paragraph 280-10-50-26A. For example, a public entity may report net income as the measure of a segment's profit or loss. In that case, if income tax expense by segment is not regularly provided to the chief operating decision maker, it may be included within other segment items. However, income tax expense is still required to be disclosed in accordance with paragraph 280-10-50-22.

280-10-50-26C An amount and qualitative description of the composition of other segment items shall be disclosed for each reportable segment even when a public entity does not separately report significant segment expense categories and amounts in accordance with paragraph 280-10-50-26A for one or more of its reportable segments. Additionally, if a public entity does not disclose significant expense categories and amounts for one or more of its reportable segments, it shall explain the nature of the expense information the chief operating decision maker uses to manage operations (see paragraph 280-10-55-15G).

• • • > Measurement

280-10-50-27 The amount of each segment item reported shall be the measure reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing a public entity's general-purpose financial statements and allocations of revenues, expenses, and gains or losses shall be included in determining reported segment profit or loss only if they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker. Similarly, only those assets that are included in the measure of the segment's assets that is used by the chief operating decision maker shall be reported for that segment. If amounts are allocated to reported segment profit or loss or assets, those amounts shall be allocated on a reasonable basis.

280-10-50-28 If the chief operating decision maker uses ~~only one measure of a segment's profit or loss and~~ only one measure of a segment's assets in assessing segment performance and deciding how to allocate resources, segment ~~profit or loss and~~ assets shall be reported at that measure ~~those measures~~. If the chief operating decision maker uses ~~more than one measure of a segment's profit or loss and~~ more than one measure of a segment's assets, the reported ~~measures~~ measure shall be ~~those~~ that which management believes ~~are~~ is determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the public entity's consolidated financial statements.

280-10-50-28A If the chief operating decision maker uses only one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, segment profit or loss shall be reported at that measure. If the chief operating decision maker uses more than one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, a public entity may report one or more of those additional measures of segment profit. However, at least one of the reported segment profit or loss measures (or the single reported measure, if only one is disclosed) shall be that which management believes is determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in a public entity's consolidated financial statements.

280-10-50-28B If a public entity discloses more than one measure of a segment's profit or loss in the current period, it shall report the additional measure or measures for the prior periods in which the measure or measures were provided to the chief operating decision maker. For example, if a public entity reports an additional measure in the current period for gross profit for a reportable segment, it should disclose gross profit for the reportable segment in the prior comparative periods if gross profit was provided to the chief operating decision maker in those periods. A public entity is not precluded from reporting the additional measure or measures for the prior periods in which the measure or measures were not provided to the chief operating decision maker.

280-10-50-28C The disclosure requirements in paragraphs 280-10-50-22 through 50-24, paragraphs 280-10-50-26A through 50-26C, and paragraph 280-10-50-29 apply to each reported measure of a segment's profit or loss. The reconciliation requirement in paragraph 280-10-50-30(a) applies to the total of the reportable segments' revenues to a public entity's consolidated revenues. The reconciliation requirement in paragraph 280-10-50-30(b) applies to the total of the reportable segments' amount for each measure of profit or loss.

280-10-50-29 A public entity shall provide an explanation of the measurements of segment profit or loss and segment assets for each reportable segment. ~~At a minimum, a~~ A public entity shall disclose all of the following (see Example 3, Cases A through C [paragraphs 280-10-55-47 through 55-50 ~~55-49~~] and Example 4, Cases A through B [paragraphs 280-10-55-53 through 55-55]):

a. The basis of accounting for any transactions between reportable segments.
b. The nature of any differences between the measurements of the reportable segments' profits or losses and the public entity's consolidated income before income taxes and discontinued operations (if not apparent from the reconciliations described in paragraphs 280-10-50-30 through 50-31). Those differences could include accounting policies and policies for allocation of centrally incurred costs that are necessary for an understanding of the reported segment information.
c. The nature of any differences between the measurements of the reportable segments' assets and the public entity's consolidated assets (if not apparent from the reconciliations described in paragraphs 280-10-50-30 through 50-31). Those differences could include accounting policies and policies for allocation of jointly used assets that are necessary for an understanding of the reported segment information.
d. The nature of any changes from prior periods in the measurement methods used to determine reported segment profit or ~~loss~~ loss, including significant changes from prior periods to the measurement methods of expenses, the method for allocating expenses to a segment, or changes in the method for allocating centrally incurred expenses, and the effect, if any, of those changes on the measure of segment profit or loss.

e. The nature and effect of any asymmetrical allocations to segments. For example, a public entity might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.
f. How the chief operating decision maker uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources.

• • > Reconciliations

280-10-50-30 A public entity shall provide reconciliations of all of the following (see Example 3, ~~Case~~ Cases B and C [paragraphs ~~280-10-55-49~~ 280-10-55-48 through 55-50 and Example 4, Case B [paragraph 280-10-55-55]):

a. The total of the reportable segments' revenues to the public entity's consolidated revenues.
b. The total of the reportable segments' amount for each measure ~~measures~~ of profit or loss to the public entity's consolidated income before income taxes and discontinued operations. However, if a public entity allocates items such as income taxes to segments, the public entity may choose to reconcile the total of the segments' measures of profit or loss to consolidated income after those items.
c. The total of the reportable segments' assets to the public entity's consolidated assets.
d. The total of the reportable segments' amounts for every other significant item of information disclosed to the corresponding consolidated amount (except for the segment disclosures required by paragraphs 280-10-50-26A through 50-26B). For example, a public entity may choose to disclose liabilities for its reportable segments, in which case the public entity would reconcile the total of reportable segments' liabilities for each segment to the public entity's consolidated liabilities if the segment liabilities are significant.

280-10-50-31 All significant reconciling items shall be separately identified and described. For example, the amount of each significant adjustment to reconcile accounting methods used in determining segment profit or loss to the public entity's consolidated amounts shall be separately identified and described.

• • > Interim Period Information

280-10-50-32 A public entity shall disclose all of the following about each reportable segment in condensed financial statements of interim periods:

a. Subparagraph superseded by Accounting Standards Update No. 2023-07.~~Revenues from external customers~~
b. Subparagraph superseded by Accounting Standards Update No. 2023-07.~~Intersegment revenues~~
c. Subparagraph superseded by Accounting Standards Update No. 2023-07.~~A measure of segment profit or loss~~
d. Subparagraph superseded by Accounting Standards Update No. 2023-07.~~Total assets for which there has been a material change from the amount disclosed in the last annual report~~
e. A description of differences from the last annual report in the basis of segmentation or in the basis of measurement of segment profit or loss
ee. The segment information required by paragraphs 280-10-50-22 through 50-26C and 280-10-50-28A through 50-28B
f. A reconciliation of the total of the reportable segments' amount for each measure ~~measures~~ of profit or loss, including the total of the reportable segments' amount for any additional measure of profit or loss disclosed in accordance with paragraph 280-10-50-28A, to the public entity's consolidated income before income taxes and discontinued operations. However, if a public entity allocates items such as income taxes to segments, the public entity may choose to reconcile the total of the segments' measures of profit or loss to consolidated income after those items. Significant reconciling items shall be separately identified and described in that reconciliation.

280-10-50-33 Interim disclosures are required for the current quarter and year-to-date amounts. ~~Paragraph 270-10-50-1 states that when summarized financial data are regularly reported on a quarterly basis, the~~ The information in ~~the previous~~ paragraph 280-10-50-32 with respect to the current quarter and the current year-to-date or the last 12 months to date should be furnished together with comparable data for the preceding year.

• • > ~~Restatement~~ Recasting of Previously Reported Information

280-10-50-34 If a public entity changes the structure of its internal organization in a manner that causes the composition of its reportable segments to change or the public entity changes the segment information that is regularly provided to the chief operating decision maker in a manner that causes the identification of significant segment expenses to change, the corresponding information for earlier periods, including interim periods, shall be recast ~~restated~~ unless it is impracticable to do so. Accordingly, a public entity shall ~~restate~~ recast to conform to the current-period presentation those individual items of disclosure that it can practicably recast ~~restate~~ but need not recast ~~restate~~ those individual items, if any, that it cannot practicably recast ~~restate~~. ~~Following a change in the composition of its reportable segments,~~ In those cases, a public entity shall disclose whether it has recast ~~restated~~ the corresponding items of segment information for earlier periods.

280-10-50-34A For example, a fundamental reorganization of an entity may cause it to be very difficult and expensive to recast ~~restate~~ segment information and, therefore, ~~therefore~~ it may not be practicable.

280-10-50-35 If a public entity has changed the structure of its internal organization in a manner that causes the composition of its reportable segments to change or has changed the segment information that is regularly provided to the chief operating decision maker in a manner that causes the identification of significant segment expenses to change, and if segment information for earlier periods, including interim periods, is not recast ~~restated~~ to reflect the change, the public entity shall disclose in the year in which the change occurs segment information for the current period under both the old basis and the new basis of segmentation or the old and new significant segment expense categories, respectively, unless it is impracticable to do so.

280-10-50-36 Although recasting ~~restatement~~ is not required to reflect a change in measurement of segment profit and loss, it is preferable to show all segment information on a comparable basis to the extent it is practicable to do so. If prior years' information is not recast ~~restated~~, paragraph 280-10-50-29(d) nonetheless requires disclosure of the nature of any changes from prior periods in the measurement methods, including significant changes from prior periods to the measurement methods of expenses, the method for allocating expenses to a segment, or changes in the method for allocating centrally incurred expenses, used to determine reported segment profit or loss and the effect, if any, of those changes on the measure of segment profit or loss.

3. Amend paragraphs 280-10-55-7, the heading preceding paragraph 280-10-55-8, 280-10-55-17 through 55-19, 280-10-55-40, and 280-10-55-46 through 55-49 and the related headings, supersede paragraphs 280-10-55-9 through 55-10 and their related heading, and add paragraphs 280-10-55-15A through 55-15G and their related headings, 280-10-55-17A, and 280-10-55-53 through 55-55 and their related headings, with a link to transition paragraph 280-10-65-1, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

• > Operating Segments—Discontinued Operations

280-10-55-7 If a reportable segment meets the conditions in paragraphs 205-20-45-1A through 45-1G to be reported in discontinued operations, an entity is not required to also disclose the information required by this Subtopic. Paragraph 280-10-55-19 addresses whether there is a need to ~~restate~~ recast previously reported information if there is a disposal of a component that was previously disclosed as a reportable segment.

• > Information about ~~About~~ Profit or Loss and Assets Measurement

~~**• • > A Public Entity Uses Multiple Performance Measures in Evaluating Segment Performance and Allocating Resources**~~

280-10-55-9 Paragraph superseded by Accounting Standards Update No. 2023-07.~~If a public entity uses multiple performance measures in evaluating segment performance and allocating assets, the reported measures shall be those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the public entity's consolidated financial statements (see paragraphs 280-10-50-27 through 50-29). Preparing segment information in accordance with the GAAP used at the consolidated level would be difficult because some GAAP are not intended to apply at a segment level. Examples include accounting for income taxes in a public entity that files a consolidated income tax return.~~

280-10-55-10 Paragraph superseded by Accounting Standards Update No. 2023-07.~~Entities may use multiple performance measures in evaluating segment performance and allocating resources including both pretax and after-tax measures. Because it may not always be practicable to apply GAAP relating to income taxes to the segment level, after-tax segment measures are not typically in accordance with GAAP. Therefore, either a pretax or after-tax measure could be used for reporting segment information, with disclosure of the difference in measurement principles for determining taxes, if an after-tax measure is used. However, if the after-tax measures are determined on the~~

~~same basis as the consolidated financial statements, the after-tax measure would be the preferable measure of segment profit or loss to report.~~

• • > Significant Expense Amounts That Can Be Easily Computed from Information That Is Regularly Provided to the Chief Operating Decision Maker

280-10-55-15A The information that is regularly provided to the chief operating decision maker may include segment expense information that is expressed in a form other than actual amounts, for example, as a ratio or an expense as a percentage of revenue. The requirements in paragraph 280-10-50-26A apply to expense amounts that can be easily computed from the information that is regularly provided to the chief operating decision maker.

280-10-55-15B For example, if the information that is regularly provided to the chief operating decision maker includes a segment revenue amount and a segment gross margin amount, segment cost of sales can be easily computed from this information. Therefore, if cost of sales is significant, an entity should disclose the category and amount in accordance with paragraph 280-10-50-26A. As another example, the information that is regularly provided to the chief operating decision maker may include a segment revenue amount and segment warranty expense expressed as a percentage of segment revenue. In this example, segment warranty expense can be easily computed from this information. Therefore, if warranty expense is significant, the entity should disclose the category and amount in accordance with paragraph 280-10-50-26A.

• • > Disclosure of Corporate Overhead Expense as a Significant Expense Amount When It Is Regularly Provided to the Chief Operating Decision Maker and Included within the Measure of Segment Profit or Loss

280-10-55-15C If the information regularly provided to the chief operating decision maker contains a category and amount for allocated corporate overhead expenses by segment that is included in reported segment profit or loss, a public entity should assess that category and amount for disclosure in accordance with paragraph 280-10-50-26A. For example, an entity would disclose allocated corporate overhead if it is a significant segment expense in accordance with paragraph 280-10-50-26A.

