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FASB Issues Final Standard on Improvements to Reportable Segment Disclosures

This *Heads Up* has been updated to reflect recent discussions with the SEC staff (see [Appendix B](#)).

Overview

The FASB issued [ASU 2023-07](#)¹ on November 27, 2023. The amendments “improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses.” In addition, the amendments enhance interim disclosure requirements, clarify circumstances in which an entity can disclose multiple segment measures of profit or loss, provide new segment disclosure requirements for entities with a single reportable segment, and contain other disclosure requirements. The purpose of the amendments is to enable “investors to better understand an entity’s overall performance” and assess “potential future cash flows.”

The ASU applies to all public entities² that are required to report segment information in accordance with ASC 280.³

¹ FASB Accounting Standards Update (ASU) No. 2023-07, *Improvements to Reportable Segment Disclosures*.

² The ASC master glossary defines the term “public entity,” which includes investment companies, broker-dealers, and entities that only have debt securities trading in a public market.

³ For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte’s [“Titles of Topics and Subtopics in the FASB Accounting Standards Codification.”](#)

Background

Under ASC 280, a public entity must report, for each reportable segment, a measure of the segment's profit or loss that its chief operating decision maker (CODM) uses to assess segment performance and make decisions about resource allocation. However, ASU 2023-07 notes that "although information about a segment's revenue and measure of profit or loss is disclosed in an entity's financial statements" under the current requirements, "there generally is limited information disclosed about a segment's expenses and, therefore, investors supported enhanced expense disclosures." Accordingly, the ASU requires public entities to provide investors with "additional, more detailed information about a reportable segment's expenses" and is intended "to improve the disclosures about a public entity's reportable segments."

The final ASU is generally consistent with the proposed ASU issued on October 6, 2022, apart from the qualitative transition disclosure requirement. On the basis of feedback received during the comment period, the Board removed the requirement for public entities to describe changes in segment expense categories between the period of adoption and the most recent comparative period.

The Board decided to retain all existing segment disclosure requirements in both ASC 280 and other Codification topics. The ASU's amendments are incremental to those requirements and "do not change how a public entity identifies its operating segments, aggregates those operating segments, or applies the quantitative thresholds to determine its reportable segments."

Main Provisions

Summary of Main Provisions

Change	Overview and When Disclosure Is Required
Significant segment expenses	On both an annual and an interim basis, significant segment expenses by reportable segment are required to be disclosed if they are regularly provided to the CODM and included in each reported measure of segment profit or loss.
Other segment items	On both an annual and an interim basis, other segment items by reportable segment are required to be disclosed. Such a disclosure would constitute the difference between reported segment revenues and the significant segment expenses (disclosed) less the reported measure of segment profit or loss.
Interim disclosure changes	On an interim basis, all existing annual disclosures about segment profit or loss must be provided in addition to disclosure of significant segment expenses and other segment items as noted above.
Multiple measures of a segment's profit or loss	On both an annual and an interim basis, entities may disclose more than one measure of segment profit or loss used by the CODM, provided that at least one of the reported measures includes the segment profit or loss measure that is most consistent with GAAP measurement principles.
CODM-related disclosures	On an annual basis, the CODM's title and position are required to be disclosed, as well as an explanation of how the CODM uses the reported measure(s) and other disclosures.
Entities with a single reportable segment	Entities with a single reportable segment must apply all of the disclosure requirements of ASU 2023-07, as well as all existing segment disclosure and reconciliation requirements in ASC 280, on both an annual and an interim basis.
Recasting of prior-period segment information to conform to current-period segment information	Recasting is required if segment information regularly provided to the CODM is changed in a manner that causes the identification of significant segment expenses to change.

Significant Segment Expenses

Significant segment expenses are defined in the ASU as “expenses that are regularly provided to the [CODM] and included within each reported measure of segment profit or loss (collectively referred to as the ‘significant expense principle’).” ASU 2023-07 requires public entities to “disclose for each reportable segment the significant expense categories and amounts” for such expenses. If a public entity does not separately disclose expenses under the significant expense principle, it is then required to disclose the nature of the expense information used by the CODM to manage the segment’s operations. The ASU focuses on information that is regularly provided to the CODM even if it is not regularly reviewed by the CODM.



Connecting the Dots

Under the current guidance in ASC 280-10-50-22, public entities are only required to disclose certain expenses (e.g., interest expense and depreciation) if they are “included in the measure of segment profit or loss [or] otherwise regularly provided” to the CODM. For example, even though selling expenses may have been included in an entity’s measure of segment profit or loss, the previous guidance did not require public entities to disclose selling expenses. Under the final ASU, if selling expenses are determined to be a significant segment expense that is regularly provided to the CODM, public entities must disclose selling expenses. Reportable segments may have different categories of significant segment expenses as a result of the nature of their operations and what is regularly provided to the CODM. For additional considerations related to significant segment expenses, see [Appendix B](#).

Significance Threshold and Regularly Provided Information

The ASU states that an entity should “consider relevant qualitative and quantitative factors when determining whether segment expense categories and amounts are significant” and should identify segment expenses on the basis of “amounts that are regularly provided to the [CODM] and included in reported segment profit or loss.”



