

Proposed Accounting Standards Update

Issued: October 6, 2022
Comments Due: December 20, 2022

Segment Reporting (Topic 280)

Improvements to Reportable Segment Disclosures

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 280 of the *FASB Accounting Standards Codification*[®]. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to “Technical Director, File Reference No. 2022-ED100, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116.”

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until December 20, 2022. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing comments to director@fasb.org, File Reference No. 2022-ED100
- Sending a letter to “Technical Director, File Reference No. 2022-ED100, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116.”

All comments received are part of the FASB’s public file and are available at www.fasb.org.

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. A copy of this Exposure Draft is available at www.fasb.org.

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CONTENTS

	Page Numbers
Summary and Questions for Respondents.....	1–5
Amendments to the <i>FASB Accounting Standards Codification</i> ®	7–26
Background Information, Basis for Conclusions, and Alternative Views.....	27–49
Amendments to the GAAP Taxonomy.....	50

Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed 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 are generally satisfied with the segment note disclosures. A minority of investor survey respondents, approximately one-third, indicated that they are 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.

The Board is issuing this proposed 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. Investors have 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.

The amendments in this proposed Update respond to requests from investors for additional information about a public entity’s reportable segments to understand the expense categories and amounts that are included within segment profit or loss.

Who Would Be Affected by the Amendments in This Proposed Update?

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

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 significant 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, 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, a public entity is not precluded from reporting additional measures of a segment’s profit or loss that are used by the CODM.
5. Require that a public entity that has a single reportable segment provide all the disclosures required by the amendments in this proposed Update and all existing segment disclosures in Topic 280.

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

Currently, Topic 280 requires that a public entity disclose certain information about the entity’s 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 proposed Update would not change or remove those disclosure requirements.

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

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

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

The amendments in this proposed Update would be applied retrospectively to all prior periods presented in the financial statements. Upon transition, the segment expense categories and amounts disclosed in the prior periods would be based on the significant segment expense categories identified and disclosed in the period of adoption.

The Board will determine the effective date and whether early application would be permitted after it considers stakeholders' feedback on the proposed amendments.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Significant Expense Principle

Question 1: Are the amendments in this proposed Update that would require that a public entity disclose, by reportable segment, the significant segment expense categories and amounts clear and operable? Please explain why or why not. Is the term *significant* operable? Please explain why or why not.

Question 2: The proposed amendments would require that a public entity disclose the significant segment expense categories and amounts that are regularly provided to the CODM and included within each reported measure of segment

profit or loss. For preparers, would the proposed amendments likely result in disclosure of additional information about your reportable segments' expenses? Please explain why or why not and, if not, how you would change the proposed amendments to result in more information being disclosed.

Question 3: The proposed amendments would require that a public entity disclose an amount and qualitative description of the composition for other segment items even if the public entity does not separately report significant segment expense categories and amounts. For preparers, would the proposed amendments likely result in disclosure of additional information about your other segment items? Please explain why or why not and, if not, how you would change the proposed amendments to result in more information being disclosed.

Question 4: For investors, would the proposed amendments that require that a public entity disclose by reportable segment the significant segment expense categories and other segment items result in an improvement in the decision usefulness of segment disclosures? Please explain why or why not. If so, how would the information be used?

Question 5: The proposed amendments would require that all public entities, whether they have a single reportable segment or multiple reportable segments, apply the significant expense principle and the current segment disclosure requirements by reportable segment. For investors and other financial statement users, would the application of the significant expense principle and the current segment disclosure requirements to single reportable segment entities provide decision-useful information? If so, how would the information for single reportable segment entities be used and for what purpose?

Question 6: The Board decided to clarify that if the CODM uses more than one measure of a segment's profit or loss, 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. For preparers, would the proposed amendments likely result in disclosure of additional measures of a segment's profitability? For investors, would disclosure of additional measures of a segment's profitability that are used by the CODM provide decision-useful information? If so, how would the information be used? For all respondents, should the Board extend this decision to other measures that are used by a CODM, such as multiple measures of a segment's assets? Please explain why or why not.

Question 7: The proposed amendments would require that a public entity disclose the title and position of its CODM. For investors, would this disclosure provide decision-useful information? If so, how would the information be used?

Question 8: The proposed amendments would require that a public entity 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 investors, would that disclosure provide decision-useful information? If so, how would the information be used?

Question 9: The Board decided that a reconciliation of the total of the reportable segments' amount for each significant segment expense category to its corresponding consolidated expense amount was not operable. For preparers, do you agree with that decision? Please explain why or why not. For investors, would the absence of a reconciliation reduce the usefulness of the significant segment expense information? Please explain why or why not.

