STAFF PAPER

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Project: Segment Reporting (SEGRPT)			
Paper Topic: Project Update – Targeted Improvements to Segment Reporting			
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Introduction

1. Topic 280, *Segment Reporting*, and IFRS 8, *Operating Segments*, are substantially converged standards. The FASB's project is considering making some targeted improvements to Topic 280. The purpose of this session is to provide IASB members with an update on the project and to discuss the feedback received as part of our initial deliberations.

2. The paper is structured into the following sections:

   (a) Section A: Scope of the Project

   (b) Section B: 2018 Aggregation Study

   (c) Section C: 2019 Disclosure Study.

Section A: Scope of the Project

3. Over the years, the Board has received feedback that investors are unsatisfied with the level of segment detail provided by public companies and believe that generally there should be more segments and more disclosures about those segments. These problems are driven by three main areas of the standard: (a) segment identification, (b) aggregation of operating segments into reportable segments, and (c) the segment disclosure requirements.

4. In September 2017, the Board decided to add a project to the technical agenda to consider making targeted improvements to the segment aggregation process and the disclosure requirements.

5. It decided not to address segment identification because doing so would involve a fundamental change to the accounting standard.

6. To be clear, the project is:

   (a) Not revising the definition of operating segment because this underpins segment identification.

   (b) Not expanding the scope of Topic 280 to include private companies, not-for-profit entities, or other types of reporting entities that are not currently required to apply the Topic.

   (c) Not changing Topic 280 as it relates to restatements that result from internal reorganizations. In those scenarios, the existing guidance on restatements continues to apply.

Section B: 2018 Aggregation Study

7. For the aggregation criteria, the Board decided to focus its analysis on two alternatives for improvement:

   (a) Alternative 1: Re-order the process for determining reportable segments and move the quantitative thresholds earlier in that process.

   (b) Alternative 2: Remove the aggregation criteria, thereby each operating segment would be reported, but retain the practical limit guidance.

8. The Board decided that the project should conduct a study with preparers as part of extended outreach to understand operability concerns of making improvements to the aggregation criteria and the reportable segments process.

Alternative 1: Re-Order the Size Tests within the Reportable Segments' Process.

9. Currently, following segment identification, there are six steps in the reportable segments' process.

   (a) Segment identification – the operating segments are identified based on the management approach and the Chief Operating Decision Maker (CODM) perspective.

   (b) Step 1 – Operating segments may be combined if they meet all of the aggregation criteria.

   (c) Step 2 – The combined segments are reportable if they meet any of the 10% quantitative thresholds for total revenue, profit or loss or assets (size tests).

   (d) Step 3 – Segments that fall below the size tests may be aggregated if they meet a majority of the aggregation criteria. Segments that are aggregated are separately reportable.

(e) Step 4 – Report additional segments until 75 percent of total revenue is reported. If 75 percent of revenue is already reported, this step may be skipped.

(f) Step 5 – Aggregate the remaining segments into an “All Other” category separate from reconciling items.

(g) Step 6 – Apply a practical limit of 10 to the number of reportable segments.

10. Alternative 1 considers changing the current process by moving the size tests earlier. In effect, it flips the ordering of Step 1 and Step 2. Operating segments would continue to be identified based on the CODM function. However, once identified, the size tests would be applied to those operating segments, meaning that any individual segment that meets or exceeds a quantitative threshold would become reportable and could not be combined with other operating segments. The remaining steps in the process would remain largely unchanged.

11. The goal of Alternative 1 is to move closer to a pure management approach by disclosing a public entity’s largest operating segments, as management views them, and permitting some aggregation for the smaller operating segments. Some of the follow-on issues we also studied included:

(a) Follow-On Issue 1: The effect of including two additional quantitative threshold bases for (i) research and development expense and (ii) capital expenditure.

(b) Follow-On Issue 2: The effect on the frequency of restatements of prior comparative period segment information as a result of an operating segment moving above or below the size tests each period.