Connecting the Dots

The ASU does not define the term “significant” or “regularly provided” or specify how public entities may interpret its meaning. The Board expects that, “when determining whether certain segment items and amounts provided to the CODM must be disclosed,” public entities will be able to use judgment similarly to how they use it under the existing disclosure requirements in ASC 280. In general, we believe that “regularly provided” would mean at least quarterly. However, during the AICPA Conference, the SEC noted that a frequency of less than quarterly could also be considered “regularly provided.”

Public entities should review, both upon transition and for each reporting period, financial information (e.g., CODM packages, or segment information regularly provided to the CODM through different means such as electronically, in dashboards, or in paper format) and evaluate such information for significant expenses and for what would be considered “easily computable.” In addition, public entities should monitor for changes that occur between periods and consider the recasting requirements.



Easily Computable Segment Expenses

The ASU requires public entities to disclose segment expenses that are “regularly provided” to the CODM or “easily computable from information that is regularly provided.” In addition to easily computable information that is regularly provided to the CODM, required disclosures include information about significant expenses that is “expressed in a form other than actual amounts, for example, as a ratio or an expense as a percentage of revenue.” Examples of such disclosures would include:

- If the CODM is regularly provided “a segment revenue amount and a segment gross margin amount, segment cost of sales can be easily computed from this information.” Accordingly, “if cost of sales is significant,” it would need to be disclosed as a significant segment expense.
- If the CODM is regularly provided “a segment revenue amount and segment warranty expense expressed as a percentage of segment revenue . . . segment warranty expense can be easily computed from this information.” Accordingly, “if warranty expense is significant,” it would need to be disclosed as a significant segment expense.
- Similarly, if bad-debt expense or marketing expense as a percentage of revenue is part of the measure of segment profit or loss and is considered significant, these expenditures would need to be disclosed as significant segment expenses.

Example 1

Easily Computable Segment Expenses

- Company A has identified the following reportable segments: United States and Europe.
- The CODM uses segment gross profit to assess segment performance and allocate resources.
- U.S. and European gross margin percentages are regularly provided to the CODM.
- Cost of sales is considered both easily computable and significant.

Because cost of sales is determined to be an easily computable significant segment expense regularly provided to the CODM and is included in the segment measure of profit or loss (segment gross profit), disclosure is required.

The table below shows amounts related to the disclosure illustrated in this example.

Segment	Segment Revenue	Cost of Sales	Segment Gross Profit
United States	\$ 823,000	\$ 551,000	\$ 272,000
Europe	<u>467,000</u>	312,000	<u>155,000</u>
	<u>\$ 1,290,000</u>		<u>\$ 427,000</u>

For another example illustrating the ASU’s disclosure requirements related to significant segment expenses, see [Example 1](#) in [Appendix A](#).

Other Segment Items

For each reportable segment, the ASU requires public entities to disclose an amount for other segment items that represents “the difference between reported segment revenues less the [significant] segment expenses disclosed . . . and reported segment profit or loss.” A public entity would also need to provide a qualitative disclosure describing the composition of the other segment items, including the nature and type of the other segment items; however, a quantification for each item identified is not required. This disclosure would be required even when a public entity does not separately report any significant segment expenses.

The following are some examples of other segment items:

- The total amount 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 [CODM].”
- The total amount of a segment’s expenses that are not significant.
- The total amount 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.”
- Segment expense amounts required under ASC 280-10-50-22 (e.g., interest expense, depreciation, and amortization expense), when those specified amounts are included in the reported measure of segment profit or loss but are not considered significant segment expenses.

Example 2

Significant Segment Expenses and Other Segment Items

- Company B has identified the following reportable segments: computer hardware and computer software.
- The CODM uses segment earnings before interest, taxes, depreciation, and amortization (segment EBITDA) to assess segment performance and allocate resources.
- Cost of sales and warranty expenses for computer hardware and hosting fees for computer software are regularly provided to the CODM.
- Bad-debt expenses and marketing expenses expressed as a percentage of revenue are regularly provided to the CODM for both the computer hardware and software segments.
- Bad-debt expenses and marketing expenses are both considered easily computable; however, only marketing expenses are considered significant.

Because marketing expense is determined to be an easily computable significant segment expense regularly provided to the CODM and is included in the segment measure of profit or loss (segment EBITDA), disclosure is required.

Company B has also disclosed a qualitative description for other segment items, which represent “the difference between reported segment revenues less the [significant] segment expenses disclosed . . . and reported segment profit or loss.” The table below shows amounts related to the disclosure illustrated in this example.

Segment	Segment Revenue	Cost of Sales	Warranty Expense	Hosting Fees	Marketing Expense	Other Segment Items	Segment EBITDA
Computer hardware	\$ 550,000	\$ 250,000	\$ 50,000	\$ —	\$ 80,000	\$ 70,000*	\$ 100,000
Computer software	<u>467,000</u>	—	—	150,000	100,000	30,000**	<u>187,000</u>
	<u>\$ 1,017,000</u>						<u>\$ 287,000</u>

* Includes legal and professional costs, bad debt, and goodwill impairment expense.

** Includes selling expenses and bad-debt expenses.

For another example illustrating the ASU’s disclosure requirements related to significant segment expenses and other segment items, see [Example 1](#) in [Appendix A](#).

Interim Disclosure Changes

Under the ASU, public entities must disclose significant segment expenses and other segment items, as well as all existing segment information about profit or loss, on an annual and interim basis. Such disclosures include information that must be disclosed annually in accordance with ASC 280-10-50-22 through 50-26C (e.g., a measure of a segment’s profit or loss and total assets, interest revenue and expense, depreciation and amortization expense). In the ASU’s Basis for Conclusions, the Board indicates that it expects this new interim

disclosure requirement to “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.”