• • > Reported Measure of Profit or Loss for an Entity That Discloses a Single Reportable Segment

280-10-55-15D All public entities, including those public entities that have a single reportable segment, are subject to the requirements of this Topic in its entirety. Paragraph 280-10-50-1(b) states that a characteristic of an operating segment is that it is a component of an entity whose operating results are regularly reviewed by the public entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Paragraph 280-10-50-4 states that not every part of a public entity is necessarily an operating segment or part of an operating segment; for example, corporate headquarters or certain functional departments may not be part of an operating segment. The entity should evaluate the guidance in paragraph 280-10-50-4 and the definition of an operating segment when identifying its operating segment (or segments) and determining whether that operating segment (or segments) constitutes all or part of the consolidated entity. For example, when a public entity has a single operating segment that constitutes part, but not all, of the consolidated entity, the chief operating decision maker may regularly review the operating results and performance of the operating segment differently than how management assesses the performance of the consolidated entity. Alternatively, when the single operating segment constitutes all of the consolidated entity, the chief operating decision maker may regularly review the entity-wide operating results and performance.

280-10-55-15E A public entity that discloses a single reportable segment should identify the measure or measures (in accordance with paragraph 280-10-50-28A) of a segment's profit or loss that the chief operating decision maker uses in assessing segment performance and deciding how to allocate resources, which may include a profit or loss measure that is not presented on the public entity's consolidated income statement. For example, the chief operating decision maker of a single reportable segment entity may use both net income and earnings before interest, taxes, depreciation, and amortization as the measures of profit or loss for purposes of assessing segment performance and deciding how to allocate resources. However, earnings before interest, taxes, depreciation, and amortization is not presented on the public entity's consolidated income statement.

280-10-55-15F When the chief operating decision maker of a single reportable segment entity uses more than one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, at least one of the reported segment profit or loss measures should be that which management believes is determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in a public entity’s consolidated financial statements and reconciled in accordance with paragraphs 280-10-50-30(b) and 280-10-50-32(f). A single reportable segment entity also may report additional performance measures that are used by the chief operating decision maker in assessing segment performance and deciding how to allocate resources in accordance with paragraphs 280-10-50-28A through 50-28B.

• • > Disclosures When No Significant Expense Categories and Amounts Are Reported for a Reportable Segment

280-10-55-15G The chief operating decision maker may be regularly provided with segment expense categories and amounts for one segment and no segment expense categories and amounts for another segment. Alternatively, the chief operating decision maker may not be regularly provided with expense information for any of a public entity’s segments. Paragraphs 280-10-50-26A through 50-26C apply to each reportable segment. When no significant expense categories and amounts are disclosed for a reportable segment, a public entity should report an amount and a description of the composition of other segment items in accordance with paragraph 280-10-50-26B and describe the expense information that the chief operating decision maker uses to manage the operations of that segment in accordance with paragraph 280-10-50-26C. For example, when no significant expenses are disclosed for a reportable segment, the public entity may disclose that the chief operating decision maker is regularly provided with only budgeted or forecasted expense information for that segment or uses consolidated expense information. The explanation of the expense information that the chief operating decision maker uses to manage operations is not required when significant expense categories and amounts are disclosed for a reportable segment.

• > ~~Restatement~~ Recasting of Previously Reported Information

280-10-55-17 ~~Restatement (if practicable)~~ Recasting of prior-period information to conform to current-period presentation is required (if practicable) when there has been a change in the composition of the segments resulting from changes in the structure of an entity’s internal organization or when there has been a change in the segment expense information that is regularly provided to the chief operating decision maker in a manner that causes the identification of significant segment expenses to change. However, ~~restatement~~ recasting of ~~prior-year~~ prior-period segment information for a change in measurement methods used to determine reported segment profit or loss is not required by this Subtopic.

280-10-55-17A A public entity may change the segment information that is regularly provided to the chief operating decision maker in a manner that causes the identification of segment expense categories to change when applying paragraph 280-10-50-26A. For example, in the current period, the information regularly provided to the chief operating decision maker is changed to specify an amount for research and development expense by segment that is included in reported segment profit or loss. That information was not regularly provided to the chief operating decision maker in prior periods. Research and development expense by segment should be disclosed in the current period in accordance with paragraph 280-10-50-26A, if significant. The public entity also is required to recast the prior-period segment expense information to conform to current-period presentation unless it is impracticable to do so. If it is impracticable to do so, the public entity should disclose the information described in paragraph 280-10-50-35.

280-10-55-18 Paragraph 280-10-50-36 explains that although ~~restatement~~ recasting is not required to reflect a change in measurement of segment profit or ~~and~~ loss, it would be preferable to show all segment information on a comparable basis to the extent it is practicable to do so. If ~~prior years'~~ prior-period information is not ~~restated~~ recast, paragraph 280-10-50-29(d) nonetheless requires disclosure of the nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss, including significant changes from prior periods to the measurement methods of expenses, the method for allocating expenses to a segment, or changes in the methods for allocating centrally incurred expenses, and the effect, if any, of those changes on the measure of segment profit or loss.

280-10-55-19 Segment information for prior periods for disposal of a component that was previously disclosed as a reportable segment is not required to be recast ~~restated~~. However, if the income statement and balance sheet information for the discontinued component have been reclassified in comparative financial statements, the segment information for the discontinued component need not be provided for those periods ~~years~~. Paragraph 280-10-

55-7 addresses disclosure requirements if a component of a public entity that is reported as a discontinued operation is a reportable segment.

> Illustrations

• > Example 2: Identifying Reportable Segments

• • > Case C: The Chief Operating Decision Maker Uses Different Measures of Segment Profit or Loss for Each Segment

280-10-55-39 The intent of the threshold criterion of paragraph 280-10-50-12(b) is to require an evaluation of the magnitude of each segment profit or loss compared with a combined reported profit and loss of all operating segments, assuming profit or loss is determined on a consistent basis. That combined measure of all segment profits and losses should approximate (absent any reconciling items) the consolidated amount.

280-10-55-40 In the event that segments are evaluated based on different measures of segment profit or loss, the threshold criterion of paragraph 280-10-50-12(b) should be applied to a consistent measure of segment profit or loss that is determined for internal reporting purposes for each segment, whether or not that measure is consistently used by the chief operating decision maker for purposes of evaluating segment performance. For example, assume that the measure of segment profit ~~and~~ or loss used by the chief operating decision maker is a different measure for each segment (for example, if the chief operating decision maker uses net income for purposes of evaluating the performance of Segments A and F but uses operating income for purposes of evaluating the performance of Segments B, C, ~~D~~ D, and E). In this Case, the 10 percent of segment profit thresholds should be based on either operating income or net income of the segments. This would not affect the requirement in paragraph 280-10-50-22 to disclose the actual measure of segment profit or loss that is used by the chief operating decision maker for purposes of evaluating each reportable segment (that is, the amounts reported for segment profit or loss would be net income for Segments A and F and operating income for Segments B, C, D, and E) if the public entity discloses only one measure of a segment's profit or loss. This also would not affect the requirement in paragraph 280-10-50-28A if the public entity discloses more than one measure of a segment's profit or loss.

• > Example 3: Illustrative Disclosures

280-10-55-46 Following are specific illustrations of the disclosures that are required by this Subtopic. The formats in the examples are not requirements, but the information should be formatted in the most understandable manner in the specific circumstances. The following Cases are for a ~~single~~ hypothetical public entity referred to as Diversified Company that has multiple reportable segments and chooses to disclose more than one measure of a segment's profit or loss that are used by the chief operating decision maker in assessing segment performance and deciding how to allocate resources.

• • > Case A: Disclosure of Descriptive Information about ~~About~~ Reportable Segments

280-10-55-47 The following is an example of the disclosure of descriptive information about a public entity's reportable segments. ~~(References to paragraphs in which the relevant requirements appear are given in parentheses.)~~

a. Description of the types of products and services from which each reportable segment derives its revenues (see paragraph 280-10-50-21(b)).

   Diversified Company has five reportable segments: auto parts, motor vessels, software, electronics, and finance. The auto parts segment produces replacement parts for sale to auto parts retailers. The motor vessels segment produces small motor vessels to serve the offshore oil industry and similar businesses. The software segment produces application software for sale to computer manufacturers and retailers. The electronics segment produces integrated circuits and related products for sale to computer manufacturers. The finance segment is responsible for portions of the company's financial operations including financing customer purchases of products from other segments and real estate lending operations in several states.

b. ~~Measurement~~ Measures of segment profit or loss and segment assets (see paragraph 280-10-50-29).

   The accounting policies of the segments are the same as those described in the summary of significant accounting policies except that pension expense for each segment is recognized and measured on the basis of cash payments to the pension plan. Diversified Company evaluates performance for all of its reportable segments except the finance segment based on both segment gross profit and profit or loss from operations before interest and income taxes ~~not including nonrecurring gains and losses and foreign exchange gains and losses~~. The finance segment's performance is evaluated based on pretax profit or loss.

bb. How the chief operating decision maker uses the reported measures of the segment's profit or loss (see paragraph 280-10-50-29(f)).

For the auto parts, motor vessels, software, and electronics segments, the chief operating decision maker uses both segment gross profit and segment profit or loss from operations before interest and income taxes to allocate resources (including employees, property, and financial or capital resources) for each segment predominantly in the annual budget and forecasting process. The chief operating decision maker considers budget-to-actual variances on a monthly basis for both profit measures when making decisions about allocating capital and personnel to the segments. The chief operating decision maker also uses segment gross profit for evaluating product pricing and segment profit or loss from operations before interest and income taxes to assess the performance for each segment by comparing the results and return on assets of each segment with one another and in the compensation of certain employees.

For the finance segment, the chief operating decision maker uses segment pretax profit or loss to allocate resources (including employees, financial, or capital resources) to that segment in the annual budget and forecasting process and uses that measure as a basis for evaluating lending terms for customer loans. The chief operating decision maker also uses segment pretax profit or loss to assess the performance of the finance segment by monitoring the margin between interest revenue and interest expense.

c. Diversified Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.
d. Factors that management used to identify the public entity's reportable segments (see paragraph 280-10-50-21(a)).

Diversified Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Most of the businesses were acquired as a unit, and the management at the time of the acquisition was retained.

e. The title and position of the individual or the group identified as the chief operating decision maker (see paragraph 280-10-50-21(c)).

Diversified Company's chief operating decision maker is the chief executive officer.

• • > Case B: Information ~~About~~ about Reported Segment Revenue, Measures of a Segment's Profit or Loss, Significant Segment Expenses, ~~and Segment~~ Measure of a Segment's Assets, and Required Reconciliations

280-10-55-48 The following ~~table illustrates~~ tables illustrate a ~~suggested~~ format for presenting information about reported segment revenue, measures of a segment's profit or ~~loss~~ loss, significant segment expenses, and measure of a ~~segment~~ segment's assets (see paragraphs ~~280-10-55-22~~ 280-10-50-22, ~~and~~ 280-10-50-25, and 280-10-50-26A through 50-26C) for the current reporting period. The tables do not illustrate comparative period disclosures. ~~The same type of information is required for each year for which an income statement is presented.~~ Diversified Company does not allocate income taxes or unusual items to segments. In addition, not all segments have significant noncash items other than depreciation and amortization in reported profit or loss. The amounts in this Example are assumed to be the amounts in management's reports ~~used by~~ that are regularly provided to the chief operating decision maker, including interest revenue and interest expense. The following tables also illustrate a format for presenting the reconciliations of reportable segment revenues and measures of profit or loss to Diversified Company's consolidated totals (see paragraph 280-10-50-30(a) through (b)).

[For ease of readability, the new tables are not underlined.]

	Auto Parts	Motor Vessels	Software	Electronics	Finance	Total
Revenues from external customers	$ 3,000	$ 5,000	$ 9,500	$ 12,000	$ 5,000 [(a)]	$ 34,500
Intersegment revenues	-	-	3,000	1,500	-	4,500
	3,000	5,000	12,500	13,500	5,000	39,000
Reconciliation of revenue						
Other revenues						1,000 [(b)]
Elimination of intersegment revenues						(4,500)
Total consolidated revenues						$ 35,500

[Content moved from the illustration in paragraph 280-10-55-49]

	Auto Parts	Motor Vessels	Software	Electronics	Finance	Total
Less: [(c)]						
Cost of revenue	1,700	3,100	2,000	6,800	-	
Segment gross profit	1,300	1,900	10,500	6,700	- [(d)]	$ 20,400
Less: [(c)]						
Research and development expense	-	-	3,300	-	-	
Nonmanufacturing payroll expense [(e)]	500	900	2,600	2,700	750	
Professional services expense	-	-	1,700	500	800	
Interest expense (finance segment)	-	-	-	-	3,000	
Other segment items [(f)]	700	1,130	2,300	1,600	(50)	
Segment profit/(loss)	100	(130)	600	1,900	500	$ 2,970
Reconciliation of profit or loss (segment profit/(loss))						
Other profit or loss						100 [(b)]
Interest income/(expense), net (excluding finance segment)						1,125 [(g)]
Elimination of intersegment profits						(500)
Unallocated amounts:						
Litigation settlement received						500
Other corporate expenses						(750)
Adjustment to pension expense in consolidation						(250)
Income before income taxes						$ 3,195
Reconciliation of profit or loss (segment gross profit)						
Total segment gross profit						$ 20,400
Segment operating expenses, net (excluding finance segment)						(17,930) [(h)]
Segment profit (finance segment)						500
Other profit or loss						100 [(b)]
Interest income/(expense), net (excluding finance segment)						1,125 [(g)]
Elimination of intersegment profits						(500)
Unallocated amounts:						
Litigation settlement received						500
Other corporate expenses						(750)
Adjustment to pension expense in consolidation						(250)
Income before income taxes						$ 3,195

[Content amended and moved from the illustration in paragraph 280-10-55-49]

(a) The revenue from external customers for the finance segment relates to interest and noninterest income.