Alternative 2: Remove the Aggregation Criteria and Report All Segments until a Practical Limit

12. Alternative 2 considers removing the aggregation criteria. Once an entity has identified its operating segments, all operating segments would be reportable unless the entity reaches a practical limit, such as 10 reportable segments.

13. The goal of Alternative 2 is to revert the standard to an even purer form of the management approach. It would permit users to view an entity more in line with how the CODM views the business; yet, by retaining the practical limit, it also would shelter entities from having to provide a cumbersome amount of disclosures. Some of the follow-on issues studied as part of Alternative 2 included:

(a) Follow-On Issue 1: How to determine which operating segments should be reportable when an entity exceeds the practical limit.

(b) Follow-On Issue 2: The effect on the frequency of restatements of prior comparative period segment information as a result of an entity exceeding the practical limit.

Feedback Received

14. Feedback was received from 30 public entities. Of those 30, 14 entities completed written study materials. Enough data was received from the 14 participants to understand the effect of both Alternatives 1 and 2 on the number of reportable segments as follows:

Industry	No. of Operating Segments	Current GAAP No. of Reportable Segments	Alt. 1 No. of Reportable Segments	Alt. 2 No. of Reportable Segments
Consumer Goods A	12	4	6	9
Consumer Goods B	12	5	8	9
Financial Services A	1	1	1	1
Financial Services B	5	3	4	5
Financial Services C	8	2	3	8
Health Care & Insurance A	7	3	4	7
Health Care & Insurance B	7	4	6	7
Mining, Oil, and Gas	20	4	9	9
REIT A	8	2	3	8
REIT B	14	3	3	9
REIT C	24	1	3	9
REIT D	493	1	1	9
Technology and Software A	6	1	2	6
Technology and Software B	8	3	3	8
Total: 14				

15. For the sample, we note that both alternatives do, in fact, result in additional reportable segments compared with current GAAP.

Views on Alternative 1

16. In broad terms, preparer feedback to Alternative 1 had the following themes:

    (a) Impairs Natural Groupings

    (b) Decreased Comparability with Peer Entities

    (c) Increased Frequency of Restatements

    (d) Competitive Harm Concerns

    (e) Other Costs.

Impairs Natural Groupings

17. Preparers acknowledged that Alternative 1 would require entities to separately disclose their largest segments and permit aggregation of their smaller segments. In general, this would result in more reportable segments than are currently disclosed.

18. Preparers commented that merely increasing the number of reportable segments would not necessarily improve the quality of the segment information or usefulness to investors. Preparers tended to support this view with three main arguments about the effect of Alternative 1:

    (a) It would impair the natural groupings of similar operating segments.

    (b) It would result in an "All Other" category that is difficult for users to understand.

    (c) It would result in users having to "re-aggregate" the broken-out segments.

19. Preparers observed that Alternative 1 would break out and separately disclose the large operating segments; however, doing so impairs the natural association of similar segments that respond to the same economics. For example, a REIT would be required to separately disclose its largest properties, such as a shopping center; however, other shopping centers in the same region would not be separately disclosed and may be reported in the "All Other" category. In doing so, those segments could lose their regional identity. Likewise, a consumer goods company that aggregated three related operating segments—hair care, skin care, and personal care—into a larger Beauty reportable segment may be forced to separately disclose hair care as a reportable segment while moving skin and personal care into the "All Other" category. This outcome removes the ability to put like businesses together.

20. Moreover, preparers argued that breaking out the large individual segments from their natural groupings likely would lead users to re-aggregate some of those segments together to model their forecasts. Preparers argued that this re-aggregation means that users would not use the new information as intended and would not always find disaggregation useful.