Disclosures Required on an Interim Basis⁴

Current Interim Requirements		Current Annual Disclosures		Significant Expense Principle and Other Items
<ul style="list-style-type: none"> Revenue Segment profit or loss Reconciliation of segment profit to consolidated income Segment assets^[*] 	+	<ul style="list-style-type: none"> Interest revenue and expense^[**] Depreciation and amortization^[**] Unusual items^[**] Equity in the income of equity method investees^[**] Income tax expense or benefit^[**] Other significant noncash items^[**] Investment in equity method investees^[**] Expenditures for long-lived assets^[*] 	+	<ul style="list-style-type: none"> Significant expense categories and amounts Other segment items

* Segment asset disclosure is only required if such information is provided to the CODM.

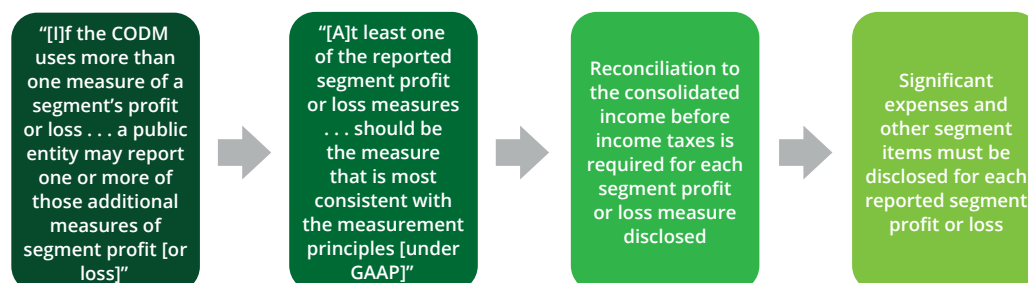
** To the extent that such information would be required for the company on an annual basis.

Multiple Measures of a Segment’s Profit or Loss

The ASU permits public entities to disclose more than one measure of segment profit or loss, provided that at least one of the reported measures includes the segment profit or loss measure that is most consistent with GAAP measurement principles (the “required measure”). Specifically, ASC 280-10-50-28A (added by the ASU) states that “[i]f the [CODM] uses more than one measure of a segment’s profit or loss in assessing segment performance and deciding how to allocate resources, a public entity may report one or more of those additional measures of segment profit [or loss]. However, at least one of the reported segment profit or loss measures . . . shall be that which management believes is determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in a public entity’s consolidated financial statements.” (See the [SEC Reporting Considerations](#) section below for clarifications the SEC staff made at the AICPA Conference.)

In addition to reconciling each reported measure to the consolidated financial statements, a public entity that discloses multiple measures of a segment’s profit or loss should provide all existing disclosures about the segment’s profit or loss as well as about segment assets if such information is provided to the CODM. The new requirement to provide significant segment expenses and other segment items would also apply to each of these additional reported measures. A public entity that reports an additional measure for a reportable segment in the current period should disclose this additional measure in the prior comparative periods if it was provided to the CODM in those prior periods. Further, “a public entity is not precluded from reporting the additional measure or measures for the prior periods in which the measure or measures were not provided to the [CODM].”

The graphic below illustrates the ASU’s requirements when a public entity discloses multiple measures of a segment’s profit or loss.



⁴ Reproduced from the FASB and IASB Staff Paper, Agenda Reference AP34, “[Segment Reporting: Improvements to Reportable Segment Disclosures](#).”

CODM-Related Disclosures

Other notable disclosures that the ASU requires public entities to provide include:

- “The title and position of the individual or the name of the group or committee identified as the [CODM].”
- “How the [CODM] uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources.”
- The method applied to allocated overhead expenses disclosed as a significant segment expense, regularly provided to the CODM, and included within the measure of segment profit or loss.
- Separate disclosure of interest expense that is a significant segment expense, even if a public entity discloses interest expense as part of net interest income. This requirement will mostly affect highly leveraged public entities and financial services entities.

For an example illustrating the first two disclosure provisions above, see [Example 2](#) in [Appendix A](#).

Entities With a Single Reportable Segment

A public entity that has a single reportable segment should provide all disclosures required by the ASU (e.g., significant segment expenses and other segment items) as well as those required by the existing segment guidance in ASC 280. In other words, if the measure of a segment’s profit or loss that the CODM uses to allocate resources and assess segment performance is not a consolidated GAAP measure and is not clearly evident from the disclosures provided, it would need to be reported and reconciled to consolidated income before income taxes. Provided that these requirements are met, an entity with a single reportable segment also may report additional performance measures that the CODM uses to assess segment performance and determine resource allocation, provided that at least one of the reported measures includes the segment profit or loss measure that is most consistent with GAAP measurement principles. (See the [SEC Reporting Considerations](#) section below for clarifications the SEC staff made at the AICPA Conference.)

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

When a consolidated GAAP measure is used, a public entity would have to disclose the measure of profit or loss used, information about all significant expenses that are regularly provided to the CODM and included within that measure, and any other segment items whose line items could differ from those that are currently presented on the face of the income statement. Further, information about a single reportable entity, if regularly provided to the CODM and included in the measure of profit or loss, might need to take into account a category and amount for allocated corporate overhead expenses as a significant segment expense.