Interim Reporting

Question 10: The proposed amendments would require that a public entity disclose significant segment expenses and existing segment disclosures on an interim and annual basis. Do you agree with that proposal? Please explain why or why not.

Transition and Effective Date

Question 11: The proposed Update would require that the amendments be applied on a retrospective basis. Is that transition method operable? If not, why not and what basis would be more appropriate and why? Would the information disclosed by that transition method be decision useful? Please explain why or why not.

Question 12: Upon transition, the segment expense categories and amounts that an entity would disclose in comparative prior periods would be based on the significant segment expense categories identified in the period of adoption. An entity also would be required to provide a qualitative transition disclosure that explains what the differences in the segment expense categories would have been if the significant expense principle had been applied in the most recent comparative period. Is this transition disclosure clear and operable? Please explain why or why not. For investors, would such a transition disclosure provide decision-useful information? If so, how would the information be used?

Question 13: In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should early adoption be permitted? Please explain your reasoning.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–5. 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 underlined, 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 50-28B, 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~~ recast 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~~ All public entities, including those public entities that have a single reportable segment, 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~~ recast as described in paragraphs 280-10-50-34 through 50-35. (See paragraph 280-10-55-15C for additional guidance for public entities that have a single reportable segment.)

.. > 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 revenues ~~revenues~~.
- c. The title and position of the individual or the name of the group or committee identified as the chief operating decision maker.

.. > 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. Nonetheless, a public entity shall separately disclose interest expense if it is a significant segment expense in accordance with paragraph 280-10-50-26A.

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 unless interest expense is a significant segment expense to be disclosed in accordance with paragraph 280-10-50-26A.

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.

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 each reported measure of a segment's profit or loss. When determining the segment expense categories and amounts that shall be disclosed, a public entity shall 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. 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.

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 significant segment expenses disclosed in accordance with paragraph 280-10-50-26A and reported segment 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 would 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.

280-10-50-26C An amount and qualitative description of the composition of other segment items shall be disclosed even when a public entity does not separately report significant segment expense categories and amounts in accordance with paragraph 280-10-50-26A for each reportable segment. 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 280-10-55-15D).

... > 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, 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 the public entity's consolidated financial statements.

280-10-50-28B The disclosure requirements in paragraphs 280-10-50-22 through 50-24 and paragraphs 280-10-50-26A through 50-26C apply to each reported measure of a segment's profit or loss. 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 public entity shall disclose all of the following (see Example 3, Cases A through C [paragraphs 280-10-55-47 through 55-49]):

- 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 policies 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.

. . > 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]):

- a. The total of the reportable segments' revenues to the public entity's consolidated revenues.
- b. The total of the reportable segments' 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. 202X-XX.Revenues from external customers
- b. Subparagraph superseded by Accounting Standards Update No. 202X-XX.Intersegment revenues
- c. Subparagraph superseded by Accounting Standards Update No. 202X-XX.A measure of segment profit or loss
- d. Subparagraph superseded by Accounting Standards Update No. 202X-XX.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
- f. A reconciliation of the total of the reportable segments' 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. 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 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 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 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 policies 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, 280-10-55-17 through 55-19, 280-10-55-40, and 280-10-55-47 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 55-15D and their related headings and 280-10-55-17A, 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** 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. Paragraph superseded by Accounting Standards Update No. 202X-XX.~~

~~**280-10-55-10** 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. Paragraph superseded by Accounting Standards Update No. 202X-XX.

.. > 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.

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

280-10-55-15C If a public entity discloses a single reportable segment, it should report the measure of segment profit or loss that the chief operating decision maker uses to allocate resources and assess performance. That measure may not necessarily be a profit or loss measure presented on the public entity's consolidated income statement. For example, the chief operating decision maker of a single reportable segment entity may use earnings before interest, taxes, depreciation, and amortization as the measure of profit or loss for purposes of deciding on allocating resources to the segment and assessing performance. However, that measure is not presented on the public entity's consolidated income statement. In that case, earnings before interest, taxes, depreciation, and amortization should be disclosed as the measure of segment profit or loss for the single reportable segment entity and reconciled in accordance with paragraph 280-10-50-30(b) and paragraph 280-10-50-32(f). A single reportable segment entity also may report additional performance measures in accordance with paragraph 280-10-50-28B.

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

280-10-55-15D 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 explain 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.

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 policies 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 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.

. . > 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 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 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.