(b) Revenue and profit or loss from segments below the quantitative thresholds are attributable to four operating segments of Diversified Company. Those segments include a small real estate business, an electronics equipment rental business, a software consulting practice, and a warehouse leasing operation. None of those segments has ever met any of the quantitative thresholds for determining reportable segments.

(c) The significant expense categories and amounts align with the segment-level information that is regularly provided to the chief operating decision maker. Intersegment expenses are included within the amounts shown.

(d) For the finance segment, the chief operating decision maker uses only pretax profit or loss as the measure to allocate resources and assess segment performance. As a result, segment gross profit is not reported for the finance segment.

(e) The nonmanufacturing payroll expense does not include amounts capitalized on the balance sheet or included within other expense categories.

(f) Other segment items for each reportable segment includes:
Auto parts—maintenance, professional services expense, and repairs expense and certain overhead expenses.
Motor vessels—marketing expense, professional services expense, occupancy expense, and certain overhead expenses.
Software—depreciation and amortization expense, travel expense, office supplies expense, and certain overhead expenses.
Electronics—depreciation and amortization expense, marketing expense, occupancy expense, and certain overhead expenses.
Finance—depreciation and amortization expense, property tax expense, certain overhead expenses, and other gains or losses.

(g) Interest income/(expense), net (excluding finance segment) of $1,125 comprises (i) consolidated total interest revenue (excluding finance segment) of $3,825 and (ii) consolidated total interest expense (excluding finance segment) of $2,700.

(h) Segment operating expenses, net (excluding finance segment) of $17,930 includes research and development expense, nonmanufacturing payroll expense, professional services expense, and other segment items for the auto parts, motor vessels, software, and electronics segments.

	Auto Parts	Motor Vessels	Software	Electronics	Finance	Total
Other segment disclosures (see paragraphs 280-10-50-22 and 280-10-50-25)						
Interest revenue	$ 450	$ 800	$ 1,000	$ 1,500	$ 4,000	$ 7,750
Interest expense	350	600	700	1,100	3,000	5,750
Depreciation and amortization [(a)]	200	100	50	1,500	150	2,000
Other significant noncash items:						
Cost in excess of billings on long-term contracts	-	200	-	-	-	200
Segment assets	2,000	5,000	3,000	12,000	57,000	79,000
Expenditures for segment assets	300	700	500	800	600	2,900

(a) The amounts of depreciation and amortization disclosed by reportable segment are included within the other segment expense captions, such as cost of revenue or other segment items.

	~~Auto Parts~~	~~Motor Vessels~~	~~Software~~	~~Electronics~~	~~Finance~~	~~All Other~~	~~Totals~~
~~Revenues from external customers~~	~~$ 3,000~~	~~$ 5,000~~	~~$ 9,500~~	~~$ 12,000~~	~~$ 5,000~~	~~$ 1,000~~ ~~[(a)]~~	~~$ 35,500~~
~~Intersegment revenues~~	~~-~~	~~-~~	~~3,000~~	~~1,500~~	~~-~~	~~-~~	~~4,500~~
~~Interest revenue~~	~~450~~	~~800~~	~~1,000~~	~~1,500~~	~~-~~	~~-~~	~~3,750~~
~~Interest expense~~	~~350~~	~~600~~	~~700~~	~~1,100~~	~~-~~	~~-~~	~~2,750~~
~~Net interest revenue [(b)]~~	~~-~~	~~-~~	~~-~~	~~-~~	~~1,000~~	~~-~~	~~1,000~~
~~Depreciation and amortization~~	~~200~~	~~100~~	~~50~~	~~1,500~~	~~1,100~~	~~-~~	~~2,950~~
~~Segment profit~~	~~200~~	~~70~~	~~900~~	~~2,300~~	~~500~~	~~100~~	~~4,070~~
~~Other significant noncash items:~~							
~~Cost in excess of billings on long-term contracts~~	~~-~~	~~200~~	~~-~~	~~-~~	~~-~~	~~-~~	~~200~~
~~Segment assets~~	~~2,000~~	~~5,000~~	~~3,000~~	~~12,000~~	~~57,000~~	~~2,000~~	~~81,000~~
~~Expenditures for segment assets~~	~~300~~	~~700~~	~~500~~	~~800~~	~~600~~	~~-~~	~~2,900~~

~~(a) Revenue from segments below the quantitative thresholds are attributable to four operating segments of Diversified Company. Those segments include a small real estate business, an electronics equipment rental business, a software consulting practice, and a warehouse leasing operation. None of those segments has ever met any of the quantitative thresholds for determining reportable segments.~~

~~(b) The finance segment derives a majority of its revenue from interest. In addition, management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that segment. Therefore, as permitted by paragraph 280-10-50-22, only the net amount is disclosed.~~

• • > Case C: Reconciliations of Reportable Segment ~~Revenues, Profit or Loss, and Assets,~~ Assets and Other Significant Items to the Consolidated Totals

280-10-55-49 The following ~~are examples~~ is an example of reconciliations of reportable segment ~~revenues, profit or loss, and~~ assets and other significant items to the public entity's consolidated totals (see paragraph 280-10-50-30(c) through (d) ~~280-10-50-30(a) through (c)~~). ~~Reconciliations also are required to be shown for every other significant item of information disclosed (see paragraph 280-10-50-30(d)). For example, if Diversified Company disclosed segment liabilities, they are required to be reconciled to total consolidated liabilities.~~ The public entity's financial statements are assumed not to include discontinued operations. ~~As discussed in the illustration in paragraph 280-10-55-47, the public entity recognizes and measures pension expense of its segments based on cash payments to the pension plan, and it does not allocate certain items to its segments.~~

~~**Revenues**~~		
~~Total revenues for reportable segments~~	~~$~~	~~39,000~~
~~Other revenues~~		~~1,000~~
~~Elimination of intersegment revenues~~		~~(4,500)~~
~~Total consolidated revenues~~	~~$~~	~~35,500~~

[Content moved to the illustration in paragraph 280-10-55-48]

~~**Profit or Loss**~~		
~~Total profit or loss for reportable segments~~	~~$~~	~~3,970~~
~~Other profit or loss~~		~~100~~
~~Elimination of intersegment profits~~		~~(500)~~
~~Unallocated amounts:~~		
~~Litigation settlement received~~		~~500~~
~~Other corporate expenses~~		~~(750)~~
~~Adjustment to pension expense in consolidation~~		~~(250)~~
~~Income before income taxes~~	~~$~~	~~3,070~~

[Content amended and moved to the illustration in paragraph 280-10-55-48]

Assets		
Total assets for reportable segments	$	79,000
Other assets		2,000 [(a)]
Elimination of receivables from corporate headquarters		(1,000)
Goodwill not allocated to segments		4,000
Other unallocated amounts		1,000
Consolidated total	$	85,000

(a) Assets from segments below the quantitative thresholds are attributable to four operating segments of Diversified Company.

Other Significant Items

	Segment Totals		Adjustments	Consolidated Totals	
Interest revenue	~~$ 3,750~~	$ 7,750	$ 75	~~$ 3,825~~	$ 7,825
Interest expense	~~2,750~~	5,750	(50)	~~2,700~~	5,700
~~Net interest revenue (finance segment only)~~	~~1,000~~		~~-~~	~~1,000~~	
Expenditures for assets	2,900		1,000	3,900	
Depreciation and amortization	~~2,950~~	2,000	-	~~2,950~~	2,000
Cost in excess of billing on long-term contracts	200		-	200	

280-10-55-50 The reconciling item to adjust expenditures for assets is the amount of expenses incurred for the corporate headquarters building, which is not included in segment information. None of the other adjustments are significant.

• > Example 4: Illustrative Disclosures—Single Reportable Segment Entity

280-10-55-53 The following is an illustration of certain disclosures that are required by this Subtopic for a public entity that has a single reportable segment. The following Cases are for a hypothetical public entity referred to as ABC Company, which has one operating segment. The illustration for ABC Company does not include the entity-wide disclosures required by paragraphs 280-10-50-39 through 50-42.

• • > Case A: Disclosure of Descriptive Information about the Reportable Segment

280-10-55-54 The following is an example of the required disclosures about a public entity's reportable segment.

a. Description of the types of products and services from which the reportable segment derives its revenues (see paragraph 280-10-50-21(b)).

   The software segment derives revenues from customers by providing access to cloud computing applications under software-as-a-service arrangements. The most popular cloud computing application is an enterprise resource planning application used primarily by customers to manage functions such as accounting, financial management, project management, and procurement. The service term for the software arrangements is variable, with the median term being approximately five years.

b. Measure of segment profit or loss and assets (see paragraph 280-10-50-29).

   The accounting policies of the software segment are the same as those described in the summary of significant accounting policies.

   The chief operating decision maker assesses performance for the software segment and decides how to allocate resources based on net income that also is reported on the income statement as consolidated net income.

   The measure of segment assets is reported on the balance sheet as total consolidated assets.

c. How the chief operating decision maker uses the reported measure of segment profit or loss (see paragraph 280-10-50-29(f)).

   The chief operating decision maker uses net income to evaluate income generated from segment assets (return on assets) in deciding whether to reinvest profits into the software segment or into other parts of the entity, such as for acquisitions or to pay dividends.

   Net income is used to monitor budget versus actual results. The chief operating decision maker also uses net income in competitive analysis by benchmarking to ABC Company's competitors. The competitive analysis along with the monitoring of budgeted versus actual results are used in assessing performance of the segment and in establishing management's compensation.

d. ABC Company does not have intra-entity sales or transfers.
e. Factors that management used to identify the public entity's reportable segments (see paragraph 280-10-50-21(a)).

   ABC Company has one reportable segment: software. The software segment provides cloud computing services to customers under software-as-a-service arrangements. ABC Company derives revenue primarily in North America and manages the business activities on a consolidated basis. The technology used in the customer arrangements is based on a single software platform that is deployed to and implemented by customers in a similar manner.

f. The title and position of the individual or the group identified as the chief operating decision maker (see paragraph 280-10-50-21(c)).

ABC Company’s chief operating decision maker is the senior executive committee that includes the chief operating officer, chief financial officer, and the chief executive officer.

• • > Case B: Information about Reported Segment Revenue, Segment Profit or Loss, and Significant Segment Expenses

280-10-55-55 The following table illustrates a format for presenting information about reported segment revenue, segment profit or loss, and significant segment expenses. The Example does not separately illustrate all of the information required by paragraphs 280-10-50-22 and 280-10-50-25.

[For ease of readability, the new table is not underlined.]

	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 [(a)]	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.

4. Add paragraph 280-10-65-1 and its related heading as follows:

Transition and Open Effective Date Information

General

> Transition Related to Accounting Standards Update No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*

280-10-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures:*

a. The pending content that links to this paragraph shall be effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted.
b. A public entity shall apply the pending content that links to this paragraph retrospectively to all prior periods presented in the financial statements unless it is impracticable to do so. The segment expense categories and amounts disclosed in prior periods shall be based on the significant segment expense categories identified and disclosed in the period of adoption. If providing the information is impracticable, where the term *impracticable* has the same meaning as in paragraph 280-10-50-17, a public entity shall disclose that fact and explain why retrospective application is impracticable.