User Feedback

21. The CFA Institute conducted a survey of its members and summarized the findings in a report titled *Segment Disclosures—Investor Perspectives.*[1] In that survey, 68 percent of users agreed or strongly agreed that there are items within the "All Other" category, which need further disaggregation (Exhibit 7).[2] The staff interprets this to mean that users would not necessarily prefer a more heterogenous

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[1] CFA Institute 2018 Survey / Unsolicited Comment Letter on the FASB website https://fasb.org/jsp/FASB/CommentLetter_C/CommentLetterPage&cid=1218220137090&project_id=SEGRPT-18.
[2] Refers to exhibits within the CFA Institute Report, *Segment Disclosures—Investor Perspectives.*

mix of segments in the “All Other” category that results from Alternative 1. Further, this feedback also suggests that users may not necessarily re-aggregate newly reported segments.

Decreased Comparability with Peer Entities

22. Almost all preparers commented that Alternative 1 would result in less comparable reportable segments with peer entities than current GAAP. The argument made is that segment identification allows entities to identify segments based on a pure management approach, which means that some entities could identify operating segments differently than their industry peers. Aggregation allows a given entity to group operating segments together in ways that result in reportable segments that are similar to the reportable segments of industry peers. Therefore, aggregation facilitates comparability.

User Feedback

23. In the CFA Institute survey, 82 percent of users agreed or strongly agreed that when reportable segments are disclosed by product for some organizations and by region for others, this makes comparative analysis more difficult (Exhibit 7). The staff interprets this to mean that users find it helpful when reportable segments are relatively comparable when analyzing multiple entities, even though investors accept that the composition of the reportable segments is not uniform.

Increased Frequency of Restatements

24. Alternative 1 would require all operating segments that meet or exceed any of the 10 percent quantitative thresholds to be reportable in the period. Most participants in the study had at least one operating segment that hovers near a 10 percent threshold. Several participants reviewed historical data and observed that their reportable segments would change year to year because one or more operating segments flipped above or below the thresholds. This alternative could lead to a higher frequency of preparers recasting prior period segment data to provide three years of comparative period information.

25. Preparers commented that greater volatility in the reportable segments over time would not be useful to investors. Constant changes in the reportable segments impairs the long-term trend line. Preparers explained that the restatement information generally would be available; however, the changes are not costless because of the time and audit costs required to compile the information and redraft the narrative section in the Management Discussion and Analysis (MD&A).

Competitive Harm

26. Many preparers were concerned that Alternative 1 could result in competitive harm to an entity. In their view, breaking out the large operating segments would provide additional insights into operating margins and other performance information.

27. This new information would be available to competitors, employees, and suppliers that could affect contract negotiations to the detriment of the entity. One or two REITs suggested that if large, individual properties were separately disclosed, tenant lease negotiations for those properties could be affected. For example, anchor tenants in a shopping center would have advantages in negotiating favorable lease incentives or terms of rent.

28. When pressed, preparers acknowledged that their competitors would be similarly affected; however, not all public entities use the aggregation criteria. In their view, information about the newly reportable segments could be informative for investors in the short term; however, in the long term, it could harm users through diminished returns.

29. Overall, preparers acknowledged that they were less concerned about competitive harm when the composition of the operating segments included a diverse mix of products or services because of the difficulty in assigning an operating profit margin to a specific brand or property.

User Feedback

30. The CFA Institute survey indicates that users are less convinced that competitive harm is a major issue. Sixty-seven percent agreed or strongly agreed that competitive harm is overstated by entities as a reason not to improve segment disclosures (Exhibit 5).

Other Costs to Preparers

31. Many of the participants acknowledged that Alternative 1 would take some judgment and, therefore, cost out of the system to apply the aggregation criteria. However, most preparers noted that overall the net cost to the system of both alternatives would, in fact, increase. Preparers supported this view with the following arguments:

    (a) Higher direct cost of the alternatives

    (b) Higher costs associated with conforming changes

    (c) Other costs.

32. First, the alternatives would involve increased analytical effort and investor education by accounting staff. Additional quantitative analysis would be needed to substantiate which operating segments are reportable at the 10 percent tests and which are reportable at the later steps in the process. Because of increased frequency of restating prior periods, additional on-going time, and audit cost would be needed to prepare the data analysis for comparative reporting periods.