- 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 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, Profit or Loss, Significant Segment Expenses, and Segment Assets, and Required Reconciliations

280-10-55-48 The following ~~table illustrates~~ tables illustrate a ~~suggested~~ format for presenting information about reported segment revenue, segment profit or loss, significant segment expenses, and segment assets (see paragraphs ~~280-10-55-22~~ 280-10-50-22, and 280-10-50-25, and 280-10-50-26A through 50-26C). The same type of information is required for each ~~period 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 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 ^(b)	\$ 34,500
Intersegment revenues	-	-	3,000	1,500	-	4,500
	3,000	5,000	12,500	13,500	5,000	39,000
<i>Reconciliation of revenue</i>						
Other revenues						1,000 ^(a)
Elimination of intersegment revenues						(4,500)
Total consolidated revenues						<u>\$ 35,500</u>
[Content moved from the illustration in paragraph 280-10-55-49]						
Less: ^(f)						
Cost of revenue	1,700	3,100	2,000	6,800	-	
Research and development expense	-	-	3,300	-	-	
Nonmanufacturing payroll expense ^(d)	500	900	2,600	2,700	750	
Professional services expense	-	-	1,700	500	800	
Interest expense (finance segment)	-	-	-	-	3,000	
Other segment items ^(c)	700	1,130	2,300	1,600	(50)	
Segment profit/(loss)	100	(130)	600	1,900	500	<u>2,970</u>
<i>Reconciliation of profit or loss</i>						
Other profit or loss						100 ^(a)
Interest income/(expense), net (excluding finance segment)						1,125 ^(e)
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						<u>\$ 3,195</u>
[Content amended and moved from the illustration in paragraph 280-10-55-49]						

- (a) 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.
- (b) The revenue from external customers for the finance segment relates to interest and noninterest income.
- (c) Other segment items for each reportable segment include:
Auto parts—maintenance and repairs expense and certain overhead expenses.
Motor vessels—marketing 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.
- (d) The nonmanufacturing payroll expense does not include amounts capitalized on the balance sheet or included within other expense categories.
- (e) 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.
- (f) 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.

	<u>Auto Parts</u>	<u>Motor Vessels</u>	<u>Software</u>	<u>Electronics</u>	<u>Finance</u>	<u>Total</u>
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.

	<u>Auto- Parts</u>	<u>Motor- Vessels</u>	<u>Software</u>	<u>Electronics</u>	<u>Finance</u>	<u>All-Other</u>	<u>Totals</u>
Revenues from external customers	\$3,000	\$ 6,000	\$ 9,500	\$ 12,000	\$ 5,000	\$ 1,000 ^(a)	\$35,500
Intersegment revenues	—	—	3,000	4,500	—	—	4,500
Interest revenue	450	800	1,000	4,500	—	—	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	1,400	—	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 these 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 Reconciliation of Reportable Segment Revenues, Profit or Loss, and Assets Assets, to the Consolidated Totals

~~280-10-55-49 The following are examples is an example of a reconciliation reconciliations of reportable segment revenues, profit or loss, and assets assets, to the public entity's consolidated totals (see paragraph 280-10-50-30(c) 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	<u>\$ 35,500</u>

[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	<u>\$ 3,070</u>

[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	<u>\$ 85,000</u>

(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
Interest expense	2,750	5,750	(50)
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	-
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.

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

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 202X-XX, 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. 202X-XX, *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 [date to be inserted after exposure], including interim periods within those fiscal years.
- b. A public entity shall apply the pending content that links to this paragraph retrospectively to all prior periods presented in the financial statements. 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.
- c. In the period of adoption, a public entity shall qualitatively disclose changes in the significant expense categories that are regularly provided to the chief operating decision maker and included in reported segment profit or loss compared with the most recent comparative period presented in the financial statements.

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. 202X-XX. Revenues from external customers~~
 2. ~~Subparagraph superseded by Accounting Standards Update No. 202X-XX. Intersegment revenues~~
 3. ~~Subparagraph superseded by Accounting Standards Update No. 202X-XX. A measure of segment profit or loss~~
 4. ~~Subparagraph superseded by Accounting Standards Update No. 202X-XX. 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. 202X-XX. 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. 202X-XX. ~~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.

The amendments in this proposed Update were approved for publication by five members of the Financial Accounting Standards Board. Ms. Botosan and Mr. Buesser voted against publication of the amendments. Their alternative views are set out at the end of the basis for conclusions.

Members of the Financial Accounting Standards Board:

Richard R. Jones, *Chair*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Gary R. Buesser
Frederick L. Cannon
Susan M. Cospers
Marsha L. Hunt

Background Information, Basis for Conclusions, and Alternative Views

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed 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 are generally satisfied with the segment note disclosures. A minority of investor survey respondents, approximately one-third, indicated that they are 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. To address those suggestions, the Board decided to undertake a project that would improve the segment disclosure requirements. The Board decided that the scope of the project should enhance 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.