Amendments to Topic 270

5. Amend paragraph 270-10-50-1(i), with a link to transition paragraph 280-10-65-1, as follows:

Interim Reporting—Overall

Disclosure

> Disclosure of Summarized Interim Financial Data by Publicly Traded Companies

270-10-50-1 Many **publicly traded companies** report summarized financial information at periodic interim dates in considerably less detail than that provided in annual financial statements. While this information provides more timely information than would result if complete financial statements were issued at the end of each interim period, the timeliness of presentation may be partially offset by a reduction in detail in the information provided. As a result, certain guides as to minimum disclosure are desirable. (It should be recognized that the minimum disclosures of summarized interim financial data required of publicly traded companies do not constitute a fair presentation of financial position and results of operations in conformity with generally accepted accounting principles [GAAP].) If publicly traded companies report summarized financial information at interim dates (including reports on fourth quarters), the following data should be reported, as a minimum:

i. All of the ~~following~~ information about reportable ~~operating~~ segments required by paragraph 280-10-50-32 ~~determined according to the provisions of Topic 280~~, including provisions related to ~~restatement~~ the recasting of segment information in previously issued financial statements. ~~statements:~~
    1. Subparagraph superseded by Accounting Standards Update No. 2023-07.~~Revenues from external customers~~
    2. Subparagraph superseded by Accounting Standards Update No. 2023-07.~~Intersegment revenues~~
    3. Subparagraph superseded by Accounting Standards Update No. 2023-07.~~A measure of segment profit or loss~~
    4. Subparagraph superseded by Accounting Standards Update No. 2023-07.~~Total assets for which there has been a material change from the amount disclosed in the last annual report~~
    5. Subparagraph superseded by Accounting Standards Update No. 2023-07.~~A description of differences from the last annual report in the basis of segmentation or in the measurement of segment profit or loss~~
    6. Subparagraph superseded by Accounting Standards Update No. 2023-07.~~A reconciliation of the total of the reportable segments' measures of profit or loss to the entity's consolidated income before income taxes and discontinued operations. However, if, for example, an entity allocates items such as income taxes to segments, the entity may choose to reconcile the total of the segments' measures of profit or loss to consolidated income after those items. Significant reconciling items shall be separately identified and described in that reconciliation.~~

If summarized financial data are regularly reported on a quarterly basis, the foregoing information with respect to the current quarter and the current year-to-date or the last 12 months to date should be furnished together with comparable data for the preceding year.

In addition, amend the following pending content for paragraph 270-10-50-1(i), with a link to transition paragraph 105-10-65-7, as follows:

PENDING CONTENT

Transition Date: (P) June 30, 2027; (N) June 30, 2027 │ **Transition Guidance:** 105-10-65-7

270-10-50-1 Many **publicly traded companies** report summarized financial information at periodic interim dates in considerably less detail than that provided in annual financial statements. While this information provides more timely information than would result if complete financial statements were issued at the end of each interim period, the timeliness of presentation may be partially offset by a reduction in detail in the information provided. As a result, certain guides as to minimum disclosure are desirable. (It should be recognized that the minimum disclosures of summarized interim financial data required of publicly traded companies do not constitute a fair presentation of financial position and results of operations in conformity with generally accepted accounting principles [GAAP].) If publicly traded companies report summarized financial information at interim dates (including reports on fourth quarters), the following data should be reported, as a minimum:

i. All of the ~~following~~ information about reportable ~~operating~~ segments required by paragraph 280-10-50-32 ~~determined according to the provisions of Topic 280~~, including provisions related to ~~restatement~~ the recasting of segment information in previously issued financial statements. ~~statements:~~
   1. Subparagraph superseded by Accounting Standards Update No. 2023-07.~~Revenues from external customers~~
   2. Subparagraph superseded by Accounting Standards Update No. 2023-07.~~Intersegment revenues~~
   3. Subparagraph superseded by Accounting Standards Update No. 2023-07.~~A measure of segment profit or loss~~
   4. Subparagraph superseded by Accounting Standards Update No. 2023-07.~~Total assets for which there has been a material change from the amount disclosed in the last annual report~~
   5. Subparagraph superseded by Accounting Standards Update No. 2023-07.~~A description of differences from the last annual report in~~

~~the basis of segmentation or in the measurement of segment profit or loss~~

6. Subparagraph superseded by Accounting Standards Update No. 2023-07.~~A reconciliation of the total of the reportable segments' measures of profit or loss to the entity's consolidated income before income taxes and discontinued operations. However, if, for example, an entity allocates items such as income taxes to segments, the entity may choose to reconcile the total of the segments' measures of profit or loss to consolidated income after those items. Significant reconciling items shall be separately identified and described in that reconciliation.~~

If summarized financial data are regularly reported on a quarterly basis, the foregoing information with respect to the current quarter and the current year-to-date or the last 12 months to date should be furnished together with comparable data for the preceding year.

Amendments to Status Sections

6. Amend paragraph 270-10-00-1, by adding the following item to the table, as follows:

270-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
270-10-50-1	Amended	2023-07	11/27/2023

7. Amend paragraph 280-10-00-1, by adding the following items to the table, as follows:

280-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
280-10-50-17	Amended	2023-07	11/27/2023
280-10-50-20 through 50-22	Amended	2023-07	11/27/2023
280-10-50-24	Amended	2023-07	11/27/2023

Paragraph	Action	Accounting Standards Update	Date
280-10-50-26A through 50-26C	Added	2023-07	11/27/2023
280-10-50-28 through 50-30	Amended	2023-07	11/27/2023
280-10-50-28A through 50-28C	Added	2023-07	11/27/2023
280-10-50-32 through 50-36	Amended	2023-07	11/27/2023
280-10-55-7	Amended	2023-07	11/27/2023
280-10-55-8	Amended	2023-07	11/27/2023
280-10-55-9	Superseded	2023-07	11/27/2023
280-10-55-10	Superseded	2023-07	11/27/2023
280-10-55-15A through 55-15G	Added	2023-07	11/27/2023
280-10-55-17 through 55-19	Amended	2023-07	11/27/2023
280-10-55-17A	Added	2023-07	11/27/2023
280-10-55-40	Amended	2023-07	11/27/2023
280-10-55-46 through 55-49	Amended	2023-07	11/27/2023
280-10-55-53 through 55-55	Added	2023-07	11/27/2023
280-10-65-1	Added	2023-07	11/27/2023

The amendments in this Update were adopted by the affirmative vote of six members of the Financial Accounting Standards Board. Ms. Botosan dissented.

Ms. Botosan's dissent is as follows:

Ms. Botosan acknowledges that certain aspects of the amendments in this Update may yield a modest improvement in segment disclosure. However, that modest improvement falls far short of financial statement users' (hereinafter, investors) need for (1) a finer partitioning of entities' operating activities into reportable segments and (2) more financial line items about each segment. Ms. Botosan believes that the amendments in this Update do not adequately address that need because:

a. The structure of the significant expense principle, specifically, and the management approach, more generally, allow for too much discretion by a public entity to manage reporting outcomes, resulting in diminished quantity, quality, and comparability of segment information.
b. The current guidance that requires reconciliation of segment amounts to the corresponding consolidated amounts is not extended to amounts disclosed under the significant expense principle.

In response to the 2016 Invitation to Comment (ITC), *Agenda Consultation,* investors reiterated that over-aggregation into reportable segments of activities that generate different amounts, timing, or uncertainty of expected cash flows reduces the usefulness of segment disclosures and limits their ability to predict cash flows. They requested greater transparency through a finer partitioning of public entities' operating activities into more reportable segments. The amendments in this Update do not address that request.

Additionally, in response to the 2016 ITC, investors noted that the financial information currently provided about each segment is useful but insufficient. The significant expense principle is intended to address that concern; however, Ms. Botosan is highly skeptical that this core aspect of the amendments in this Update will yield the necessary improvement.

First, approximately half of preparers included in the FASB staff's outreach during initial deliberations explained that applying the significant expense principle would not result in the disclosure of additional expense information. Consistent with this, only half of the preparer respondents to the proposed Update responded affirmatively that the significant expense principle would result in the disclosure of additional expense information. Accordingly, Ms. Botosan believes that applying the significant expense principle likely will not result in any incremental disclosure of segment expense items for a large swath of entities.

Second, Ms. Botosan is concerned that public entities may utilize the flexibility inherent in the management approach to restructure CODM packages or reportable segments to constrain the otherwise beneficial effect of the significant expense principle. Furthermore, because significant expense amounts that are outside the measure of segment profit are shielded from external disclosure, the intent of the significant expense principle can be easily circumvented by strategically selecting the measure of segment profit to which the principle is applied. For example, by selecting a less cost-laden measure of segment profit (for example, gross margin), significant expense amounts below that profit measure that are regularly provided to the CODM are shielded from external disclosure. Thus, diminished external reporting of expense amounts can be achieved with little to no reduction in the information regularly provided to the CODM.

Third, Ms. Botosan is concerned that the structure of the significant expense principle creates perverse incentives that could result in a reduction in the amount of segment information currently provided. For example, an entity could substitute a less cost-laden measure of reported profit than it currently discloses to avoid disclosing expense information below that measure that is regularly provided to the CODM.

During outreach and in comment letters, some stakeholders acknowledged that internal reporting may be altered in light of the principle. For example, some preparers and audit firms remarked that on first-time adoption some public entities likely will undertake a review of the segment reports that are regularly provided to the CODM to assess the effect of the proposal. In addition, those stakeholders acknowledged that some entities may edit the segment reports that are regularly provided to the CODM to achieve a preferred financial reporting outcome.

Ms. Botosan would have preferred an alternative approach that would have required that a public entity disclose expense items that are regularly provided to the CODM. That approach would not have required that an entity identify a measure of segment profit for purposes of applying the principle. Furthermore, it would not have required the application of judgment to assess whether an expense item is "significant."

Ms. Botosan believes that this alternative approach would be less vulnerable to manipulation. Also, she believes that it is more consistent with the management approach because it would result in the disclosure of all expense items regularly provided to the CODM regardless of the selected measure of segment profit or the outcome of a subjective assessment of "significance." Ms. Botosan believes that the significant expense principle is not consistent with the management approach because segment expense items that are regularly provided to the CODM may not be disclosed to investors.

Ms. Botosan also is concerned that segment expense amounts disclosed under the significant expense principle are not required to be reconciled to the corresponding consolidated amounts. The basis for conclusions of FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information,* notes that because segment-level financial information may not be computed on a GAAP basis, appropriate reconciliation is necessary to allow investors to interpret the information and assess its limitations in the context of the consolidated financial statements. Ms. Botosan is concerned that in the absence of a reconciliation requirement, investors will be unable to assess differences in how amounts are defined or measured for segment reporting purposes versus consolidated GAAP purposes. Therefore, Ms. Botosan believes that the unreconciled expense amounts disclosed under the significant expense principle could be misleading or misunderstood by investors.

Ms. Botosan acknowledges that some preparers expressed concern about the cost of reconciling significant expense amounts to the corresponding consolidated amounts. However, investors preferred that the segment expense amounts disclosed under the significant expense principle be reconciled. Investors noted that in the absence of reconciliation, they will try to reconcile the disclosed expense amounts. Consequently, the absence of the reconciliation requirement does not eliminate cost from the financial reporting system but simply shifts the cost burden to investors with less information and capacity to prepare accurate reconciliations.

Ms. Botosan agrees that a modest improvement in financial reporting is sometimes better than no improvement at all. However, Ms. Botosan does not agree that this is the case in this instance. Investors have waited decades for significant improvements to the identification of segments and segment disclosures. Ms. Botosan is concerned that the modest improvement in segment disclosures claimed as a result of the issuance of this Update will allow the essential and necessary significant improvements in segment reporting that remain unaddressed to remain so indefinitely.

Members of the Financial Accounting Standards Board:

Richard R. Jones, *Chair*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Frederick L. Cannon
Susan M. Cosper
Marsha L. Hunt
Dr. Joyce T. Joseph

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. Investors, lenders, creditors, and other allocators of capital (collectively, "investors") have observed that segment information is critically important in understanding a public entity's different business activities. That information enables investors to better understand an entity's overall performance and assists in assessing potential future cash flows.

BC3. Feedback on the Post-Implementation Review (PIR) Report on FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information,* which was issued in 2012, indicated overall support from stakeholders for the management approach to segment reporting. That report stated that investors were generally satisfied with the segment note disclosures. A minority of investor survey respondents, approximately one-third, indicated that they were somewhat dissatisfied. Those investors were interested in exploring ways to require additional disclosures about segment information by public entities. Practitioner and academic survey respondents were interested in exploring additional guidance for determining and aggregating segments.

BC4. In 2016, the Board obtained additional feedback from stakeholders on the Invitation to Comment, *Agenda Consultation,* about the major areas of financial reporting in need of improvement. Investors expressed continued support for the management approach to segment reporting; however, many investors indicated that they would prefer that public entities report more segment information. To address those suggestions, the Board decided to undertake a project in 2017 to improve the segment disclosure requirements. The Board evaluated different ways in which the guidance could be changed to be responsive to that feedback. After narrowing the potential approaches, additional investor outreach was performed that indicated support for enhancing the disclosures about a public entity's segment expense information because many investors indicated that this information would be useful for them when performing financial modeling. Accordingly, the Board decided to focus on amendments that would result in (a) additional information about a public entity's significant segment expenses and (b) more timely and detailed segment information being reported throughout the fiscal period. Additionally, in response to the Board's 2021 Invitation to Comment, *Agenda Consultation,* stakeholders continued to express support for the additional segment disclosures being developed in this project.

BC5. On October 6, 2022, the Board issued proposed Accounting Standards Update, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures,* for public comment with the comment period ending on December 20, 2022. The Board received 37 comment letters. During the exposure period, additional outreach with investors was performed. Overall, comment letter respondents and outreach participants supported the Board's efforts to enhance the disclosures about a public entity's reportable segments and agreed that the amendments as proposed would produce decision-useful information and that the amendments are operable. The Board considered investors' and other stakeholders' feedback in reaching the conclusions in this Update, as discussed below.