33. Second, the alternatives would result in higher costs associated with conforming segment changes outside of the financial statements, particularly in the MD&A and earnings releases and presentations. Alternative 1 would require preparers to align the narrative explanation in the MD&A to the newly reportable segments each period. Several preparers argued that the increased time and

effort could delay the release of financial information in earnings press releases and SEC filings. Some preparers expressed concern that the alternatives would result in users focusing on small, immaterial changes in segment reporting rather than strategic business decisions.

34. Finally, the alternatives involve higher opportunity costs than international entities and delayed access to the capital markets. For example, U.S. entities would be disadvantaged compared with international entities reporting under IFRS Standards. Some study participants were concerned about delayed access to the debt capital markets. Market regulations require entities to provide three years of comparative financial statements before they access the capital markets or raise new debt issuances. They explained that the alternatives would increase the time required to prepare fundraising documents and, thus, increase the cost of capital.

Reconsideration of Segment Identification

35. A few participants commented that pursuing either alternative would incentivize them to reconsider their current segment identification process to avoid the harshest effects of the alternatives, that is, changing the “regularly reviewed” reporting package to identify their operating segments higher up in the business.

Views on Alternative 2—Removing the Aggregation Criteria

36. For most entities participating in the study, the effects of Alternatives 1 and 2 were very similar. Accordingly, the preparer feedback provided on Alternative 1 was relevant for Alternative 2, if not more meaningful. To avoid duplication, this section focuses on the following incremental messages on Alternative 2:

    (a) Confusion Regarding 75 Percent Test

    (b) Immaterial Reportable Segments

    (c) Increased Competitive Harm

    (d) Composition of the “All Other” Category.

37. Generally, participants acknowledged that Alternative 2 was a more faithful representation of a pure management approach than current GAAP or Alternative 1. In effect, it more closely reflects how management views and monitors the business. Respondents noted that this alternative was operable and resulted in more reportable segments relative to current GAAP. Additionally, respondents noted that removing the aggregation criteria also would remove judgment from the current standard.

Confusion Regarding the Lack of 75 Percent of External Revenue Requirement

38. Many preparers incorrectly assumed that Alternative 2 retained the 75 percent external revenue requirement. Under Alternative 2, the aggregation criteria would be removed, and all operating

segments would be reportable until a practical limit is reached, regardless of how much revenue is reported. Under this alternative, it is possible that a preparer could report 9 segments and an "All Other" category in which the 9 segments do not represent more than 75 percent of revenue. Preparers found it troubling that the standard would not require at least 75 percent of revenues to be reported suggesting that current practice places a heavy emphasis on this requirement.

Immaterial Reportable Segments

39. A number of preparers observed that this alternative could result in the reporting of immaterial segments. For example, an entity may have five operating segments—Segments A, B, C, D, and E. Segments D and E are very small and represent only 1.5 percent and 2 percent of revenue, respectively. Given their size, this would result in reporting immaterial information.

Competitive Harm

40. Alternative 2 had a dramatic effect on the number of reportable segments. Each newly reportable segment under Alternative 2 would provide more information on segment operating margins, which are not available under current GAAP. Many preparers noted the competitive harm that could be caused by providing such detailed information.

Composition of "All Other" Category

41. Under Alternative 1, the "All Other" category contained a mix of dissimilar segments. For Alternative 2, a similar outcome results, which could be more amplified or modest, depending on the number of operating segments. For example, a REIT with 25 shopping centers would report 9 of its properties and aggregate its remaining 16 properties in an "All Other" category. In this case, it is possible that the majority of revenue is reported in the "All Other" category. However, another REIT with 12 buildings would separately report 9 of its buildings and aggregate its remaining 3 properties in the "All Other" category. Preparers questioned whether this would be an improvement to current GAAP. It would result in additional investor education on the composition of the "All Other" category and users may re-aggregate some of those segments together in order to model forecasts.