For an example illustrating the ASU’s disclosure requirements for an entity with a single reportable segment, see [Example 3](#) in [Appendix A](#).



Connecting the Dots

Before adopting this ASU, entities with a single reportable segment were not explicitly required to provide segment disclosures beyond those provided on an entity-wide basis. Such entities will now be required to expand their segment footnote disclosures by providing all the disclosures currently required for multiple-segment entities as

well as those required by the ASU. As part of this requirement, the entity's segment revenue and profit or loss measure should be clearly disclosed and the entity must review information regularly provided to the CODM for significant segment expenses and other segment items. For additional considerations related to entities with a single reportable segment, see [Appendix B](#).

Recasting of Prior-Period Segment Information to Conform to Current-Period Segment Information

The ASU amends ASC 280 to replace the word "restate" with "recast." The ASU's changes related to the recasting of prior-period segment expense information can be summarized as follows:

- An entity that "changes the segment information that is regularly provided to the [CODM] in a manner that causes the identification of significant segment expenses to change," or that "changes its internal reports and the segment expense information that is regularly provided to the CODM changes in the current period," is required to recast all periods, including interim periods, unless it is impracticable to do so in a manner consistent with the existing recasting requirements related to a change in composition of the entity's reportable segments.
- Recasting is not required for an entity that has "significant changes from prior periods to the measurement methods of expenses, the method for allocating expenses to a segment, or changes in the method for allocating centrally incurred expenses." However, "it is preferable to show all segment information on a comparable basis to the extent it is practicable to do so" in a manner consistent with the existing recasting requirements for reflecting a change in measurement of a segment's profit or loss.

SEC Reporting Considerations

Segment Disclosure in MD&A

An SEC registrant's determination of reportable segments provides the basis for its required disclosures in the business and MD&A sections of its filing. For example, SEC Regulation S-K, Item 101(c), states that a registrant should provide a narrative description of the business, "focusing upon the registrant's dominant segment or each reportable segment about which financial information is presented in the financial statements." In addition, SEC Regulation S-K, Item 303(b), provides guidance on MD&A of financial condition and results of operations. It states, in part:

Where in the registrant's judgment a discussion of segment information and/or of other subdivisions (e.g., geographic areas, product lines) of the registrant's business would be necessary to an understanding of such business, the discussion must focus on each relevant reportable segment and/or other subdivision of the business and on the registrant as a whole.

To comply with this guidance, a registrant should provide disclosures that are consistent with those of its reportable segments.

Historically, ASC 280 precluded a registrant from disclosing more than one measure of segment profit or loss in the notes to the financial statements. Therefore, any additional measures of profit or loss that were used by the CODM could only be presented as non-GAAP measures outside the financial statements (e.g., within MD&A), provided that they comply with the SEC's non-GAAP rules and regulations. Because the ASU now permits public entities to disclose multiple measures of profit or loss that are used by the CODM, it is unclear whether a registrant will be permitted or otherwise required to discuss more than one segment measure of profit or loss within MD&A.

Further, the SEC's rules and regulations⁵ allow a segment measure to be discussed on a segment-by-segment basis outside the financial statements in MD&A without being considered a non-GAAP measure (e.g., segment EBITDA). However, if this same segment performance measure is discussed on an aggregated segment basis, it is considered a non-GAAP measure and the registrant would be required to comply with the SEC's non-GAAP rules and regulations. The ASU does not change this. However, under the ASU, a registrant with a single reportable segment may now report a segment performance measure that was not prepared by using measurement principles consistent with GAAP (e.g., consolidated segment EBITDA). We believe that such a measure would not be considered a non-GAAP measure for the purpose of discussing the registrant's performance outside the financial statements, and the registrant would not be required to comply with the SEC's non-GAAP rules and regulations in such circumstances.

In the absence of further interpretive guidance from the SEC, registrants should consider consulting with their auditors and legal counsel before adopting the ASU to determine the impact it will have on the discussion of results of operations in MD&A.



Connecting the Dots

Entities With a Single Reportable Segment

During the AICPA Conference, the SEC indicated that when a single reportable segment entity is managed on a consolidated basis, the SEC would expect the entity to conclude under the new guidance in ASC 280-10-55-15D that the measure of segment profit or loss that is most consistent with U.S. GAAP is consolidated net income.

We encourage entities to consider discussing, with auditors, advisers, or the SEC staff, how the staff's view should be applied if the entity is a single reportable segment entity and management concludes that it does not manage the entity on a consolidated basis and may therefore use a measure of segment profit or loss that is not consistent with U.S. GAAP.

Multiple Measures of a Segment's Profit or Loss

During the AICPA Conference, the SEC stated that the SEC staff does not believe that such additional measures are required or expressly permitted by GAAP (since the ASU does not identify specific measures that may be disclosed, such as EBITDA). The SEC indicated that such measures therefore would be considered non-GAAP measures.

Evaluating whether a non-GAAP measure is misleading in the context of Regulation G may be complex. Additional measures included in the financial statement footnotes would be subject to management's assessment of internal control over financial reporting and external audit procedures. Registrants are encouraged to consult with their advisers if they intend to early adopt ASU 2023-07 and disclose additional measures that are not consistent with GAAP.

The examples below illustrate these concepts for a registrant with more than one reportable segment. For additional considerations related to multiple measures of a segment's profit or loss, see [Appendix B](#).