Background Information

BC6. Topic 280 provides public entities with guidance on how to report certain information about operating segments in annual and interim financial statements. The guidance requires that general purpose financial statements include segment information that is prepared using a method referred to as the management approach. The management approach requires that segment information be reported based on how management internally organizes the segments within a public entity for purposes of allocating resources and assessing performance. That approach allows users to see disaggregated information about the entity through the eyes of management and to assess the performance of the segments in the same way that management reviews them.

BC7. Under the management approach, an entity is first required to identify its operating segments based on the chief operating decision maker's (CODM) perspective. The guidance then allows, but does not require, that entities aggregate their operating segments if certain criteria are met. The operating segments, including those that have been aggregated, are then evaluated against quantitative thresholds to determine an entity's reportable segments.

BC8. The guidance requires that a public entity disclose a measure of profit or loss and a measure of total assets for each reportable segment unless the entity explains the reason for not disclosing a measure of total assets. The reported measures should be those that the CODM uses to make decisions about allocating resources to the segment and assessing its performance. Certain other specified segment items and amounts also are required to be disclosed if those items are included in the reported measures of segment profit or loss and total assets or if they otherwise are regularly provided to the CODM. The guidance also requires that a public entity disclose a reconciliation between the total of certain reported segment amounts and the public entity's corresponding consolidated amounts. Additionally, when the composition of an entity's reportable segments changes, the corresponding segment information for prior periods is required to be recast and presented on a basis that is comparable with the segment information reported in the current period, unless impracticable.

BC9. Most of the guidance in Topic 280 was codified from Statement 131, which was issued in June 1997 and became effective for fiscal years beginning after December 15, 1997. Before the issuance of Statement 131, segment reporting had been required for public entities in accordance with FASB Statement No. 14, *Financial Reporting for Segments of a Business Enterprise*. Statement 131 was issued to address users' concerns that the segment information derived from applying Statement 14, while helpful, was insufficient to meet their needs. The segment reporting guidance has not changed significantly since the issuance of Statement 131.

BC10. To aid in setting its future technical agenda, the Board issued an Invitation to Comment on agenda consultation in 2016 to solicit feedback about the major areas of financial reporting that stakeholders noted should be improved. That Invitation to Comment specifically highlighted four topical areas for stakeholders' consideration, the financial reporting issues related to each topical area, and some of the possible approaches that the Board could consider in addressing the identified issues. Those topics were identified based on the results of a 2015 Financial Accounting Standards Advisory Council survey that was conducted about the FASB's agenda priorities, as well as feedback received from the FASB's other advisory groups and other stakeholders. One of the topical areas focused on the reporting of an entity's performance, including the presentation and display of revenues, expenses, gains, and losses reported in the income statement, in the statement of other comprehensive income, in segment disclosures required under Topic 280, or in other notes to financial statements.

BC11. Many preparer and practitioner respondents to the 2016 Invitation to Comment stated that a fundamental reconsideration of Topic 280 was not needed. However, many preparers and practitioners suggested that targeted improvements to the segment aggregation criteria should be considered to provide greater clarity on how the Board intended for segments to be aggregated. Investors and other users also suggested that improvements to the segment aggregation criteria should be considered because those respondents would generally prefer less aggregation. Many investors and practitioners who responded to the 2016 Invitation to Comment supported exploring ways to require additional information by segment. In 2017, the Board added a project to its technical agenda and directed the staff to conduct two research studies to evaluate how the segment reporting guidance could be improved in each of those two areas.

BC12. In 2018, the Board undertook the first study with preparers to research the potential effect of either (a) improving the aggregation criteria by relying on a practical limit of 10 reportable segments or (b) re-ordering the process for determining a public entity's reportable segments whereby any operating segment that exceeds a quantitative threshold would be separately reportable and any remaining operating segments may be combined. Feedback from preparers identified concerns about the operability of both alternatives. While the alternatives would result in public entities disclosing more reportable segments, both would result in a loss of natural groupings of similar operating segments that share similar economics and would limit the ability to put similar operating segments together within a reportable segment. Both alternatives potentially would have resulted in a large *all other* grouping that would include dissimilar segments. Feedback from the Board's Investor Advisory Committee (IAC) was mixed, and not all IAC members were dissatisfied with the general number of reportable segments of public entities. Rather, those investors were concerned about the level within an organization at which the operating segments are initially identified, which is a result of applying the management approach. IAC members continued to assert that the management approach is a good basis for segment reporting but that the Board should focus its efforts on improving the current disclosure requirements for each reportable segment. The Board observed that the IAC feedback was largely consistent with the input received from the investor survey respondents in the PIR Report on Statement 131. As a result, the Board decided that the costs of either of the two researched alternatives outweighed the benefits. Furthermore, the Board did not identify any other cost-effective improvements to the existing aggregation requirements. To address other improvements on a more timely basis, the Board concluded that the project's scope should not include potential amendments that would have affected how an entity identifies its operating segments, aggregates those operating segments, or applies the quantitative thresholds to determine its reportable segments.

BC13. In 2019, the Board undertook a second study with preparers (2019 Disclosure Study) that considered the effect of various potential changes to the segment disclosure requirements, including principles that would require the disclosure of segment expenses, assets, and liabilities and other potential changes to the information disclosed for each reportable segment. While public entities currently are required to report certain information about a reportable segment's expenses and assets, the 2019 Disclosure Study focused on incremental improvements to add to the existing segment disclosure requirements. Feedback from preparers indicated that changes to the disclosures about a segment's assets and liabilities may not be relevant to a wide cross section of entities. Public entities that engage in insurance, technology, or other service-based industries often may not allocate specific assets at a segment level. Similarly, preparers indicated that many of their liabilities, such as long-term debt, arise at the corporate level or are centrally managed and the liabilities are not allocated to specific segments for internal reporting purposes. Subsequent outreach with investors indicated general support for amending segment disclosures and, in particular, improving the disclosure of segment expenses. The Board further deliberated those issues, which resulted in the amendments in this Update about significant segment expenses.

Benefits and Costs

BC14. The objective of financial reporting is to provide information that is useful for present and potential investors, creditors, and other capital market participants in making investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, and other allocators of capital benefit from improvements in financial reporting, while the costs are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC15. The Board considers the amendments in this Update to be responsive to the concerns raised by investors about the need for more disaggregated information at the segment level and incremental to the existing segment disclosure requirements. Feedback from preparers indicates that most public entities will report additional segment information under the amendments in this Update from what is reported under the existing segment disclosure requirements. The Board also considers that this is one of several projects on the Board's technical agenda that will result in greater disaggregation of financial information for investors. The improved segment disclosures that will result from the amendments are complementary to the efforts in those projects (including improvements to income tax disclosures and disaggregation of income statement expenses) to provide enhanced granularity of financial information.

BC16. In addition to the benefits of retaining the management approach to segment reporting, the Board expects that the amendments in this Update will enhance the segment information that investors receive by expanding the segment disclosures, as follows:

a. Disclosing significant segment expenses is expected to provide investors with enhanced transparency about the expenses of each reportable segment and the components of a segment's profit or loss that aligns with how management internally views segment information (see paragraphs BC33 through BC36).

b. Disclosing qualitative and quantitative information about other segment items is expected to result in incremental information for nearly all public entities, not only those entities that report significant segment expenses (see paragraphs BC71 through BC75).
c. Applying the amendments to a single reportable segment entity creates consistency with disclosure requirements for public entities that have multiple reportable segments and is expected to result in disclosure of incremental information about those entities. Those incremental disclosures are expected to enhance transparency for investors as compared with the disclosures currently required (see paragraphs BC24 through BC32).
d. Disclosing the significant segment expenses categories and amounts and all of the existing annual segment information about a reportable segment's profit or loss and assets on an interim basis results in investors being provided with incremental decision-useful information on a timelier basis (see paragraph BC77).
e. Providing clarity that a public entity may report more than one measure of a segment's profit or loss could result in more segment information being disclosed in a manner consistent with the management approach that responds to investors' feedback that more segment information should be disclosed for each reportable segment, and including that information in the financial statements subjects it to financial statement reporting discipline (see paragraphs BC47 through BC56).
f. Disclosing qualitative information about the title and position of the CODM, the expense information that the CODM uses to manage operations, and how the CODM uses each reported measure of a segment's profit or loss to allocate resources and assess performance is expected to be useful for an investor in understanding the segment information as a whole (see paragraphs BC37, BC73, and BC54, respectively).
g. The recasting of prior-period information for consistency with current-period information when there is a change in the current period to the information that is regularly provided to the CODM results in improved transparency between segment expenses in current and prior reporting periods and enables investors to model current-period segment information with comparable prior-period information (see paragraph BC81).

BC17. The extent of incremental information that will be newly reported under the significant expense principle and the other amendments in this Update may vary across public entities. However, the Board expects that nearly all public entities will disclose new segment information under the amendments. Those benefits should allow financial statement users to better understand the components of a segment's profit or loss to assess the prospects for future cash flows of each reportable segment and the consolidated entity as a whole.

BC18. Based on preparers' and practitioners' feedback, the most cited costs include (a) one-time costs for additional personnel time to understand the requirements, prepare the new disclosures, and reevaluate internal controls over the segment information and (b) recurring incremental audit costs. Some preparers also raised concerns about potential competitive harm, such as competitors having better insights into an entity's cost structure or more detail about profit margins. The Board acknowledges that the expected costs of implementing the amendments in this Update will vary among public entities, in particular because of the variability in the level of segment expense detail provided to a public entity's CODM. The Board observed that many of those costs are similar to costs incurred for any new disclosure requirement.

BC19. The Board decided to align the amendments in this Update with the management approach to segment reporting to mitigate application costs. The Board expects that the information disclosed under the amendments should be mostly consistent with the information that a public entity already prepares internally and communicates to management. Therefore, the Board anticipates that most public entities will not incur undue costs in complying with the amendments.

BC20. Overall, as further explained in additional detail below, the Board concluded that the expected benefits of the amendments in this Update justify the expected costs.

Basis for Conclusions

Scope

BC21. The amendments in this Update introduce a disclosure principle in Topic 280 that requires that public entities report, on an annual and interim basis, incremental information about significant segment expenses included in a segment's profit or loss measure. The Board decided to focus on expense information in this segments project after considering feedback from stakeholders, which indicated that investors frequently request more detailed expense information. Additional expense information helps investors better assess financial trends, perform more precise financial modeling when forecasting the components of an individual segment's profit or loss, and better evaluate an entity's business activities. Additionally, some investors indicated that understanding the composition of an entity's expenses at the segment level and how the related amounts vary over time is helpful in signaling when major changes occur within the business. Investors also stated that additional expense information by reportable segment would complement the data received from other sources (for example, information outside the financial statements within other public filings, earnings releases, and management's discussion and analysis) and could be used by investors to challenge and confirm explanations provided by management about an entity's current and expected future performance.

BC22. Investors encouraged the Board to improve the segment disclosure requirements. Although some investors provided feedback on other potential areas of enhancement of segment disclosures, the Board decided to focus the amendments in this Update on investors' highest priority disclosure, which was segment expenses, because this approach strikes a balance between making improvements that would best respond to investors' feedback and the length of time before those changes are reflected within the segment disclosures of public entities. Moreover, feedback on the 2012 PIR Report and investor outreach throughout deliberations indicated overall investor support for the management approach to segment reporting. The Board observed that any project seeking to undertake more fundamental changes to the segment reporting guidance, such as the identification of operating segments, could depart from the management approach and may have taken many more years to finalize, thereby delaying the improved disclosures provided by the amendments. It also could have affected the application of other Codification Topics that rely on the definition of an operating segment.

BC23. The amendments in this Update apply to all public entities. A few comment letter respondents asked for an exception to the requirements in Topic 280 for certain types of public entities, including (a) wholly owned subsidiaries that file financial statements with the Securities and Exchange Commission and (b) nonissuer broker-dealers. The Board considered that feedback and decided not to change the scope of entities within Topic 280.

Single Reportable Segment Entities

BC24. Topic 280 requires that single reportable segment entities apply the entity-wide disclosures in paragraph 280-10-50-38; however, it was previously silent about whether those entities were required to apply the other existing segment disclosures and reconciliation requirements on an annual or interim basis. Academic research indicates that approximately one-third of public entities report their results as a single reportable segment entity. The Board decided that the amendments in this Update should apply to all public entities and, therefore, single reportable segment entities should apply both the significant expense principle and the existing segment disclosures. During deliberations, the Board acknowledged that because of the inconsistency in how single and multiple reportable segment entities apply the existing segment disclosure requirements, this decision would be a significant change in practice that will provide investors with additional and enhanced transparency. The Board observes that this requirement applies to all entities, including an entity that has identified a single operating segment.

BC25. This requirement results in investors being provided with additional information for entities within the scope of Topic 280 in a manner consistent with the management approach and reduces potential incentives for public entities to aggregate operating segments into a single reportable segment to avoid disclosing information required by the amendments in this Update.

BC26. Stakeholders generally supported requiring that all public entities, including single reportable segment entities, apply both the significant expense principle and the existing segment disclosures. Because it may not be apparent how the financial information of an entity with a single reportable segment may be different from the entity’s consolidated financial information, some respondents requested additional guidance on how the requirements apply to entities with a single operating segment.

