

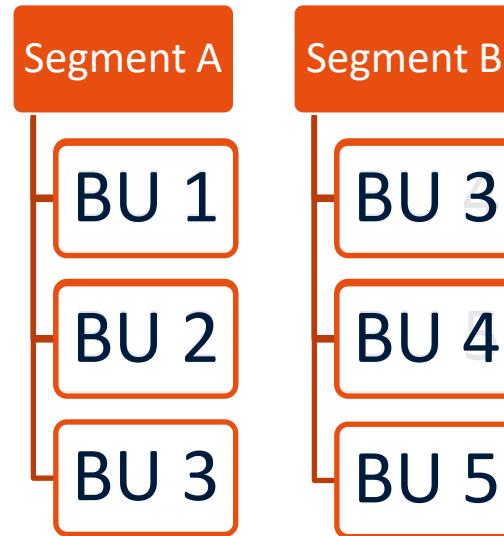
Discussion of: “When the Pieces Move: Do Financial Analysts Pick Up on Segment Reporting Reshuffling?” – Mangeney, Moldovan, Filip, & André

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Summary



- Very interesting setting and results!
- Very relevant to standard setting as deciding on the appropriate level of disaggregation, incl. within segments, is of great importance.
- I would really like to know more about what is going on; My comments are aimed at providing more context to the results.

Why do reshufflings occur?

- While the paper identifies determinants of reshufflings, the tests on forecast consequences are largely unconditional.
 - While on average results are interesting, reshufflings are *not* homogeneous. Their effects should depend on *why* firms reshuffle.
 - Can you use some of the determinants to disentangle the effects of different types of reshuffling?
 - Informativeness vs. opportunistic?
 - Restructuring-based vs. others.
 - Are they shifting expenses away from the key segments that investors care about?

Why do reshufflings occur?

- As the paper finds that reshufflings that are explained reduce AFEs, this seems to be in line with them being informative.
 - However, this implicitly assumes that the pre-reshuffling segment structure was suboptimal.
- But what if reshufflings occur because the firm's operating environment changes?
 - Under the *original* environment, the *original* segment definitions may have been optimal.
 - After an environmental shift, a *new* segment grouping may be optimal.
- In this case, both *before* and *after* segment structures are optimal for their environments.
 - Why do we see improvements in AFEs? Do they trigger analysts to re-evaluate all their forecasts? Can you distinguish between cases?

Effect size

- Coefficients are large relative to the magnitude of the reshuffling.
 - Mean AFE of 0.06 and a DiD estimate of around -0.03 implies a 50% reduction in AFE.
 - Are treated firms' AFEs much larger than 0.06 in the pre-reshuffling period?
 - Are there some instances of major improvements?
 - The standard deviation of AFE is 0.17 so there are some very large AFEs.
 - Do AFEs decline for the majority of the treated firms or are there a few “major” improvements?
 - The effect is not conditional on the size of the reshuffling and present also for relatively small adjustments.
- What is it that analysts learn?
 - Are there concurrent changes in the 10-K unrelated to the segment reshuffling?
 - Or as before, do these changes trigger analysts to re-evaluate their forecasts?

Explained vs. Unexplained

- Forecast properties improve only if firms explain their reshuffling.
 - But how much do they explain?

“Certain product families have been reassigned between the ASIC and Microcontroller segments to improve organizational efficiency and reflect the way management evaluates segment performance. As a result, prior period net revenues and income from operating segments have been reclassified to conform to the current year presentation of operating segment information.”

<https://www.sec.gov/Archives/edgar/data/872448/000095013408003856/f38449e10vk.htm>

- The explanation in the example seems relatively boilerplate and re-iterates the requirement of the standard (i.e., “reflect the way management evaluates segment performance”).
- The “new” information would be the part on “improving organizational efficiency”, but I’m not sure how only this information translates into forecast improvements of such large magnitudes.

Explained vs. Unexplained

- Can you distinguish explanations based on their usefulness in the forecasting process?
 - Level of detail of the disclosure, explanations on financial impacts, etc.
- Awareness? Analysts “overlook” changes without explanations?
 - Are they timelier in updating their forecasts after the reshuffling?
- If unexplained reshufflings are more likely driven by proprietary interests, should they lead to worse forecast properties?
 - Or are analysts (correctly) ignoring them?



What is the counterfactual?

- Is the choice companies need to make one between reshuffling vs. no reshuffling or do they in practice need to decide between relatively minor reshufflings vs. more major changes in segment structure (i.e., names, number of segments, etc.)
 - What are the determinants of reshuffling vs. major changes? How do analyst forecast properties develop after major changes vs. minor reshufflings?
- Tests compare change in forecast properties against a set of firms that do not have reshufflings.
 - It would be informative to see how the forecast properties of the different groups compare:
 - (1) no change, (2) Pre – reshuffle, (3) Post – Reshuffle.
 - Now the paper only shows the DiD estimate (i.e., from pre to post). I would be interested in seeing how the forecast properties of (3) compare to those of (1). I would expect them to become similar.

Other comments

- Do analyst characteristics matter?
 - Industry expertise, experience, etc.
- Can you tie the forecast properties to specific changes?
 - Revenue vs. EPS forecasts.
- Are the results stronger if they change the “history” of segment profits?
 - From reported growth to no-growth or from a profit to a loss?
- Other outcomes?
 - Investors’ use of segment data, pricing of earnings, timeliness, diversification discount.

All the best with the paper!