⁵ See [Question 104.01](#) of the SEC's Compliance and Disclosure Interpretations (C&DIs) on non-GAAP financial measures.

Example 3

One Measure of Segment Profit and Loss

Assume that a registrant's CODM regularly reviews segment EBITDA to assess segment performance and allocate resources and does not use other measures of segment profit or loss. The registrant would identify segment EBITDA as the required measure of segment profit and loss. Segment EBITDA for each segment would not be considered a non-GAAP measure because it must be disclosed in accordance with ASC 280. However, in a manner consistent with the interpretation in [C&DI Question 104.04](#),⁶ presentation of total segment EBITDA or consolidated EBITDA "in any context other than the . . . required [segment footnote] reconciliation . . . would be the presentation of a non-GAAP financial measure."

Example 4

Multiple Measures of Segment Profit and Loss That Are Consistent With GAAP

Assume that a registrant's CODM regularly reviews GAAP gross profit and GAAP operating profit to assess segment performance and allocate resources. The registrant determines that GAAP operating profit is the required measure of segment profit and loss since it represents the measure of segment performance that is most consistent with GAAP measurement principles. Further, the registrant concludes that GAAP gross profit is fully burdened and has been determined in a manner consistent with GAAP measurement principles. Therefore, disclosure of segment gross profit and operating profit would be consistent with ASC 280 (as amended by ASU 2023-07), and neither would be subject to the SEC's non-GAAP rules and regulations.

Example 5

Multiple Measures of Segment Profit and Loss, Some of Which Are Not Consistent With GAAP

Assume that a registrant's CODM regularly reviews GAAP operating profit and EBITDA to assess segment performance and allocate resources. The registrant would identify GAAP operating profit as the required measure of segment profit and loss since it would represent the measure of segment performance that is most consistent with GAAP measurement principles. EBITDA would be considered an additional measure that may be disclosed under ASC 280 (as amended by ASU 2023-07); however, such a disclosure is neither required nor expressly permitted. Therefore, disclosure of segment EBITDA, total segment EBITDA, or consolidated EBITDA would be subject to the SEC's non-GAAP rules and regulations.

Retrospective Adoption Considerations

After adopting the ASU, when recasting prior-period segment information to conform to current-period segment information, a registrant must consider the impact of retrospective changes on its historical financial statements included in its reports under the Securities Exchange Act of 1934 (e.g., Forms 10-K and 10-Q), in registration statements under the Securities Act of 1933 (e.g., registration statements on Form S-3), and other nonpublic offerings.

⁶ Question 104.04 of the SEC's C&DIs on non-GAAP financial measures.

The requirement to retrospectively revise the annual preadoption financial statements and other affected financial information after the adoption of this ASU may be accelerated when the preadoption financial statements are reissued, as discussed in ASC 855-10-25-4 (see Form S-3, Item 11(b)(ii)). Such reissuance may occur when a registrant:

- Files a new or amended registration statement. A registrant is generally required to file recasted financial statements that reflect the change for all periods presented if the change is considered material.
- Files a Form S-8. A registrant is generally not required to update its previously issued financial statements in a new Form S-8 to reflect a change unless it constitutes a “material change in the registrant’s affairs.”
- Issues a prospectus supplement. A registrant is generally not required to update its previously issued financial statements unless the registrant considers the change to be a fundamental change.
- Issues securities in a nonpublic offering. If an entity incorporates its financial statements into the nonpublic offering, it should apply the above framework related to a prospectus supplement. If the financial statements are included in the nonpublic offering document, the entity should apply the guidance related to a new or amended registration statement.

Registrants should consider consulting with their auditors and legal counsel regarding the impact of the retrospective changes when adopting the ASU.

See [Section 7.5](#) of Deloitte’s Roadmap *Segment Reporting* for further details on the reporting implications of retrospective changes to reportable segments.

Effective Date and Transition

Effective Date

The amendments in ASU 2023-07 are effective for all public entities for fiscal years beginning after December 15, 2023 (e.g., for calendar-year-end public entities, annual periods beginning on January 1, 2024 — i.e., December 31, 2024, Form 10-K), and interim periods within fiscal years beginning after December 15, 2024 (e.g., for calendar-year-end public entities, interim periods beginning on January 1, 2025 — i.e., Form 10-Q for the first quarter of 2025). Early adoption is permitted.

Transition

The enhanced segment disclosure requirements apply “retrospectively to all prior periods presented in the financial statements.” The significant segment expense and other segment item amounts “disclosed in prior periods shall be based on the significant segment expense categories identified and disclosed in the period of adoption.”

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Appendix A — Examples From ASU 2023-07

The examples below are reproduced from the ASU.