BC27. Paragraph 280-10-50-5 states that the function of the CODM is to allocate resources to, and assess performance of, a segment. That function is the same regardless of whether a public entity has identified one or more operating segments. The Board observed that the concept of allocating resources is a consideration of how a CODM directs the public entity’s resources to the business activities, not just how resources are directed among or across the segments. While a CODM of a single reportable segment entity with a single operating segment does not allocate resources among segments, the CODM is responsible for allocating the entity's resources. Depending on facts and circumstances, the measure of segment profit or loss that is used by the CODM of an entity with a single operating segment may, while addressing both, focus more on assessing performance than allocating resources.

BC28. In response to stakeholders' feedback, the Board decided to include additional implementation guidance to clarify its intent that all public entities, including those with a single operating segment, are required to apply all of the guidance within Topic 280. That implementation guidance emphasizes that an entity may distinguish the business activities of the single operating segment from the consolidated entity based on the definition of an operating segment. In particular, paragraph 280-10-50-4 states that not all parts of a public entity are an operating segment or part of an operating segment, for example, corporate headquarters or certain functional departments.

BC29. Consistent with the requirements of multi-segment entities, a public entity with a single operating segment should identify the measure or measures of the segment's profit or loss that the CODM uses in assessing segment performance and deciding how to allocate resources. The Board expects that those measures generally will be apparent from the internal management reports that are regularly provided to the CODM.

BC30. The Board acknowledges that the measure or measures of segment profit or loss that are used by the CODM in assessing performance and deciding how to allocate resources may distinguish the results of a single operating segment from the consolidated entity, such as operating income that excludes corporate costs (similar to a multi-segment entity with a measure of segment profitability that excludes certain corporate costs). Some comment letter respondents also indicated that a CODM may use a consolidated profit or loss measure that is presented on a public entity's income statement, such as consolidated operating income, as well as a consolidated profit or loss measure that is not presented on the consolidated income statement, such as earnings before interest, taxes, depreciation, and amortization expense (EBITDA).

BC31. If the CODM of a single reportable segment entity uses more than one measure of profit or loss in assessing segment performance and deciding how to allocate resources, at least one of the reported segment profit or loss measures should be that which management believes is determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the public entity's consolidated financial statements. A single reportable segment entity may report additional measures of segment profit or loss that are used by the CODM in assessing segment performance and deciding how to allocate resources.

BC32. Some comment letter respondents indicated that when a CODM of a single operating segment entity uses a consolidated profit or loss measure that is presented on a public entity's income statement, the disclosures required by the significant expense principle and the existing segment requirements from paragraphs 280-10-50-22 and 280-10-50-25 could result in duplicating all or certain parts of the information from the primary financial statements in the segment footnote. While duplication is not prohibited, the Board believes that duplication of the entire consolidated income statement in the segment footnote is unnecessary; rather, a public entity may choose to reference the primary financial statements in the segment footnote. The Board understands that public entities apply judgment when deciding whether to repeat certain information within a set of financial statements and expects that entities will apply similar judgment when applying the amendments in this Update.

Significant Expense Principle

BC33. The Board decided to require that a public entity disclose the significant segment expense categories and amounts that are regularly provided to the CODM on a segment basis and included within each reported measure of a segment's profit or loss ("the significant expense principle"). To apply the significant expense principle, an entity should first identify the segment level expense information that is regularly provided to the CODM. The entity should evaluate that information to identify those segment expenses that are included in each reported measure of a segment's profit or loss. The entity should then disclose those identified segment expense categories and amounts that are significant.

BC34. The Board observed that applying the significant expense principle would be consistent with the CODM's perspective because the conditions on which the significant expense principle is based align with the information the CODM receives. Furthermore, feedback from IAC members indicated that understanding when a CODM does not use segment expense information to assess performance also would be informative. Additionally, the Board concluded that applying the significant expense principle would produce additional segment expense disclosures without entities incurring a significant amount of additional cost.

BC35. Many investors indicated that disclosures about an entity's significant segment expenses under the management approach would result in decision-useful information. Because the significant expense principle leverages information provided to the CODM, the extent of additional information disclosed by a public entity will vary depending on the level of expense information provided to a public entity's CODM. That is, the significant expenses may vary between reportable segments within an entity, between entities in the same industry, or across different industries. The variation in information disclosed is expected to be informative for investors because it should provide insight into how an entity manages its segments and how one entity's approach might differ from the approach of another entity operating in the same or similar industries. Some investors further stated that while entities within the same industry may develop reporting conventions over time that could result in similar expense categories being reported, that outcome would still produce decision-useful information. While the significant expenses may vary between reportable segments, investors indicated that it would be important to obtain information about the same expense categories within a reportable segment over time, so that baseline expectations can be established and trends can be analyzed on an ongoing basis.

BC36. During the initial outreach discussions before the proposed Update was issued, financial statement preparers indicated that they generally would be able to identify their segment's expenses for disclosure purposes if required to do so. Additionally, although some indicated that they do not report detailed expense information to their CODMs, more than half of the preparers included in the outreach discussions highlighted that they currently report segment expense information to their CODMs for internal reporting purposes. Similarly, half of comment letter respondents that are preparers indicated that they will likely disclose additional segment expense information under the significant expense principle. Preparers also generally preferred a principles-based disclosure requirement instead of a more prescriptive requirement to disclose specific segment expenses because the incremental disclosures will reflect information from the CODM's perspective.

BC37. Because segment reporting is based on the management approach, the Board concluded that it will be helpful for investors to understand who or what group within an entity is identified as the CODM. Therefore, the Board decided to require that an entity disclose the title and position of the individual or the group that is the CODM. The Board reasoned that knowledge of the title and position of the CODM within an organization will be useful in providing context for the disclosed segment information. In addition, the Board determined that this information is readily available to be disclosed without additional cost. Most comment letter respondents did not object to the requirement to disclose the title and position of the CODM. In addition, many investors stated that disclosing the CODM's title and position would provide helpful context to the segment information as a whole and may facilitate their ability to ask better questions of management.

Information That Is Regularly Provided to the CODM

BC38. Topic 280 uses the term *regularly reviewed* information within the definition of *operating segment* when referring to the information that a CODM uses to allocate resources and assess performance. Topic 280 also uses the term *regularly provided* information when referring to the frequency with which the CODM receives segment information when determining whether certain segment items and amounts must be reported under existing disclosure requirements. The Board decided to base the significant expense principle on the information that is regularly provided to the CODM to align with the same term in the existing segment disclosure requirements. Because the term *regularly provided* information is undefined, the Board understands that entities apply judgment when determining whether certain segment items and amounts provided to the CODM must be disclosed under existing disclosure requirements.

BC39. Most comment letter respondents did not object to or disagree with using the term *regularly provided*. However, a few comment letter respondents suggested that the Board revise the significant expense principle to require disclosure of information that is *regularly reviewed* by the CODM, rather than information that is *regularly provided*. Those respondents noted that a CODM may receive large amounts of information by segment that is not reviewed or used by the CODM. Those respondents suggested that basing the significant expense principle on *regularly reviewed* information will result in the disclosure of segment expense categories and amounts that are more relevant to investors because it will reflect the information that management reviews and uses. The Board considered that suggestion but concluded that limiting the significant expense principle to information that is *regularly reviewed* by the CODM may result in less information being disclosed, as compared with *regularly provided* information. Furthermore, the Board concluded that basing the significant expense principle on *regularly provided* information better aligns with the segment expense information that is already being prepared and communicated within internal management reports.

BC40. Some comment letter respondents also suggested including additional guidance to clarify the meaning of *regularly provided* information. As part of the 2019 Disclosure Study, the Board considered whether additional standard setting was necessary to clarify the term *regularly provided* information, specifically, whether clarifying the frequency of both (a) the internal management reports that are provided to the CODM and (b) the information communicated within the internal management reports would be an improvement. Feedback from the 2019 Disclosure Study indicated that clarifying the frequency of when segment information is considered "regular" would affect the practice and interpretation of both *regularly provided* information and *regularly reviewed* information. That outcome could have affected segment identification.

BC41. As a result of the 2019 Disclosure Study feedback, the Board decided not to clarify the term *regularly provided* information in the amendments in this Update. Furthermore, most comment letter respondents indicated that entities are generally able to comply with existing segment disclosure requirements and apply judgment when identifying the segment information that is *regularly provided* to the CODM. Thus, the Board concluded that an entity will be able to use judgment when applying the term within the context of the significant expense principle, which generally aligns with the way in which management's reports are prepared.

BC42. In developing the significant expense principle, the Board considered feedback received from preparers that the segment expense information regularly provided to the CODM may include information distributed electronically, in dashboards, or in paper format and may be in a form other than a caption and actual amount (for example, advertising expense expressed as a percentage of revenue) or the information can be computed on the basis of other segment amounts or ratios that are regularly provided to the CODM.

For example, cost of sales can be computed when segment revenue and segment gross margin or gross margin percentage are provided. Accordingly, the Board decided to include an easily computable concept in its amendments to the disclosure requirements in paragraph 280-10-50-26A to capture that information.

BC43. The Board concluded that the significant expense principle should be based on the substance of the segment information that is regularly provided to the CODM rather than on its form. Additionally, the Board observed that it is useful to include an easily computable concept as part of the amendments in this Update to ensure that the objective of the disclosure is met and that investors receive relevant information about significant segment expenses.

BC44. In making its decision, the Board acknowledged that when an entity is determining whether certain expenses are being regularly provided to the CODM for a segment, using the phrase *easily computed* introduces some subjectivity about a calculation's perceived level of difficulty. The examples included in the amendments in this Update illustrate some ways in which entities may apply the concept. However, those examples are not intended to contemplate all possible forms in which segment information may be reported to the CODM, which can vary across entities and industries. The examples are not intended to limit the types of segment expenses that may be subject to the significant expense principle or limit the easily computable concept to specific forms of segment information. The Board expects that public entities will be able to apply the easily computable concept consistently without creating additional cost or complexity. No comment letter respondents raised concerns about the operability of this requirement.

BC45. A few comment letter respondents requested that the Board clarify how the significant expense principle applies when the segment expense information that is regularly provided to the CODM and included within the measure of segment profit or loss contains an expense category and amount for corporate overhead expense that is allocated to the segments. That is, allocated overhead may be included within the measure of segment profit or loss and presented as a standalone segment expense category and amount in the management reports that are regularly provided to the CODM. Those respondents indicated that the standalone amount for allocated overhead by segment may be quantitatively large but is not considered important to how the CODM allocates resources and assesses segment performance. Those respondents preferred that the category and amount for allocated overhead by segment should be exempt from the significant expense principle and included within other segment items (see paragraph BC72). Conversely, feedback received through investor outreach indicated that investors would prefer greater transparency of the corporate overhead expenses that are allocated to the reportable segments and included within the measure of segment profit or loss.

BC46. As part of its redeliberations, the Board observed that the significant expense principle was developed to align with the information that is regularly provided to the CODM and included in the measure of segment profit or loss. The Board concluded that it would be contradictory to the significant expense principle for allocated overhead by segment to be treated differently than all other segment expenses that are regularly provided to the CODM and included the measure of segment profit or loss. The Board decided to include additional implementation guidance in the amendments in this Update to illustrate how the significant expense principle applies in those cases.

Reported Measures of a Segment's Profit or Loss

BC47. Topic 280 requires that a public entity disclose a measure of segment profit or loss that the CODM uses for purposes of assessing segment performance and deciding how to allocate resources. That is, the guidance does not prescribe the specific measure of profit or loss that an entity is required to report. This means that a public entity reports information about the performance of the segments in the same way that management receives it.

BC48. During deliberations, the Board received requests from stakeholders to clarify whether the significant expense principle should be applied to each reported measure of a segment's profit or loss. At present, the guidance in Topic 280 acknowledges that a CODM may use more than one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources. The Board concluded that the significant expense principle should be applied to each reported measure of a segment's profit or loss because that would result in investors receiving more information about a segment's expenses, which is consistent with the level of information regularly provided to the CODM.

BC49. The Board also decided to clarify that a public entity may report more than one measure of a segment's profit or loss as long as all reported measures are used by the CODM in assessing segment performance and deciding how to allocate resources. However, the reported measures must include the segment profit or loss measure that is most consistent with GAAP measurement principles. In other words, in addition to the measure that is most consistent with GAAP measurement principles, a public entity is not precluded from reporting additional measures of a segment's profit or loss that are used by the CODM in assessing segment performance and deciding how to allocate resources. The Board acknowledged that this decision may include segment profitability measures that are not determined in accordance with the measurement principles used in measuring the corresponding amounts in the public entity's consolidated financial statements.

BC50. In reaching that conclusion, the Board observed that when a CODM uses only one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, the existing guidance requires disclosure of that measure even when the measure is not prepared in accordance with the measurement principles most consistent with GAAP. The Board also concluded that this decision responds to investors' feedback from both the IAC and the PIR Report on Statement 131 that indicated support for the management approach to segment reporting but that also requested that public entities disclose more information for each reportable segment.