FASB Board Discussion

42. In December 2018, the FASB discussed the feedback summary. Board members acknowledged that both Alternatives 1 and 2 would increase the number of reportable segments. However, Board members were concerned about the consequences raised by study participants. Some Board members observed that the frequency of restating prior periods would increase as a result of a segment falling above or below a 10 percent size test year to year. This would disrupt the long-term trend line for investors modeling.

43. The Board decided that it wanted to undertake the second study on segment disclosures before deciding on whether to make changes to the aggregation criteria and reportable segment process.

Question for the IASB—2018 Aggregation Study
Do IASB members have questions or comments on the feedback from the 2018 aggregation study?

Section C: 2019 Disclosure Study

44. The second study focuses on potentially improving the segment disclosure requirements to report more information by reportable segment.

45. The study was launched in late June 2019. At the time of writing, we do not yet have feedback from study participants to share at the Joint IASB-FASB meeting. As a result, we thought we would discuss the issues that are included in the 2019 disclosure study, in this section of the memo.

Current Disclosures by Reportable Segment

46. Under current GAAP, the following information is required to be disclosed by reportable segment.

> **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:
>
> 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.
>
> **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:
>   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.

47. For the remainder of this paper, we refer to these disclosure requirements as “the List.”

48. To be clear, the items in the List will be disclosed only if either (a) the item is allocated segmentally and the CODM is regularly provided with those items or (b) those items are included within the measure of segment profit or loss or total assets reviewed by the CODM.

49. This means that if an entity defines its segment profit as earnings before interest, income tax, depreciation, amortization, and nonrecurring items, then most of the items on the List would not be reported unless the CODM reviews them specifically.

Disclosure Issues Included in the Study

50. The study contains eight issues that are summarized in the following table:

Issue	**Nature of the Issue Being Studied**
Disclose or Explain Requirement	
Issue 1: Required Explanations for Why Amounts Are Not Reported by Segment	Study the effect of developing a “disclose-or-explain” requirement for items on the List.
Requiring Additional Disclosures by Reportable Segment	
Issue 2: Add Individual Pieces of Segment Information to the List	Study the effect of adding the following items to the List: • Cost of revenue • Research and development expense • Cash flow • Inventory.
Issue 3: Develop Principles-Based Disclosure Requirements in Addition to the List	Study the effect of adding the following disclosure principles by segment: • Significant expense categories • Significant asset categories • Significant liability categories.
Regularly Provided Segment Information	
Issue 4: Clarify the Meaning of *Regularly Provided* Segment Information	Study the effect of clarifying the meaning of *regularly provided* segment information as it relates to the disclosure of List items.
Reconciliations	
Issue 5: Separating Corporate Amounts from Unallocated Amounts	Study the effect of whether clarifying “corporate” and “unallocated” amounts within the reconciliations would result in a more standardized outcome.
Issue 6: Explaining How Consolidated Amounts Relate to Financial Statement Lines	When a consolidated amount that appears in the segment footnote is located in two or more financial statement lines, the study explores the effect of describing which lines and the amounts.
General Information	
Issue 7: Explaining the Composition of Reportable Segments	Study the effect of adding the following general disclosures:

	• The number of operating segments identified and a description of those operating segments
	• If segments are aggregated, how the operating segments comprise the reportable segments
	• If relevant, the operating segments that are included in the all other category
	• If the entity discloses its activities as a single reportable segment:
	  o The reason why; and
	  o The description of the measure of profit or loss the CODM uses.

Issue 8: Disclosure of Management Judgments in Applying the Aggregation Criteria	Study the effect of requiring disclosure of the economic indicators that have been assessed in determining that aggregated segments have similar economic characteristics.

Effect of Developing a Disclose-or-Explain Requirement

51. The study explores the effect of developing a "disclose-or-explain requirement," that is, a requirement to explain why an item and amount on the List is not disclosed by reportable segment.

52. Users often express frustration that more information is not disclosed by reportable segment and comment that the CODM must be looking at detailed segment information. A disclose-or-explain requirement would provide a clear explanation to users of why certain pieces of segment information from the List are not reported.