Example 1

ASC 280-10
<p>Case B: Information About Reported Segment Revenue, Measures of a Segment’s Profit or Loss, Significant Segment Expenses, Measure of a Segment’s Assets, and Required Reconciliations</p> <p>55-48 The following tables illustrate a format for presenting information about reported segment revenue, measures of a segment’s profit or loss, significant segment expenses, and measure of a segment’s assets (see paragraphs 280-10-50-22, 280-10-50-25, and 280-10-50-26A through 50-26C) for the current reporting period. The tables do not illustrate comparative period disclosures. 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 that are regularly provided to the chief operating decision maker, including interest revenue and interest expense. The following tables also illustrate a format for presenting the reconciliations of reportable segment revenues and measures of profit or loss to Diversified Company’s consolidated totals (see paragraph 280-10-50-30(a) through (b)).</p>

ASC 280-10 (continued)

	Auto Parts	Motor Vessels	Software	Electronics	Finance	Total
Revenues from external customers	\$ 3,000	\$ 5,000	\$ 9,500	\$ 12,000	\$ 5,000 ^(a)	\$ 34,500
Intersegment revenues	<u>—</u>	<u>—</u>	<u>3,000</u>	<u>1,500</u>	<u>—</u>	<u>4,500</u>
	3,000	5,000	12,500	13,500	5,000	39,000
<i>Reconciliation of revenue</i>						
Other revenues						1,000 ^(b)
Elimination of intersegment revenues						<u>(4,500)</u>
Total consolidated revenues						<u>\$ 35,500</u>
Less: ^(c)						
Cost of revenue	<u>1,700</u>	<u>3,100</u>	<u>2,000</u>	<u>6,800</u>	<u>—</u>	<u>—</u>
Segment gross profit	1,300	1,900	10,500	6,700	<u>—^(d)</u>	\$ 20,400
Less: ^(c)						
Research and development expense	—	—	3,300	—	—	—
Nonmanufacturing payroll expense ^(e)	500	900	2,600	2,700	750	—
Professional services expense	—	—	1,700	500	800	—
Interest expense (finance segment)	—	—	—	—	3,000	—
Other segment items ^(f)	<u>700</u>	<u>1,130</u>	<u>2,300</u>	<u>1,600</u>	<u>(50)</u>	<u>—</u>
Segment profit/(loss)	100	(130)	600	1,900	500	\$ 2,970
<i>Reconciliation of profit or loss (segment profit/(loss))</i>						
Other profit or loss						100 ^(b)
Interest income/(expense), net (excluding finance segment)						1,125 ^(g)
Elimination of intersegment profits						(500)
Unallocated amounts:						
Litigation settlement received						500
Other corporate expenses						(750)
Adjustment to pension expense in consolidation						<u>(250)</u>
Income before income taxes						<u>\$ 3,195</u>
<i>Reconciliation of profit or loss (segment gross profit)</i>						
Total segment gross profit						\$ 20,400
Segment operating expenses, net (excluding finance segment)						(17,930) ^(h)
Segment profit (finance segment)						500
Other profit or loss						100 ^(b)
Interest income/(expense), net (excluding finance segment)						1,125 ^(g)
Elimination of intersegment profits						(500)
Unallocated amounts:						
Litigation settlement received						500
Other corporate expenses						(750)
Adjustment to pension expense in consolidation						<u>(250)</u>
Income before income taxes						<u>\$ 3,195</u>

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

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

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

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

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

(f) Other segment items for each reportable segment includes:

Auto parts — maintenance, professional services expense, and repairs expense and certain overhead expenses.

Motor vessels — marketing expense, professional services expense, occupancy expense, and certain overhead expenses.

Software — depreciation and amortization expense, travel expense, office supplies expense, and certain overhead expenses.

Electronics — depreciation and amortization expense, marketing expense, occupancy expense, and certain overhead expenses.

Finance — depreciation and amortization expense, property tax expense, certain overhead expenses, and other gains or losses.

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

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

ASC 280-10 (continued)

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

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

Example 2**ASC 280-10****Case A: Disclosure of Descriptive Information About the Reportable Segment**

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

- a. Description of the types of products and services from which the reportable segment derives its revenues (see paragraph 280-10-50-21(b)).
The software segment derives revenues from customers by providing access to cloud computing applications under software-as-a-service arrangements. The most popular cloud computing application is an enterprise resource planning application used primarily by customers to manage functions such as accounting, financial management, project management, and procurement. The service term for the software arrangements is variable, with the median term being approximately five years.
- b. Measure of segment profit or loss and assets (see paragraph 280-10-50-29).
The accounting policies of the software segment are the same as those described in the summary of significant accounting policies.
The chief operating decision maker assesses performance for the software segment and decides how to allocate resources based on net income that also is reported on the income statement as consolidated net income.
The measure of segment assets is reported on the balance sheet as total consolidated assets.
- c. How the chief operating decision maker uses the reported measure of segment profit or loss (see paragraph 280-10-50-29(f)).
The chief operating decision maker uses net income to evaluate income generated from segment assets (return on assets) in deciding whether to reinvest profits into the software segment or into other parts of the entity, such as for acquisitions or to pay dividends.
Net income is used to monitor budget versus actual results. The chief operating decision maker also uses net income in competitive analysis by benchmarking to ABC Company's competitors. The competitive analysis along with the monitoring of budgeted versus actual results are used in assessing performance of the segment and in establishing management's compensation.
- d. ABC Company does not have intra-entity sales or transfers.
- e. Factors that management used to identify the public entity's reportable segments (see paragraph 280-10-50-21(a)).
ABC Company has one reportable segment: software. The software segment provides cloud computing services to customers under software-as-a-service arrangements. ABC Company derives revenue primarily in North America and manages the business activities on a consolidated basis. The technology used in the customer arrangements is based on a single software platform that is deployed to and implemented by customers in a similar manner.
- f. The title and position of the individual or the group identified as the chief operating decision maker (see paragraph 280-10-50-21(c)).
ABC Company's chief operating decision maker is the senior executive committee that includes the chief operating officer, chief financial officer, and the chief executive officer.