BC51. The Board clarified that the existing segment disclosures in paragraphs 280-10-50-22 through 50-24 and 280-10-50-29, the significant expense principle and other segment items in paragraphs 280-10-50-26A through 50-26C, and the reconciliation requirements in paragraph 280-10-50-30(a) and (b) should apply to segment revenue and each reported measure of a segment's profit or loss. The Board decided that this outcome aligns with the management approach because if a CODM internally receives and uses multiple measures of segment profitability in assessing segment performance and deciding how to allocate resources, then that information would be of interest to investors. The Board also observed that the outcome of this amendment may be that certain measures of a segment's profit or loss currently reported outside the financial statements, such as in earnings releases, may be incorporated into the audited financial statements.

BC52. Most investors and other stakeholders supported the amendments in the proposed Update related to disclosure of multiple measures of a segment's profit or loss and supported the Board's decisions to require (a) that the existing segment disclosures, the significant expense principle, and other segment items apply to each reported measure and (b) a reconciliation of the total of the reportable segments' amount for each measure of profit or loss to the public entity's consolidated income before income taxes in accordance with paragraph 280-10-50-30(b). Stakeholders noted that the disclosure of additional measures could provide incremental information and insight into how the CODM views and measures segment performance. Additionally, by including the information in the segment footnote, it subjects the information to auditing and internal controls over financial reporting.

BC53. Several comment letter respondents suggested ways to limit public entities from selectively reporting an additional measure of a segment's profit or loss in one period but not in another. In response to those recommendations, the Board decided to require that any additional measure of a segment's profit or loss reported in the current period also be reported in the comparative periods when that measure was provided to the CODM in those periods. For example, if an entity voluntarily presents EBITDA for a reportable segment in the current period, it also should disclose EBITDA for the reportable segment in the prior comparative periods if EBITDA was provided to the CODM in those periods. The disclosure requirements in paragraphs 280-10-50-22 through 50-24 and the significant expense principle apply to each reported measure of segment profit or loss in each period presented, and the reconciliation requirements in paragraph 280-10-50-30(b) apply to the total of the reportable segments' amount for each profitability measure.

BC54. While most comment letter respondents supported the Board's decision, several respondents cautioned that it could lead to the proliferation of "non-GAAP" information within the financial statements. Some stakeholders also expressed concern that a public entity potentially could report an additional measure that is only occasionally reported to the CODM or is misleading in nature. The Board observed that the amendments in this Update only allow the disclosure of a segment's profit or loss measure that is used by the CODM in assessing segment performance and deciding how to allocate resources. That is, a public entity is not permitted to disclose a measure of a segment's profit or loss that is not used by the CODM for that purpose. In response to stakeholders' concerns and to provide investors with additional transparency, the Board also decided to require that a public entity include a narrative explanation of how its CODM uses the reported measure(s) of a segment's profit or loss in assessing segment performance and deciding how to allocate resources. The Board decided to require that disclosure for all public entities, including those that disclose only one measure of segment profit or loss.

BC55. The Board concluded that the collective set of requirements to (a) disclose the title and position of the CODM, (b) allow disclosure of multiple measures of a segment's profit or loss that a CODM uses to allocate resources and assess performance, and (c) provide a narrative explanation of how the CODM uses the reported measure(s) of a segment's profit or loss provides investors with useful information and contextualizes the segment information.

BC56. The Board's decisions on the significant expense principle do not affect the reported measure of a segment's assets, and stakeholders' feedback did not indicate a need for the Board to clarify whether a public entity is allowed to report multiple measures of a segment's assets. Comment letter respondents similarly stated that a CODM generally receives only one measure of a segment's assets. Therefore, the Board decided not to extend the decision that a public entity may report more than one measure of a segment's profit or loss to other types of measures that are used by a CODM.

Significance Threshold

BC57. The guidance in Topic 280 uses the term *significant* in various aspects. For example, the guidance requires that public entities disclose significant noncash items (other than depreciation, depletion, and amortization expense). The guidance does not define the term *significant* or specify how an entity may interpret its meaning. The Board is unaware of practice issues with the current use of this term, and stakeholders indicated that when determining whether information is significant under existing segment disclosure requirements, entities consider characteristics that are quantitative, qualitative, or a combination of both, depending on an entity's facts and circumstances. As a result, the Board did not propose additional guidance about how to apply the significance threshold in the proposed Update.

BC58. Most comment letter respondents to the proposed Update indicated that the significance threshold is operable. Stakeholders noted that the significance threshold is important for operability because a CODM may be regularly provided with voluminous amounts of information by segment. Without a significance threshold, incremental guidance may have been needed to address those cases. However, many observed that applying the significance threshold may require judgment and recommended that the Board clarify certain aspects to reduce potential diversity from developing. Some stakeholders acknowledged that the basis for conclusions in the proposed Update indicated that entities are likely to consider quantitative and qualitative factors when evaluating significance but recommended that the Board explicitly state in the Codification that an evaluation of quantitative and qualitative factors is required. The Board agreed that including that language in the Codification would clarify the Board's intent and aid practice in applying the significance threshold.

BC59. Several stakeholders recommended clarifying whether the significance threshold is applied at the segment level or the consolidated level. Other stakeholders suggested clarifying whether significance is based on (a) what management considers to be significant when deciding to allocate resources to the segment and assess its performance or (b) whether it is probable that the judgment of a reasonable person relying upon the financial report would have changed or been influenced by including the information that was omitted. During redeliberations, the Board discussed those two aspects. The Board observed that segment information that if omitted would change a user's understanding about a segment to such a degree that it would change the user's capital allocation decisions about an entity as a whole is significant even though an item of a similar magnitude might not be considered significant if it were omitted from the consolidated financial statements. The Board further observed that this application of the significance threshold is largely consistent with the views in paragraph 78 of the basis for conclusions of Statement 131.

BC60. The Board considered whether to permit public entities to combine or group expenses that have been identified from the information that is regularly provided to the CODM before applying the significance threshold and also whether to allow aggregation of expenses at the same level as the corresponding caption on the consolidated income statement. Some preparers indicated that combining expenses into groups (for example, based on similar nature or function) would align the disclosure of segment expenses in the notes to financial statements with how an entity discusses its operating results in the management's discussion and analysis section of its public filing. Some preparers also expressed a concern that, in some instances, disclosing segment expenses on a more disaggregated basis may be competitively harmful. Allowing entities to combine segment expenses would address aspects of those concerns.

BC61. The Board decided not to provide additional guidance in this area. In making its decision, the Board highlighted that the narrative included in the management's discussion and analysis section of an entity's public filing is intended to discuss the results of a public entity's operations, including segment information. That purpose is different from requiring disclosure of information under the significant expense principle. The Board observed that if segment expense categories are regularly provided to the CODM on a disaggregated basis and included in the measure of segment profit or loss, investors also would likely find that information useful. In addition, the Board was concerned that introducing a step within the significant expense principle to combine expenses into groupings or allow the aggregation of expenses at the same level as the corresponding caption on the consolidated income statement would depart from the management approach, require additional judgments by management, and increase costs for preparers.

Alternative Approaches Considered by the Board

BC62. The Board considered three alternative approaches when developing the significant expense principle. The Board acknowledged that each alternative approach may have resulted in incremental segment expense information compared with the approach included in the amendments in this Update. However, in evaluating both the benefits for investors and other financial statement users under each alternative and the costs for public entities, the Board concluded that an appropriate balance would be achieved by the significant expense principle in the amendments in this Update. One alternative approach would have required that a public entity disclose the significant segment expenses that are either included in the reported measure of segment profit or loss or otherwise regularly provided to the CODM on a segment basis (even if those expenses are not included in the segment profit or loss measure). Under this approach, an entity would disclose the segment expenses that meet either of those two conditions, which is similar to the existing segment disclosures in paragraph 280-10-50-22.

BC63. The second alternative approach considered would have required that a public entity disclose the significant segment expenses that are included within the measure of segment profit or loss, regardless of whether the CODM is regularly provided with segment-level expense information.

BC64. The Board rejected both of those approaches because it decided that the expected benefits would not justify the expected costs. Under those approaches, a public entity would have been required to report segment expenses that are not regularly provided to the CODM, which departs from the management approach and could have resulted in a public entity preparing and reporting segment information that is not used by the CODM to allocate resources and assess performance. While preparer outreach indicated that in nearly all instances entities would be required to disclose additional information about segment expenses under those approaches, the Board agreed with stakeholders' concerns that those approaches potentially would create significant operability concerns and undue cost and complexity within the financial reporting system. This is because segment information is typically based on the amounts regularly provided to the CODM, which may not always be prepared in accordance with GAAP recognition and measurement methods. To require disclosure of specific expense categories and amounts under those approaches would have necessitated that the Board define those expense categories and amounts, which would have been challenging. The Board's view is that the significant expense principle in the amendments in this Update can be implemented without substantial effort and will result in a public entity reporting additional segment information in its financial statements on an expedited basis.

BC65. The third alternative approach would have required that a public entity disclose the significant segment expenses that are regularly provided to the CODM for a segment, regardless of whether the expenses are included in the reported measure of segment profit or loss. The Board acknowledged that not all public entities provide the CODM with segment expense information. However, investors indicated that the management approach provides useful segment information. The Board concluded that this approach is incremental to what is currently required by Topic 280. The Board considered preparers' feedback that a CODM may be regularly provided with segment expenses that are both inside and outside the reported measure of segment profit or loss. The Board decided that the significant expense principle should include the segment expenses that are inside the reported profit or loss measure based on operability considerations. Therefore, the Board decided to narrow the significant expense principle in the amendments in this Update to require disclosure of the significant expense categories that are both regularly provided to the CODM and included within reported segment profit or loss.

BC66. Most respondents and outreach participants supported the approach in the proposed Update that a public entity should disclose the significant segment expense categories and amounts that are (a) regularly provided to the CODM on a segment basis and (b) included within reported segment profit or loss. Notwithstanding, some comment letter respondents supported one or more of the alternative approaches or a rules-based approach (such as specified quantitative thresholds) to requiring disclosure of a public entity's segment expenses. Outreach indicated that some investors supported the alternative approaches. Nevertheless, most investors noted that the significant expense principle in the amendments in this Update permits better modeling and analysis of a public entity's reportable segments than the information that is reported under the existing requirements and provides insight by using the management approach. Given the broad support from stakeholders and investors' feedback that the significant expense principle would provide decision-useful information, the Board decided to affirm the significant expense principle during redeliberations.

Interaction with Existing Segment Disclosure Requirements

BC67. As part of its deliberations, the Board considered what the outcome of applying the significant expense principle would be, how that outcome would interact with current segment disclosure requirements in interim and annual financial statements, and the overall decision usefulness of the segment expense information that would be disclosed.

BC68. One possible outcome of applying the amendments in this Update may be that certain segment expenses that are required to be disclosed under the existing segment disclosures may also meet the criteria for disclosure under the significant expense principle. That is because Topic 280 requires that certain specified segment expense information, such as depreciation and amortization expense, be disclosed when the items are regularly provided to the CODM, regardless of whether the items are included in reported segment profit or loss. On the basis of those existing disclosure requirements, the Board considered whether retaining the existing segment expense disclosure requirements would be necessary.

BC69. The Board decided to retain the existing segment expense disclosure requirements. The Board acknowledged that those requirements were specifically included in Statement 131 to address stakeholders' feedback that certain segment expense items should be disclosed, which may provide an indication of the cash-generating ability or cash requirements of an entity's operating segments. Therefore, the purpose of the existing segment expense disclosures is different from the Board's reasoning for requiring disclosure of the significant segment expenses. The significant expense principle is intended to result in the disclosure of segment expense categories and amounts that provide users with insight into how segment expense information is viewed by the CODM. Additionally, the Board concluded that if the existing segment expense disclosure requirements were removed, public entities may report less information in their segment disclosures, which would contradict the Board's objective for undertaking this project.

BC70. In some cases, other Topics within the Codification require that certain information be disclosed for each reportable segment. For example, Topic 420, Exit or Disposal Cost Obligations, and Topic 350, Intangibles—Goodwill and Other, require disclosure of certain exit or disposal activity expenses and goodwill impairment by reportable segment. The amendments in this Update do not affect the existing requirements of other Topics to disclose certain information by segment or how those Topics are applied. A public entity should disclose segment expenses under the significant expense principle based on the guidance in Topic 280 and disclose certain information by segment required by other Codification Topics.

Other Segment Items

BC71. Another possible outcome that the Board considered was that some segment expenses included in reported segment profit or loss may not be separately disclosed under either the guidance in paragraph 280-10-50-22 or the significant expense principle, for example, when a public entity does not regularly provide segment expense categories and amounts to the CODM. Investors' feedback indicated that segment expense information has limited usefulness unless the information is considered in a holistic context, for example, when the segment expense categories and amounts can be understood in relation to other items that affect segment profitability.