53. Reasons for why an item on the List is not disclosed by reportable segment may include:

	Reason Why an Item Is Not Disclosed	Example
1	The item does not exist for the entity.	Investment in equity method investees may not exist for the entity.
2	The item exists for the entity but is not allocated to each segment.	Income tax expense may not be allocated to each segment.
3	The item is allocated to each segment but: (a) Is not part of the segment measure of profit or loss; and (b) Is not regularly provided to the CODM.	Interest expense may be allocated to each segment but is not regularly provided to the CODM nor part of the segment profit measure.
4	The item is allocated to each segment but is immaterial.	A significant noncash item, such as stock compensation, may be allocated to each segment but is immaterial.

54. A disclose-or-explain requirement also would allow investors to better understand the information available for one public entity compared with another. For example, one company may allocate income tax expense by reportable segment, while another company does not. The disclose-or-explain requirement enables an investor to compare how both entities have included or excluded income tax information from their segment results.

55. A disclose-or-explain requirement would not result in any new amounts being disclosed by reportable segment. Rather, it would provide an explanation for why an item on the List is not disclosed.

Add Pieces of Information of Segment Information to List

56. Analysts believe that while the items on the List are helpful in understanding a company's reportable segments, more pieces of information should be required. The study explores the effect of adding the following items to the List:

    (a) *Cost of Revenue* – Cost of revenue is typically directly attributed to the segment revenue and forms part of the measure of segment profit or loss. Users continue to request this piece of information because it has better confirmatory value upon which to draw conclusions about a segment's past profitability and enables better predictive value to forecast future cash flows compared with other pieces of segment information.

    (b) *Research and Development Expense* – Users have asked for segment disclosures that help to explain areas of potential future growth for the entity. Research and development expense is an example of one such area, where disclosure of this item may highlight investment of resources that may lead to future growth of a segment.

    (c) *Cash flow information* – The FASB staff understands that some entities report an internal measure of cash flow to the CODM, such as cash contribution or free cash flows by segment; however, that cash flow measure may not be prepared in accordance with Topic 230, Statement of Cash Flows, and may not easily reconcile to cash flow from operations on the cash flow statement. Some users would prefer that a measure of cash flow be disclosed by reportable segment even if that measure is not prepared in accordance with the statement of cash flows. Those users observe that the trend information would be helpful in making future forecasts.

    (d) *Inventory and Components of Inventory* – In 2017, the Board proposed changes to the disclosure requirements for inventory as part of its Disclosure Framework project. One of those proposals sought to require additional information about inventory and the components of inventory by reportable segment. The Board decided that the proposal to disclose inventory by reportable segment should be included within the scope of this Segment Reporting project rather than within the scope of the Disclosure Framework project.

Develop Principles-Based Segment Disclosures in Addition to the List

57. While the List is helpful, it may not capture the most meaningful information for every entity. Entities often provide detailed financial information to the CODM that is not reported in the financial statements because Topic 280 does not compel entities to do so. Over the years, investors have asked for disclosure of items that are not currently included on the List. A principles-based disclosure approach may be more flexible to capture the most meaningful segment information for an entity.

58. A principles-based disclosure requirement is arguably a purer form of the management approach because it would require disclosure of significant categories of segment information that make up the segment measure of profit or loss, measure of total segment assets or liabilities that are provided to the CODM.

59. The study explores the effect of the following disclosure principles:

    (a) *Disclose Significant Segment Expense Categories* – Many investors have said that information about segment expenses is insufficient. Users would like to see more expense information by reportable segment because it enables investors to better understand the activities of a segment and make assessments of whether a certain expense is variable or fixed or likely to reoccur in the future. The study seeks to understand the segment expense information available under a principles-based disclosure requirement.