Background Information

BC4. 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 the way that 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.

BC5. 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.

BC6. 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 an 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.

BC7. 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.

BC8. To aid in setting its future technical agenda, in 2016, the Board issued an Invitation to Comment, *Agenda Consultation*, to solicit feedback about the major areas of financial reporting that stakeholders noted should be improved. The 2016 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,

statement of other comprehensive income, segment disclosures required under Topic 280, or in other notes to financial statements.

BC9. Many preparer and practitioner respondents to the 2016 Invitation to Comment stated that a fundamental reconsideration of Topic 280 was not needed. However, many preparer 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.

BC10. 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 result in a large *all other* grouping that includes 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 to improve 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 decided that the project's scope would not include potential amendments that would affect how an entity identifies its operating segments, aggregates those operating segments, or applies the quantitative thresholds to determine its reportable segments.

BC11. In 2019, the Board undertook a second study with preparers 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 are currently required to report certain information about a reportable segment's expenses and assets, the 2019 study focused on incremental improvements that would 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 segment expenses. The Board further deliberated those issues, which resulted in the amendments in this proposed Update about significant segment expenses.

Basis for Conclusions

Scope

BC12. The amendments in this proposed Update introduce a disclosure principle in Topic 280 that would require 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 after considering feedback from stakeholders, which indicated that investors frequently request more detailed expense information at the segment level. 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.

BC13. Although some investors provided feedback on other potential areas of enhancement of segment disclosures, the Board decided to focus the amendments in this proposed Update on 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.

Single Reportable Segment Entities

BC14. Topic 280 requires that single reportable segment entities apply the entity-wide disclosures in paragraph 280-10-50-38; however, it is silent about whether those entities should apply the existing segment disclosures and reconciliation requirements on an annual or interim basis. The Board observed that single reportable segment entities often do not disclose segment information. 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 proposed Update would apply to all public entities and, therefore, single reportable segment entities would apply both the significant expense principle and the existing segment disclosures. A single reportable segment entity would disclose a measure of segment profit or loss that the CODM uses to allocate resources and assess performance, which may be different from the profit or loss measure(s) presented on a public entity's consolidated income statement. The Board observes that this requirement would apply to all entities, including an entity that has identified a single operating segment and has a single reportable segment.

BC15. This requirement would result in investors being provided with additional information for all entities within the scope of Topic 280 in a manner consistent with the management approach and would reduce potential incentives for public entities to aggregate operating segments into a single reportable segment to avoid disclosing information required by the amendments in this proposed Update.

Significant Expense Principle

BC16. Chapter 8, *Notes to Financial Statements*, of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*, provides a broad range of possible information for the Board to consider when deciding on disclosure requirements. The amendments in this proposed Update are the result of the Board's consideration of the concepts in Chapter 8 as well as feedback received from outreach with stakeholders.

BC17. 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 would first identify the segment level expense information that is regularly provided to the CODM. The entity would evaluate that information to identify those segment expenses that are included in

each reported measure of a segment's profit or loss. The entity would then disclose those identified segment expense categories and amounts that are significant.

BC18. The Board observes 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 when making operating decisions and assessing performance. Furthermore, feedback from IAC members indicated that understanding when a CODM does not use segment expense information to assess performance would also 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.

BC19. 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 the CODM's perspective, 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 lack of comparability in and of itself 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.

BC20. 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. Preparers also generally preferred a principles-based disclosure requirement instead of a more prescriptive requirement to disclose specific segment expenses because the incremental disclosures would reflect information from the CODM's perspective.

BC21. Because segment reporting is based on the management approach, the Board determined that it would 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 would 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.

Information That Is Regularly Provided to the CODM

BC22. 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. Because the scope of the amendments in this proposed Update is not revising the definition of an operating segment or segment profit or loss, 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. As part of the 2019 study, the Board considered whether it should clarify the meaning of the term and concluded that doing so is unlikely to lead to greater levels of segment information being disclosed.

BC23. Stakeholder feedback indicated that entities are generally able to comply with existing segment disclosure requirements and apply reasonable judgment when identifying the segment information that is *regularly provided* to the CODM. Thus, the Board decided that an entity would be able to use similar judgment when applying the term within the context of the significant expense principle without creating additional complexity. Additionally, by requiring that an entity disclose expense information that is regularly provided to the CODM on a segment basis, the amendments in this proposed Update should not create significant ongoing costs for the entity because the significant expense principle would be aligned with the way in which management's reports are currently generated for internal use.