Example 3

ASC 280-10

Case B: Information About Reported Segment Revenue, Segment Profit or Loss, and Significant Segment Expenses

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

	Software Segment
Revenue	\$ 81,800
Less:	
Employee expense	41,000
Contractor expense	15,000
Occupancy and equipment expense	8,400
Hosting and data center expense	1,500
Other professional services expense	750
Customer acquisition expense	800
Other segment items ^(a)	2,500
Depreciation and amortization expense	3,200
Interest expense	600
Income tax expense	<u>2,000</u>
Segment net income	<u>6,050</u>
<i>Reconciliation of profit or loss</i>	
Adjustments and reconciling items	<u>—^[7]</u>
Consolidated net income	<u><u>\$ 6,050</u></u>

(a) Other segment items included in Segment net income includes marketing expense, restructuring expense, foreign currency exchange gains and losses, and other overhead expense.

⁷ See the [SEC Reporting Considerations](#) section above for clarifications the SEC staff made at the AICPA Conference regarding entities with a single reportable segment.

Appendix B — Recent Discussions With SEC Staff

Multiple Measures of a Segment's Profit or Loss — Non-GAAP Considerations

ASU 2023-07 permits, but does not require, the disclosure of more than one measure of performance used by the CODM in allocating resources and assessing performance of the entity's reportable segments. These additional measures should be regularly reviewed and used by the CODM to allocate resources and assess segment performance.

[Regulation S-K, Item 10\(e\)\(5\)](#), states that “non-GAAP financial measures exclude financial measures required to be disclosed by GAAP, Commission rules, or a system of regulation of a government or governmental authority or self-regulatory organization that is applicable to the registrant. However, the financial measure should be presented outside of the financial statements unless the financial measure is required or expressly permitted by the standard-setter that is responsible for establishing the GAAP used in such financial statements.”

At the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments, the SEC staff discussed the relationship between the non-GAAP rules and ASU 2023-07. The staff communicated its view that additional measures are neither required nor expressly permitted by GAAP (i.e., the ASU does not identify specific measures that must be disclosed, such as EBITDA). Accordingly, if additional performance measures are included in the segment footnote and have not been computed in accordance with GAAP, such additional measures would be considered non-GAAP measures.

In recent discussions with the SEC staff, the staff communicated the following:

- It would not object to the inclusion of additional non-GAAP performance measures in the segment footnote that are disclosed in accordance with ASC 280-10-50-28B and 50-28C (added by ASU 2023-07).
- Additional performance measures must comply with SEC rules and regulations. Non-GAAP measures to be included in financial statements should not be misleading, as noted in [Regulation G](#), and therefore should comply with the presentation and disclosure requirements of Regulation G and [Regulation S-K, Item 10\(e\)](#), which are further discussed below.
- The additional disclosures under Regulation G and Regulation S-K, Item 10(e), may be provided within or outside of the financial statements (e.g., in MD&A). Further, the financial statement footnotes should not include a cross-reference to other parts of a filing that contain such disclosures.

Regulation G states that:

- Non-GAAP financial measures must not be misleading.
- The most directly comparable GAAP measure must be presented.
- A quantitative reconciliation of the non-GAAP financial measure to the most comparable GAAP measure must be presented for a non-GAAP measure.

Regulation S-K, Item 10(e), expands on Regulation G to require a registrant to:

- Present the most directly comparable GAAP measure with prominence equal to or greater than that of the non-GAAP measure.
- Include a statement indicating the reasons why the registrant believes that the non-GAAP measure provides useful information to investors about the registrant's financial condition and results of operations.
- Provide, to the extent material, a statement disclosing the additional purposes, if any, for which the registrant uses the non-GAAP measure.

The SEC staff's [C&DIs](#) on the use of non-GAAP measures provide further guidance to registrants on how to apply the requirements of Regulation G and Regulation S-K, Item 10(e). Specifically, [Section 100.01](#) of the C&DIs provides guidance on non-GAAP measures that could mislead investors, including those that:

- Exclude normal, recurring cash operating expenses necessary for business operations.
- Are presented inconsistently between periods, such as by adjusting an item in the current reporting period, but not a similar item in the prior period, without appropriate disclosure about the change and an explanation of the reasons for it.
- Exclude certain nonrecurring charges but do not exclude nonrecurring gains (e.g., “cherry picking” non-GAAP adjustments to achieve the most positive measure).
- Are based on individually tailored accounting principles, including certain adjusted revenue measures.
- Are mislabeled or not clearly labeled as non-GAAP measures or otherwise include adjustments that are not clearly or accurately labeled or described.



Connecting the Dots

Over the past several years, SEC comments issued to registrants regarding their compliance with non-GAAP measure requirements, particularly the requirements related to the concept of misleading measures, have consistently been near the top of the list of most frequent SEC comments. See [Section 4.3](#) of Deloitte's Roadmap *Non-GAAP Financial Measures and Metrics* for additional information on the SEC's non-GAAP regulations. Registrants will need to expand their internal control processes over financial reporting with respect to non-GAAP measures if such measures are included in the notes to the financial statements.

In addition to the segment reconciliation requirements of ASC 280, Regulation G requires a quantitative reconciliation of the segment non-GAAP measure to the most comparable GAAP measure (e.g., the required segment GAAP measure). However, since specific guidance on the form of the Regulation G reconciliation has not been provided, there may be diversity in practice related to how both types of reconciliation requirements are satisfied.