    (b) *Disclose Significant Segment Asset Categories* – Current GAAP requires an entity to disclose a measure of total segment assets. If an entity does not allocate assets by segment or if that information is not regularly provided to the CODM, that fact and the reason why should be disclosed. Investors have noted that many public entities do not report any asset information by segment and, for those entities that do, investors would like to see more detailed asset information provided. Asset information enables investors to better understand the working capital needs of each segment and permits users to assess how assets are allocated across segments and over time. The study seeks to understand the segment asset information available under a principles-based disclosure requirement.

    (c) *Disclose Significant Segment Liability Categories* – There is no requirement in Topic 280 to disclose a measure of total segment liabilities, even if that information is regularly provided to the CODM. This differs from IFRS 8. Similar to segment assets, some users have expressed support for more information about segment liabilities. Those users would like to see the detailed liability categories that comprise segment working capital. The study seeks to understand the segment liability information available under a principles-based approach.

Clarifying the Meaning of *Regularly Provided* Segment Information

60. In order for an item on the List to be disclosed by reportable segment, the item must either (a) form part of the measure of segment profit or loss or segment assets or (b) otherwise be regularly provided to the CODM.

61. Some public entities have indicated that they rely on a set package of monthly or quarterly reports to determine the information considered to be regularly provided to the CODM. Often, this package of segment information is presented to the board of directors. In some cases, the CODM may also see other detailed reports that contain segment information. For example, a CODM may also hold semi-annual, quarterly, or monthly planning and budgeting sessions with a segment manager at which detailed segment information is communicated to the CODM. Entities have said that this information may or may not be considered regularly provided to the CODM.

62. To aid study participants in responding to the issue of clarifying the meaning of regularly provided segment information, the FASB staff included the following descriptions of types of segment information.

63. The definition of an operating segment refers to *regularly reviewed* information for the purposes of the CODM allocating resources and assessing performance. The scope of this project is not looking to revise the definition of an operating segment or how an entity determines its operating segments.

64. The List items in paragraphs 280-10-50-22 and 280-10-50-25 refer to the CODM being *regularly provided* information about those items. That is, if an item from the List is regularly reported to the CODM, then it is required to be disclosed.

65. Advances in technology can allow for greater segment information to be made available to CODMs. This includes self-directed drill-down capabilities, ad hoc reports, and reporting segment information in dashboards. For this issue in the study, the FASB staff interprets *available information* as different from regularly reviewed information and regularly provided information. In general, available information is a more expansive notion and goes beyond the items on the List. Just because segment information is available to the CODM does not mean that it is regularly provided or regularly reviewed by the CODM.

66. The study explores whether clarifying the meaning of *regularly provided* information would affect the disclosure of List items by study participants. The clarification could be along the following lines:

> For the purposes of evaluating the segment disclosure requirements, the items in paragraphs 280-10-50-22 and 280-10-50-25 are considered regularly provided to the CODM if:
>
> (a) those items are included in periodic results, budgeting, or planning reports that may occur on an annual, quarterly, or monthly basis, or other frequencies of reporting; or
>
> (b) those items are included in compensation and remuneration reports that may occur on an annual, quarterly, or monthly basis, or other frequencies of reporting.
>
> The information sets identified in (a) or (b) may be in addition to set reporting packages presented to the board of directors.

Improving the Connectivity of the Segment Reconciliations

67. Over the years, investors have commented that the reconciliations from the total of reportable segments' amounts to the consolidated financial statements could be improved. Two issues in the study explore potential improvements to the segment reconciliation requirements.

Separating Corporate Amounts from Unallocated Amounts

68. The study explores whether an improvement could be made by separating corporate amounts from unallocated amounts. We have observed that companies often combine corporate items with unallocated amounts or "other" amounts, making it difficult for users to understand the effect of each component of the reconciliation. Often a variety of terminology is used to refer to centralized and unallocated costs, for example, corporate and eliminations, and corporate and reconciling items.