BC24. In developing the significant expense principle, the Board considered feedback received from preparers that segment expense information may be regularly provided to the CODM 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.

BC25. The Board decided 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 observes that it is useful to include an easily computable concept as part of the amendments in this proposed Update to ensure that the objective of the disclosure is met and that investors receive relevant information about significant segment expenses.

BC26. 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 proposed 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.

Reported Measures of a Segment's Profit or Loss

BC27. Topic 280 requires that a public entity disclose a measure of segment profit or loss that the CODM uses for purposes of allocating resources to the segment and assessing its performance. 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.

BC28. During deliberations, the Board observed that some public entities report more than one measure of a segment's profit or loss. In those cases, the Board decided that the significant expense principle should be applied to each reported measure of a segment's profit or loss. As a consequence, an entity would be required to disclose an amount for other segment items for each reported measure (see paragraph BC43 for additional information).

BC29. At present, the guidance in Topic 280 acknowledges that a CODM may use more than one measure of a segment's profit or loss to allocate resources and assess performance. Some stakeholders asserted that the current guidance is unclear about whether multiple measures of a segment's profit or loss may be reported, which was highlighted by the Board's decision that the significant expense principle should be applied to each reported measure of a segment's profit or loss. Some stakeholders requested that the Board clarify whether it also intended to permit a public entity to report multiple measures of a segment's profit or loss. The Board decided to propose amendments to clarify that a public entity may report more than one measure of a segment's profit or loss that is used by the

CODM to evaluate segment performance and allocate resources, so long as one of the reported measures is determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the consolidated financial statements. 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. The Board acknowledges that this decision may include segment profitability measures computed using tailored accounting principles. The Board reasoned that this decision responded to investor feedback from both the IAC and the PIR Report that indicated support for the management approach to segment reporting, but that also requested that public entities disclose more information for each reportable segment.

BC30. The Board clarified that the existing segment disclosures in paragraph 280-10-50-22, 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(b) would apply to 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, then that information may be of interest to investors. The Board also observes that the outcome of this amendment may be that 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.

BC31. The Board's decisions related to the significant expense principle do not affect the reported measure of a segment's assets, and stakeholder feedback did not indicate a need for the Board to clarify whether a public entity is permitted to report multiple measures of a segment's assets. Therefore, the Board did not 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

BC32. 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 entities may interpret its meaning. However, the Board is unaware of practice issues with the current use of this term. Stakeholder feedback 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. Accordingly, when evaluating whether segment expense categories and amounts are significant under the significant expense principle, the Board expects that public entities would be able to apply judgment in a manner similar to how the threshold is already applied in

other parts of Topic 280. Therefore, additional guidance about how to apply the significance threshold as part of the amendments in this proposed Update is unnecessary.

BC33. 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.

BC34. 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, that is because the CODM finds that level of information useful for decision-making purposes; therefore, the Board expects that investors also would 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

BC35. The Board considered three alternative approaches when developing the significant expense principle. The Board acknowledged that each alternative approach would have likely resulted in even more incremental segment expense information compared with the approach included in this proposed 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 this proposed 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.

BC36. 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.

BC37. The Board rejected both of those approaches because it decided that the expected benefits may 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 preparers indicated often include centrally incurred expenses that lose their identity when allocated to the segments. 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 this proposed Update can be implemented without substantial effort and would result in a public entity reporting additional segment information in its financial statements on an expedited basis.

BC38. 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 decided that this approach was incremental to what was currently required by Topic 280. The Board considered preparer 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 this proposed Update to require disclosure of the significant expense categories that are both regularly provided to the CODM and included within each reported measure of a segment's profit or loss.

Interaction with Existing Segment Disclosure Requirements

BC39. 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.

BC40. One possible outcome of applying the amendments in this proposed 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.

BC41. 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 decided 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.

BC42. 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 proposed Update do not affect the existing requirements of other Topics to disclose certain information by segment. A public entity would 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

BC43. 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 more holistic context, for example, when the segment expense categories and amounts can be understood in relation to other items that affect segment profitability.

BC44. Consequently, the Board decided that for each reportable segment, an entity would be required to disclose an amount for *other segment items*. Other segment items represent the difference between (a) reported segment revenues less the significant 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 unless those disclosures also would be 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 are incremental to the segment information reported in accordance with paragraph 280-10-50-22.

BC45. Disclosing an amount for other segment items also would be required even when a public entity does not separately report expenses under the significant expense principle. In those cases, the Board decided 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 would explain that the CODM is provided with budgeted or forecast expense information for those reportable segments or may use consolidated expense information. The Board observes that such an explanation would allow an investor to understand why the entity has not separately disclosed information under the significant expense principle.