BC72. Consequently, the Board decided that for each reportable segment, an entity is required to disclose an amount for *other segment items.* Other segment items represent the difference between (a) reported segment revenues less the segment expenses disclosed under the significant expense principle and (b) reported segment profit or loss. That amount may include (i) the total amount of a segment’s expenses that are included in the reported measure(s) of segment profit or loss but are not regularly provided to the CODM, (ii) the total amount of a segment’s expenses that are not significant, or (iii) the total of gains, losses, and other amounts that are included in each reported measure of a segment’s profit or loss. A description of the composition of other segment items also should be disclosed. Other segment items may include amounts for the existing segment expense disclosures under paragraph 280-10-50-22, such as depreciation expense, unless those disclosures also are reported under the significant expense principle. That is, the requirements to disclose segment expenses under the significant expense principle and an amount for other segment items may be incremental to the segment information reported in accordance with paragraph 280-10-50-22.

BC73. Disclosing an amount for other segment items is required even when a public entity does not separately report expenses under the significant expense principle. The Board concluded that a public entity should disclose the nature of the expense information that the CODM uses to manage operations if the entity does not disclose expenses under the significant expense principle for one or more of its reportable segments. For example, a public entity should explain that the CODM is provided with budgeted or forecast expense information for those reportable segments or may use consolidated expense information. The Board concluded that such an explanation will allow an investor to understand why the entity has not separately disclosed information under the significant expense principle.

BC74. Some comment letter respondents expressed concern about the cost of providing the other segment items disclosures. Furthermore, a few respondents requested additional guidance on the level of granularity required when describing the composition of other segment items. The Board acknowledged that there may be additional preparation costs associated with those disclosures; however, most investors supported disclosing an amount and description for other segment items and noted that the information would be decision useful. The Board observed that a public entity should use judgment when describing the composition of other segment items and that the amendments in this Update include an example illustrating how a public entity may address that requirement. Similarly, the Board also acknowledged that there is broad investor support for disclosing the nature of the expense information that the CODM uses to manage operations if the entity does not disclose significant expenses for one or more of its segments.

BC75. Paragraph 280-10-50-26B states that an expense may be significant for one segment but not significant for another of a public entity's segments. In those cases, for the reportable segment(s) for which the segment expense is not significant, a public entity may separately report the segment expense that is not significant or, alternatively, a public entity may include it as part of the amount for other segment items. No comment letter respondents disagreed with this guidance; however, a few respondents suggested that the Board further clarify that guidance. The Board decided to amend the implementation example in paragraph 280-10-55-48 to illustrate how professional services expense may be significant for some reportable segments and included as a component of other segment items for other reportable segments.

Interest Expense for Financial Operations Segments

BC76. The Board observed that under the current guidance in paragraph 280-10-50-22 a public entity may disclose a net interest revenue amount for a segment, rather than separate amounts for gross interest revenue and gross interest expense, when (a) a majority of the segment's revenues are from interest and (b) the CODM primarily relies on the net interest revenue amount to assess segment performance and allocate resources. The Board considered the interaction of that guidance with the significant expense principle and decided that the amendments in this Update should require that a public entity disclose gross interest expense when that amount meets the criteria in paragraph 280-10-50-26A, even if the public entity meets the conditions in paragraph 280-10-50-22 for disclosing net interest revenue for a financial operations segment. The Board also observed that the easily computable guidance requires that an entity disclose interest expense in cases in which a CODM is regularly provided with information about interest revenue and net interest margin. The Board concluded that this outcome will result in equivalent application of the significant expense principle between financial segments and nonfinancial segments.

Interim Disclosures

BC77. During its deliberations, the Board observed that some, but not all, segment items specified in paragraphs 280-10-50-22 and 280-10-50-25 are required to be disclosed in interim periods as well as in annual periods. For example, when financial statements are prepared on a quarterly basis, Topic 280 requires disclosure of segment revenues and segment profit or loss for the current quarter and year to date. However, that Topic does not require depreciation, depletion, and amortization expense to be disclosed in the interim financial statements. The Board decided that the significant expense principle and all existing segment items about a reportable segment's profit or loss and assets should be disclosed on an interim and annual basis. A public entity is required to disclose a reconciliation of segment profit or loss on an interim basis, while additional interim reconciliations for other segment amounts are permitted but not required by the amendments in this Update. Comment letter respondents and outreach participants supported this decision. Both preparers' feedback and investors' feedback indicated that many public entities will report some incremental information on an interim basis as a result of this decision. The Board concluded that this decision will result in more timely decision-useful information for users without placing significant additional burden on preparers because the interim segment information is generally expected to be available from an entity's existing financial systems and records.

Other Considerations

BC78. While the segment expense categories and amounts reported under the significant expense principle are based on the information that a public entity regularly provides to its CODM, preparers' feedback indicated that the amounts provided to the CODM often do not reconcile total segment expenses to the consolidated expense totals. The Board acknowledged that several operability complexities could arise if a reconciliation were required. Those include when segment expenses that are regularly provided to the CODM are not aligned with the accounting methods used to recognize and measure the consolidated expense amounts and the same types of expense items are included in more than one segment expense category.

BC79. Comment letter respondents generally agreed that operability complexities could arise if a reconciliation were required. Specifically, the segment expense categories are based on the information that is regularly provided to the CODM under the management approach, whereas the consolidated income statement line items are based on GAAP requirements. Feedback from investors indicated that the existing reconciliation requirements for the total of the reportable segments' revenues and profit or loss provide sufficient information about the segment information as a whole. Investors also indicated that the absence of a reconciliation of significant expense information would not significantly diminish the decision usefulness of the segment information provided and that investors would be able to compare segment information with the consolidated results and ask management questions about the differences.

BC80. Accordingly, the Board decided not to require that a public entity reconcile the total of the reportable segments' amount for each significant expense category to its corresponding consolidated expense amount and not to require that the public entity disclose how the significant expense categories and amounts reconcile to relevant consolidated income statement line items. The Board concluded that applying the significant expense principle will still result in public entities disclosing incremental segment information that is useful for investors, even without the total of the reportable segments' amount for each expense being reconciled to its corresponding consolidated expense amount. This is because the segment expenses that would be disclosed under the principle provide an enhanced understanding of the components of a segment's profitability.

BC81. Topic 280 requires that an entity recast (previously referred to as restatement; see below) prior-period segment information that is presented in the current-period financial statements on an annual and interim basis when there is a change in the composition of an entity's reportable segments, unless doing so is impracticable. The Board decided that those recasting requirements also should apply to segment expense categories disclosed under the significant expense principle. That is, previously reported segment expense categories and amounts should be recast in the current period when there is a change in the composition of reportable segments, unless impracticable. In addition, the Board decided that an entity should recast the significant segment expense categories and amounts reported in prior periods to conform with the segment expense categories in the current period when the entity changes its internal reports and the segment expense information that is regularly provided to the CODM changes in the current period, unless it is impracticable. If the prior period segment information is not recast, a public entity should disclose segment information for the current period under both the old and the new significant expense categories. The Board concluded that this will allow investors to evaluate and model the current-period information with comparable information of prior periods. The Board also decided that a public entity is not required to recast prior-period segment expense categories and amounts in the current period as a result of changes in measurement methods, although it is preferable to do so, to remain consistent with the existing recasting requirements when there is a change in measurement methods.

BC82. Some stakeholders requested clarity on the recasting of prior-period segment information when a segment expense that is regularly provided to the CODM is significant in the current period but was not significant in a prior period and, conversely, when a segment expense is not significant in the current period but was significant in a prior period. The Board observed that the significance threshold is used in several disclosure requirements of Topic 280 and that public entities have developed practices for recasting prior-period information when segment information meets or no longer meets significance in the current period. The Board also observed that the guidance in paragraphs 280-10-50-16 through 50-17 is relevant in considering when to recast prior-period segment expense information under the significant expense principle. That is, if management determines that a segment expense that was significant in the prior period(s) and is not significant in the current period is expected to be of continuing significance, information about that segment expense should generally continue to be reported separately in the current period. Conversely, if a segment expense is identified as significant in the current period, prior-period segment data presented for comparative purposes should generally be recast to reflect the newly significant expense even if that expense was not significant in the prior period. The Board expects that a public entity will consider recasting prior-period information for the significant segment expenses in a manner similar to how a public entity applies the recasting requirements in paragraphs 280-10-50-16 through 50-17. The Board also observes that a change in an expense's significance in the current period may coincide with a change in the segment information that is regularly provided to the CODM.

BC83. During its deliberations, the Board observed that Topic 280 uses the term restatement when referring to the recasting requirements. However, Topic 250, Accounting Changes and Error Corrections, defines that term as the process that an entity undergoes to revise its previously issued financial statements to reflect the correction of an error subsequently identified in those financial statements. Therefore, the Board decided to replace the term *restatement* with *recast* throughout Topic 280 to avoid potential confusion about its meaning in the context of segment reporting. Because preparers are generally able to apply the current guidance in practice, the Board expects that the revised terminology will not result in a change in that practice or create diversity.

BC84. Topic 280 requires that an entity disclose certain information about the measurement of reported profit or loss for each reportable segment, including the nature of any differences between those segment measurements and the entity's consolidated income before taxes and discontinued operations, as well as an explanation of the nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss. While Topic 280 acknowledges that differences between segment measurements and consolidated amounts may be attributable to an entity's allocation of centrally incurred expenses, the Board observed that the guidance does not specifically require that an entity disclose the methods used to allocate expenses to the segments or the nature of changes in those expense allocation methods from prior periods.

BC85. Investors' feedback indicated that a disclosure explaining the method for allocating expenses to segments would not be particularly informative each reporting period and likely would become boilerplate or generic if required. However, many investors indicated that information about a significant change in a public entity's segment expense allocation methods and measurement methods from one reporting period to the next would be helpful to signal a change in how the CODM assesses segment performance. Accordingly, the Board decided that a public entity should be required to explain the nature of significant changes from prior periods in the expense allocation methods and expense measurement methods used to determine segment profit or loss. For example, a public entity that manages its pension obligation at a corporate level may have previously allocated pension expense to its segments on the basis of cash payments made to the pension plan for purposes of reporting segment results to the CODM. If the entity changes this method of allocation in the current period to one that is based on the total of each segment's salary expense relative to consolidated salary expense, it should disclose the nature of that change and its effect on segment measures.

Comparison to International Financial Reporting Standards (IFRS Accounting Standards)

BC86. Guidance in IFRS 8, *Operating Segments*, and Topic 280 has substantially converged. Both IFRS Accounting Standards and GAAP apply a management approach to identify an entity's operating segments and apply the same quantitative thresholds to determine an entity's reportable segments. While the existing disclosure requirements for each reportable segment have mostly converged, some differences do exist. For example, IFRS 8 requires that an entity disclose a measure of segment liabilities if those amounts are regularly reported to the CODM; GAAP does not.

BC87. The amendments in this Update require new disclosures under GAAP that are not required by IFRS Accounting Standards. The Board believes that the improvements in the segment disclosures of public entities that result from this Update respond to stakeholders' feedback while maintaining convergence on the management approach to segment reporting.

Effective Date and Transition

BC88. The Board concluded that the amendments in this Update should be applied retrospectively unless it is impracticable to do so. The Board decided that reporting the segment disclosures for all comparative periods presented (that is, each period for which an income statement is presented) provides users with comparable segment information for evaluating trends upon adoption and most appropriately achieves the objective established by the Board in undertaking this project.

BC89. The Board indicated that while prospective application of the amendments in this Update would be less costly, it would result in public entities not reporting a full set of the comparable disclosures required under the amendments for all periods presented until the third year after adopting the amendments. Given that entities are generally expected to already have much of the prior-period segment information available to be able to implement the amendments, the cost of applying the amendments retrospectively is not anticipated to be prohibitive.

BC90. The Board also decided to provide specific guidance on how public entities should retrospectively apply the amendments in this Update. The Board decided that the segment expense categories disclosed in comparative periods should be those that correspond to the segment expense categories disclosed as a result of applying the significant expense principle in the period of adoption, regardless of whether those segment expense categories were significant or regularly provided to the CODM in the comparative periods. The Board concluded that this transition approach will result in the reporting of comparable significant segment expense categories for all periods presented, which is consistent with the reporting outcome of applying the recasting requirements in the periods after adoption when there is a change in the composition of an entity's reportable segments or a change in the segment expenses that are regularly provided to the CODM.

BC91. In the period of adoption, the proposed Update would have required that a public entity qualitatively disclose changes (from the most recent comparative period) in the significant expense categories regularly provided to the CODM. Comment letter respondents expressed concerns about the cost of gathering that information. On the basis of that feedback, and because the disclosure would have provided only a one-time benefit at adoption, the Board decided not to require that proposed disclosure.

BC92. Most comment letter respondents indicated that a public entity generally will have the segment information available from its internal reporting systems such that an effective date of one year after the issuance of the Update provides sufficient time to adopt the amendments in this Update. Respondents also recommended that early adoption should be permitted. The Board considered that feedback in determining the effective date and concluded that the amendments in this Update should apply for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Board concluded that this effective date balances providing public entities with sufficient time to implement the amendments for the multiple periods covered by the retrospective transition and the length of time before investors are provided within additional segment disclosures.

Amendments to the GAAP Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the "GAAP Taxonomy"). Those improvements, which will be incorporated into the proposed 2024 GAAP Taxonomy, are available through GAAP Taxonomy Improvements provided at www.fasb.org, and finalized as part of the annual release process.