When a company elects to show additional non-GAAP performance measures in the segment footnote, possible alternatives for presenting the ASC 280 and Regulation G reconciliations may include one of the following:

- Presentation of the ASC 280 reconciliation in the segment footnote with the Regulation G reconciliation presented in MD&A.
- Separate presentation of the reconciliations required by ASC 280 and Regulation G in the segment footnote.
- A combined presentation of the reconciliations required by ASC 280 and Regulation G in the segment footnote.

Q&As Based on Recent Discussions With the SEC Staff

The Q&As below, which are based on recent discussions with the SEC staff, reflect our understanding of the staff's views on five accounting issues that stakeholders have raised regarding the adoption of ASU 2023-07.

Q&A 1

Question

Would entities managed on a consolidated basis be permitted to disclose a segment's measure of profit or loss in addition to consolidated net income?

Answer

Yes. The SEC staff would continue to expect that the required measure for these entities would be consolidated net income, since ASC 280 requires disclosure of the measure closest to GAAP (i.e., the measure most consistent with how amounts are measured in the financial statements).

As discussed above, an entity may voluntarily disclose additional measures of segment profit or loss. However, such additional measures, if not computed on a basis consistent with GAAP, would be considered non-GAAP performance measures and would be subject to the requirements discussed above.

Q&A 2

Question

Would the SEC staff's views on whether a consolidated GAAP measure, such as net income, is the required segment performance measure to be disclosed under ASC 280 be different if the CODM were not the CEO or CFO who certifies the Form 10-Q or Form 10-K for an entity that has a single reportable segment and is managed on a consolidated basis?

Answer

While certification of the Form 10-Q or Form 10-K is one of several data points indicating that the certifying officer receives and reviews information about consolidated net income, it is not determinative. The SEC staff informally indicated that it is unaware of instances in which a CODM has managed an entity with a single reportable segment on a consolidated basis but has not regularly reviewed a consolidated GAAP measure of profit and loss, such as consolidated net income.

Q&A 3

Question

Could there be circumstances in which an entity is organized as a single operating segment but is not managed on a consolidated basis?

Answer

It depends. ASC 280-10-55-15D (added by ASU 2023-07) explicitly addresses this question. In a manner consistent with that guidance, an entity should first look to ASC 280-10-50-4 to determine whether the entity is managed on a consolidated basis. The analysis under ASC 280-10-50-4 should take into consideration how the entity distinguishes the business activities of the single operating segment from other activities of the entity and whether there is evidence, beyond just the existence and use of a certain measure of profit or loss, that the entity is managed on a consolidated basis. For example, the entity might consider how budgets are prepared, resources are allocated, and performance is assessed.

In the SEC staff's view, the mere exclusion of a corporate headquarters or a certain functional department from a measure of profit or loss reviewed by the CODM is not determinative of whether an entity is managed on a consolidated basis. Entities should carefully consider all relevant facts and circumstances when reaching their conclusions and may consider discussing their specific facts and circumstances with the staff.



Connecting the Dots

The SEC staff cautioned that entities with a single reportable segment should work through the GAAP framework to determine the required measure of segment profit or loss and that the staff would expect such measure to be consolidated net income in most cases. These entities could voluntarily disclose non-GAAP performance measures in addition to consolidated net income as long as they comply with the non-GAAP SEC rules and regulations.

The evaluation of whether an entity is managed on a consolidated basis may also be necessary in circumstances in which the entity is aggregating multiple operating segments into a single reportable segment. Although our discussions with the SEC staff did not address a fact pattern in which an entity has multiple operating segments that are aggregated into a single reportable segment, we believe that it may be acceptable for an entity that aggregates multiple operating segments into a single reportable segment to use a performance measure other than consolidated net income. This is because ASC 280-10-50-11 permits, but does not require, an entity to aggregate operating segments into a reportable segment if their economic and qualitative characteristics are similar. In other words, if an entity elected not to aggregate operating segments, it would have multiple operating and reporting segments and could apply the multiple-segment reporting concepts discussed herein.

Q&A 4

Question

Is it acceptable for an entity to disclose a segment expense that is not calculated in accordance with GAAP as a significant segment expense category?

Answer

Yes. There is no requirement in ASC 280 for significant segment expenses to be calculated in accordance with GAAP. However, the SEC staff noted that other requirements may be applicable. For example, [Regulation S-X, Rule 4-01\(a\)](#), states, in part, that “[t]he information required with respect to any statement shall be furnished as a minimum requirement to which shall be added such further material information as is necessary to make the required statements, in the light of the circumstances under which they are made, not misleading.” Accordingly, if the significant segment expense is not determined in accordance with GAAP, it should be accompanied by narrative disclosure to ensure that it is not misleading. The narrative disclosure could include wording on how the significant segment expense is computed, the purpose of applicable adjustments, and how the significant segment expense is used.

Q&A 5

Question

Would the SEC staff object to the use of a different measure of segment profit or loss for different reportable segments?

Answer

No. In a manner consistent with ASC 280, if the entity can provide evidence that it allocates resources and assesses performance by using different measures of segment profit or loss for different reportable segments, disclosure of different measures of segment profit or loss for different reportable segments would be acceptable.



Connecting the Dots

Public entities would need to comply with the reconciliation requirements of ASC 280-10-50-30, as amended by ASU 2023-07, for each segment measure of profit or loss disclosed for each reportable segment.

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