Interest Expense for Financial Operations Segments

BC46. 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 proposed Update would 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 would require disclosure of interest expense in cases in which a CODM is regularly provided with information about interest revenue and net interest margin. The Board decided that this outcome would result in equivalent application of the significant expense principle between financial and nonfinancial segments.

Interim Disclosures

BC47. 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, disclosure of depreciation, depletion, and amortization expense in the interim financial statements is not similarly required on a quarterly basis. 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 and that no additional interim reconciliations would be required by the amendments in this proposed Update. Preparer feedback indicated that many public entities would report some incremental information on an interim basis as a result of this decision. The Board observed that this decision would 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

BC48. 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, preparer 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. Accordingly, the Board decided (a) 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 (b) 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 expects that applying the significant expense principle would 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.

BC49. 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 would 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. The Board concluded that doing so under those circumstances would allow investors to evaluate and model the current-period information with comparable information of prior periods. The Board also decided that a public entity would not be 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.

BC50. 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 may not be 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 within Topic 280

and that public entities have developed their 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, when a segment expense is not significant in the current period, management judges whether that expense or segment is expected to be of continuing significance and, if so, whether to report current-period information. Conversely, when a segment expense is significant in the current period, management should consider recasting prior-period segment data to reflect the new significant expense even when that expense or segment was not significant in the prior period. The Board expects that a public entity would 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.

BC51. 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 does not expect that the revised terminology will result in a change in that practice or to create diversity.

BC52. 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 to disclose the nature of changes in those expense allocation methods from prior periods.

BC53. 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 an entity would 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, an 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 would be required to disclose the nature of that change and its effect on segment measures.

Comparison to International Financial Reporting Standards (IFRS)

BC54. Guidance in IFRS 8, *Operating Segments*, and Topic 280 has substantially converged. Both IFRS 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.

BC55. The amendments in this proposed Update would require new disclosures under GAAP that are not required by IFRS Standards. The Board believes that the improvements in the segment disclosures of public entities that will result from this proposed Update respond to stakeholders' feedback while maintaining convergence on the management approach to segment reporting.

Effective Date and Transition

BC56. The Board decided that the amendments in this proposed Update should be applied retrospectively. The Board decided that reporting the segment disclosures for all comparative periods presented (that is, each period for which an income statement is presented) would provide users with comparable segment information for evaluating trends upon adoption and most appropriately achieve the objective established by the Board in undertaking this project.

BC57. The Board indicated that while prospective application of the amendments in this proposed Update would be less costly, it would result in public entities not reporting a full set of the comparable disclosures required under these proposed amendments for all periods presented until the third year after adopting the amendments in a final Update. Given that entities are generally expected to already have much of the prior-period segment information available to be able to

implement the proposed amendments, the cost of applying the proposed amendments retrospectively is not anticipated to be prohibitive.

BC58. The Board also decided to provide specific guidance on how entities should retrospectively apply the amendments in this proposed Update. The Board decided that the segment expense categories disclosed in comparative periods would 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 decided that this transition approach would result in the reporting of comparable significant segment expense categories for all periods presented, which would be consistent with the reporting outcome of applying the proposed 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.

BC59. The Board acknowledged that changes to the segment information that is regularly provided to the CODM may possibly occur in the year of adoption. In those cases, applying the significant expense principle in the comparative periods may result in different disclosures of the public entity's significant segment expense categories when compared with the disclosures in the period of adoption. Those differences could be informative in how the segment expense categories have changed over time in the eyes of management. Therefore, the Board also decided to require a qualitative transition disclosure to describe what the differences in the segment expense categories would have been if the significant expense principle had been applied in the most recent comparative period.

BC60. The Board will determine the effective date and whether early application should be permitted after it considers stakeholders' feedback on the amendments in this proposed Update.

Benefits and Costs

BC61. The objective of financial reporting is to provide information that is useful for present and potential investors, creditors, donors, 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, donors, and other users of financial information 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.

BC62. For the amendments in this proposed Update, the Board expects the key benefits would be as follows:

- a. The disclosure of significant segment expenses is expected to provide 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. On the basis of preparer feedback, segment expense information would be incremental for half of the public entities that participated in the outreach (see paragraphs BC17 through BC21).
- b. The disclosure of 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 BC43 through BC45).
- c. The application of the proposed amendments to a single reportable segment entity would create 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. Approximately one-third of public entities disclose their results as a single reportable segment. Those entities may disclose incremental information under the proposed amendments (see paragraphs BC14 through BC15).
- d. The disclosure of 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 would result in incremental decision-useful information for investors on a timelier basis. Preparer feedback indicated that many public entities that participated in the outreach would report some incremental information on an interim basis (see paragraph BC47).
- 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 investor feedback that more segment information should be disclosed for each reportable segment (see paragraphs BC27 through BC29).
- f. 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 would result in improved transparency between segment expenses in current and prior reporting periods and would enable investors to model current-period segment information with comparable prior-period information (see paragraph BC49).