69. The study explores the effect of clarifying what is meant by "corporate" and the related corporate costs. The clarification could be along the following lines:

> Reconciling items that refer to *Corporate* amounts should represent the costs of the corporate headquarters, corporate functional departments and shared service centers. Reconciling items that refer to *Unallocated* amounts should represent the income or expenses that are both (a) not allocated to the segments and (b) not related to the costs of the corporate headquarters, corporate functional departments, or shared service centers; for example, pension expenses, derivative gains and losses. Significant unallocated items shall be separately identified and described.

Explaining How Consolidated Amounts Relate to Financial Statement Lines

70. Another issue studies whether an improvement could be made by requiring an explanation of how the consolidated amounts (that appear in the segment footnote) relate to the financial statement lines.

71. While the reconciliations are required to tie to a consolidated amount, not all consolidated amounts appear as a line or a caption on the income statement or balance sheet. For example, an entity may disclose depreciation and amortization by segment, but the consolidated amount of depreciation and amortization may not necessarily appear as a line on the income statement. The study explores an option to improve the connectedness between the consolidated amounts and the corresponding lines in the income statement and balance sheet.

72. When a consolidated amount is located in two or more lines, a public entity would be required to describe both the amount and the lines on the income statement or balance sheet that include the consolidated amount. If a consolidated amount is included in a single line, an entity would only describe the line. See the following illustration.

> **HVAC Inc.:** HVAC Inc. would describe both the amounts and the lines where the consolidated amount of depreciation and amortization is located:
>
> (a) *The total consolidated amount of depreciation and amortization expense is included in the following lines: $444,376 to COGS and $222,188 to SG&A.*
> (b) *The total consolidated amount of revenue is included in the following line: $16,941,672 to revenues.*

Additional General Disclosure Requirements

73. The final two issues of the study explore two potential improvements to the general segment disclosures. Topic 280 requires the following general information regarding an entity's reportable segments:

> **> > > General Information**
>
> **280-10-50-21** A public entity shall disclose the following general information:
>
> (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.

Composition of the Reportable Segments

74. In general, users have expressed support for an entity's ability to aggregate operating segments into reportable segments. Users have, however, requested that entities provide additional information about that aggregation. Fifty-seven percent of CFA Institute survey respondents said that entities should be permitted to aggregate but should be required to provide additional information regarding operating segments that have been aggregated (Exhibit 13). Further, investors often express frustration when a public entity discloses its operations as a single reportable segment, and comment

that given the diverse activities of an entity, one would expect the disclosure of more than one reportable segment.

75. The study explores a potential requirement to disclose all of the following general information:

    (a) The number of operating segments identified and a description of the operating segments

    (b) If the public entity aggregates operating segments together, how the operating segments comprise the reportable segments

    (c) If relevant, the operating segments that are included in the "All Other" category

    (d) If the entity discloses its activities as a single reportable segment:

        (i) The reason why; and

        (ii) The description of the measure(s) of profit or loss or assets the CODM uses to assess performance and allocated resources, if different from the measure(s) presented on the income statement and balance sheet

76. See the following illustration of a multi-segment company:

> Company Alpha Inc has six operating segments that are focused around the company's six unique service lines. Those operating segments have been combined into reportable segments as follows:
>
> - Segment A, Segment B, and Segment C are included in Reportable Segment ABC.
> - Reportable Segment D includes the results from only Segment D.
> - Segment E and Segment F are included in the "All Other" category.

Economic Indicators Evaluated When Applying the Aggregation Criteria

77. Topic 280 and IFRS 8 are substantially converged standards. In December 2013, the IASB amended the general information disclosures in IFRS 8 to require a public entity to disclose judgments made in applying the aggregation criteria as follows:

> **22.** An entity shall disclose the following general information:
>
> (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)
>
> <u>(aa) The judgements made by management in applying the aggregation criteria in paragraph 12. This includes a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics; and</u>
>
> (b) Types of products and services from which each reportable segment derives its revenues.

[Underlined emphasis added by FASB staff.]

78. The study explores whether the FASB should include a similar requirement in Topic 280.

Question for the IASB—2019 Disclosure Study
Do IASB members have questions or comments on the issues included in the 2019 disclosure study?