BC63. The extent of incremental information that would be newly reported under the significant expense principle and the other amendments in this proposed Update may vary across public entities. However, the Board expects that nearly all public entities would disclose some new segment information under the

proposed 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.

BC64. On the basis of preparer and practitioner outreach feedback, the most cited costs include additional personnel time to understand the requirements and prepare the new disclosures, reevaluation of internal controls over the segment information, and 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 granular detail about profit margins. The Board acknowledges that the expected costs of implementing the amendments in this proposed 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 these costs are similar to costs incurred for any new disclosure requirements.

BC65. The Board decided to align the amendments in this proposed Update with the management approach to segment reporting to mitigate application costs. The Board expects that the information disclosed under the proposed 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 would not incur undue costs in complying with the proposed amendments.

BC66. Overall, the Board concluded that the expected benefits of the amendments in this proposed Update would justify the expected costs.

Alternative Views

BC67. Ms. Botosan and Mr. Buesser acknowledge that certain aspects of the amendments in this proposed Update might yield a modest improvement in segment disclosure. For example, the proposed amendments could result in more consistent quarterly disclosure by some entities of segment depreciation and amortization, total assets, and capital expenditures. In addition, certain entities that have not previously disclosed cost of goods sold by segment might do so under the proposed significant expense principle.

BC68. However, those modest improvements fall far short of financial statement users' requests for (a) a finer partitioning of entities' operating activities into reportable segments and (b) more financial line items about each segment. Ms. Botosan and Mr. Buesser believe that the amendments in this proposed Update would not adequately address those needs for the following reasons:

- a. The structure of the proposed significant expense principle, specifically, and the management approach, more generally, allow for too much discretion by a public entity to manage its reporting outcomes, resulting in diminished quantity, quality, and comparability of segment information.
- b. The current guidance that requires a reconciliation of segment amounts to the corresponding consolidated amount would not be extended to amounts disclosed under the proposed significant expense principle.
- c. The proposed amendments would explicitly allow more non-GAAP measures of profit or loss to be included in segment disclosures.

BC69. The segment disclosure project was added to the Board's agenda in 2017 in response to feedback received on the 2016 Invitation to Comment, *Agenda Consultation*. At that time, financial statement users repeated the concern that over-aggregation of activities that produce different amounts, timing, and/or uncertainty of expected cash flows into reportable segments reduces the usefulness of segment disclosures and limits users' abilities to predict cash flows for the consolidated entity. They requested improvements to the guidance to yield greater transparency through a finer partitioning of a public entity's operating activities into more reportable segments. The amendments in this proposed Update do not address financial statement users' requests for those improvements, however. The proposed amendments would not affect how entities identify operating segments, aggregate operating segments, or apply the quantitative thresholds to determine reportable segments.

BC70. Additionally, in response to the 2016 Invitation to Comment, financial statement users expressed concern that the management approach can be used to limit the financial information disclosed about each segment. Financial statement users indicated that the financial information currently provided is useful but insufficient. For reasons explained in the following paragraphs, Ms. Botosan and Mr. Buesser are highly skeptical that the core feature of the amendments in this proposed Update—the proposed significant expense principle—would yield the necessary improvement users have requested.

BC71. Approximately half of preparers included in the FASB staff's outreach explained that their CODMs are not regularly provided with segment expense information. Furthermore, Ms. Botosan and Mr. Buesser are concerned that public entities could utilize the flexibility inherent in the management approach to constrain the segment expense information "regularly provided" to the CODM to mitigate the effect of the proposed significant expense principle. Accordingly, they believe that application of the proposed significant expense principle likely would not result in any incremental disclosure of segment expense items for a large percentage of entities.

BC72. In addition, Ms. Botosan and Mr. Buesser are concerned that the proposed significant expense principle easily could be circumvented by strategically selecting the measure of segment profit to which the principle is applied or by altering internal reporting to the CODM to ensure that segment expense items are

kept outside the chosen measure of segment profit. Ms. Botosan and Mr. Buesser are concerned that changes to the CODM package or to the aggregation of operating activities into reportable segments to circumvent the proposed significant expense principle could result in limited improvement in segment disclosure or, worse, a reduction in the amount of information currently provided as explained below.

BC73. For example, the requirement to apply the proposed significant expense principle to each measure of a segment's profit or loss could provide an incentive for entities to reduce the number of profit subtotals included in segment disclosures. Moreover, because the proposed significant expense principle shields from disclosure expenses that are outside the measure of segment profit or loss, an incentive could be created in which a public entity chooses to report a single measure of segment profit or loss that is higher up on the income statement (that is, a less cost-laden measure of profit such as gross margin as compared with operating profit).

BC74. Applying the proposed significant expense principle in a manner to obtain a particular outcome could be achieved with little to no reduction in the information regularly provided to the CODM. For example, assume that an entity regularly provides its CODM with revenue, cost of goods sold, gross profit, labor costs, research and development expense, and other operating expenses, which net to operating profit, and currently discloses revenue, gross profit, and operating profit in its segment footnote. That entity could simply remove the operating profit total from the information regularly provided to the CODM and select gross profit as the measure of segment profit or loss to which the proposed significant expense principle is applied. Consequently, under the proposed significant expense principle, an entity's segment disclosure would include revenue, cost of goods sold, and gross profit. The amount of segment information currently provided would be reduced because (a) cost of goods sold was already computable using information previously disclosed and (b) operating profit is no longer disclosed.

BC75. During outreach, some stakeholders acknowledged that internal reporting may be altered in light of the principle. Some stakeholders, including a regulator, preparers, and audit firms remarked that on first-time adoption public entities likely will undertake a review of the different types of segment reports that are regularly provided to the CODM and the content of those segment reports to assess the effect of the proposal and that entities may self-edit those reports to achieve a particular outcome. Similarly, in the most recent round of feedback, a preparer expressed concern that an unintended consequence of the amendments in this proposed Update might be the restructuring of CODM packages and/or reassessment of segments to avoid disclosing information.

BC76. Another issue is that the segment expense items that would be disclosed under the proposed significant expense principle would not be required to be reconciled to the corresponding consolidated amount. 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 allows financial statement users to interpret the information and assess its limitations in the context of the consolidated financial statements. Ms. Botosan and Mr. Buesser are concerned that in the absence of a reconciliation requirement, financial statement users would be unable to assess differences in how amounts are defined or measured for segment reporting purposes versus consolidated GAAP purposes. Therefore, Ms. Botosan and Mr. Buesser believe that the unreconciled expense amounts disclosed under the proposed significant expense principle could be misleading or misunderstood by financial statement users.

BC77. Finally, Ms. Botosan and Mr. Buesser are uncomfortable with the proposed amendments that would explicitly allow more non-GAAP measures of profit or loss to be included in segment disclosures. They are aware that some entities already disclose multiple subtotals of a segment's profit or loss, such as gross profit, operating profit, EBITDA (earnings before interest, taxes, depreciation, and amortization), pre-tax profit, and post-tax profit, which may or may not be computed on a GAAP basis. However, they are concerned that explicitly allowing the disclosure of alternative measures of a segment's profitability could result in unforeseen consequences, such as exacerbating the prevalence of non-GAAP profit measures in segment footnotes.

BC78. Such an outcome would run counter to financial statement users' general preference for measures of a segment's profit or loss that are computed in accordance with GAAP. For example, a survey conducted by the Financial Accounting Foundation as part of the post-implementation review of Statement 131 found that 65 percent of the users responding to the survey preferred a profit measure computed in accordance with GAAP, and 81 percent indicated concern that reporting segment profit or loss based on internal measures, which might not be consistent with GAAP, affords management too much flexibility in determining reported amounts (see Botosan, Huffman, and Stanford, *Accounting Horizons*, March 2021, Table 11).

BC79. Ms. Botosan and Mr. Buesser would prefer an alternative approach that was rejected by a majority of the Board. That alternative would require that a public entity disclose expense items that are regularly provided to the CODM. That approach would not require that an entity identify a measure of a segment's profit or loss for purposes of applying the principle. Furthermore, it would not require the application of judgment to assess whether an expense item is "significant."

BC80. Ms. Botosan and Mr. Buesser believe that this alternative approach would be less vulnerable to manipulation. Also, this approach 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 reported measure of a segment's profit or loss. In contrast, the proposed significant expense principle, as structured, does not ensure that users would receive full disclosure of all segment expense items that are regularly provided to the CODM.

Amendments to the GAAP Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the “GAAP Taxonomy”). We welcome comments on these proposed improvements to the GAAP Taxonomy at xbrled@fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the GAAP Taxonomy will be finalized as part of the annual release process.