



Segment Reporting

Simplifying the Aggregation Criteria and Improving Disclosure

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June 19, 2018

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Purpose of the Project

Users indicated that investors are unsatisfied with the level of segment detail provided and believe that there should generally be more segments and more disclosure about those segments.

This problem is driven by three main areas of the standard:

1. Segment identification
2. Application of the aggregation criteria
3. Segment disclosure requirements.

Previous FASB Projects

Project	Issue
2005 proposed FASB staff position paper: Clarify the meaning of “similar economic characteristics”	<ul style="list-style-type: none">• Suggested identifying quantitative and qualitative economic factors.
2012 FAF Post-Implementation Review of Statement 131: Evaluate effectiveness of the standard.	<ul style="list-style-type: none">• While some areas could be improved, overall Statement 131 has achieved the objectives the Board intended and is, in general, working effectively.
2016 FASB Agenda Consultation: Feedback from stakeholders on areas in most need of improvement	<ul style="list-style-type: none">• Users rated segment reporting a high priority in need of improvement.• Preparers rated it a low priority but acknowledged that some improvements could be warranted, in particular, around the aggregation criteria.

Project Scope – Targeted Improvements

- For the aggregation criteria, the Board decided to consider two alternatives for improvement:
 1. Remove the aggregation criteria, thereby each operating segment would be reported, but retain the practical limit guidance.
 2. Re-order the process for determining reportable segments and move the quantitative thresholds earlier in that process.

- For the segment disclosure requirements, the Board decided to consider three alternatives:
 1. Add individual pieces of segment information to the list of required disclosures.
 2. Require the disclosures in Topic 280 to be reported in a table that reconciles to the line in the consolidated statement in which it is included.
 3. Require a table of regularly reviewed information based on the entity's financial statement format.

Concerns with Topic 280 vs. Project Scope

	Issues	Cause	Within Scope of This Project?
<i>Segment Identification</i>			
1.	Segments are not consistent from entity to entity, which makes comparisons difficult. Within the same entity, segments seem to frequently change.	Management Approach	No
2.	The Chief Operating Decision Maker (CODM) perspective is the level at which operating segments are identified. In the past, considerable regulatory effort has been spent on compliance issues in this area that emphasized the CODM reporting package.	Management Approach/ CODM Perspective	No
3.	The CODM may review financial information and identify operating segments at a level that users are not satisfied with and does not necessarily match up to an entity's MD&A.	Management Approach/ CODM Perspective	No

Concerns with the Standard vs. Project Scope

	Issues	Cause	Within Scope of This Project?
<i>The aggregation criteria and reportable segments</i>			
4.	Users are concerned that some entities use flexibility within the aggregation criteria to reduce the number of reportable segments.	Aggregation Criteria	Yes
5.	The application of the aggregation criteria is a compliance area that regulators challenge often, resulting in costs for preparers.	Aggregation Criteria	Yes

Concerns with the Standard vs. Project Scope

	Issues	Cause	Within Scope of This Project?
<i>Segment disclosures and reconciliations to consolidated amounts</i>			
6.	Users want more disclosures by segment than those that are currently required by Topic 280, for example, gross margin, cash flow information, and working capital balance.	Limited, Current Disclosure Requirements	Yes
7.	Users are often frustrated that segment disclosures are not provided because that information is not regularly reviewed by the CODM. Users comment that “someone in the organization must look at this information.”	Management Approach/ CODM Perspective	No
8.	Users are often frustrated that not all segment totals are reconciled to consolidated amounts, and the reconciliations are often reported in a separate manner as the segment results, which limits the contextual information.	Limited, Current Disclosure Requirements	Yes

Question—Background and Scope

Do IASB members have questions on the background and scope of the project?

Current Reportable Segment Process

- Identify Operating Segments — Based on a management approach, centered around the CODM function.
- Step One: Aggregate Segments That Meet All Aggregation Criteria — Once segments are identified, an entity may aggregate two or more segments into a single segment if they meet all of the aggregation criteria. These segments are not yet deemed reportable. Aggregation is optional, not required.
- Step Two: Apply 10% Tests to Segments to Determine Reportability — An entity applies the quantitative thresholds in paragraph 280-10-50-12 to determine which of the segments are reportable.
- Step Three: Aggregate Segments That Do Not Meet 10% Tests if Meet Majority of Aggregation Criteria — An entity may aggregate two or more remaining segments that do not meet the 10% tests in the previous step if they (a) have similar economic characteristics and (b) meet a *majority* of the aggregation criteria. Aggregation is optional, not required. Segments that are aggregated in this step are reportable.
- Step Four: Report Additional Segments until 75% of External Revenue Reported — After considering the segments that were reportable in the previous steps, an entity continues to report additional segments until 75% of external revenue is reported. If 75% of external revenue is already reported, this step may be skipped.
- Step Five: Aggregate Remaining Segments into “All Other” Category — Segments that are not reportable by earlier steps may be combined into an “all other” category separate from reconciling items.
- Step Six: Apply a Practical Limit to the Number of Reportable Segments — As the number of reportable segments increases above 10, the entity considers whether a practical limit has been reached.

Aggregation Criteria and Reportable Segments Process



Re-Order the Size Tests within the Reportable Segments Process

- **Main Change:** moving Step Two (10% tests) to Step One.
 - Retains most of the current requirements, but moves the quantitative thresholds earlier in the process.
 - Also considering making changes to the size tests.
- A segment that meets or exceeds any of the size tests would be reportable.
- Segments that fall below the size tests may be aggregated in the later steps of the process.
- **Outcome:** Would ensure largest operating segments are separately reported and not aggregated with other segments.

Technical Issues

- Issue 1: What should be the threshold bases?
- Issue 2: What size (percentage) should be used?
- Issue 3: Restatement of prior reporting periods for the threshold effect.
- Issue 4: Determining reportable segments after the size test.

Remove the Aggregation Criteria and Retain the Practical Limit

- **Main Change:** Remove the aggregation criteria.
 - Entity required to report its operating segments unless it reaches a practical limit, such as 10 reportable segments.
- Changes in technology and how users consume information mean the Board's original conclusion in 1997 that the level of detail under a pure management view may not be useful to users may no longer hold true.
- However, to address the Board's original conclusion that a pure management approach may result in segment disclosures that are cumbersome for an entity to report, a practical limit would be retained.
- **Outcome:** This approach would reduce the level of judgment that exists in interpreting the aggregation criteria and could provide more segment information for users

Technical Issues

- Issue 1: What should be the practical limit?
- Issue 2: What should be the basis of reporting segments when an entity exceeds the practical limit?
- Issue 3: Restatement of prior reported periods when there is a change in the composition of the “all other” reportable segment.

Question—Aggregation Alternatives

Do IASB members have questions on the aggregation criteria alternatives?

Segment Disclosures



Segment Disclosures

Users have said that they want more disclosures by segment and they want that information to be reported in a way that enhances the relationship between the segment information and the consolidated information.

- To address this issue, we are focused on three alternatives:
 1. Add individual pieces of segment information to the list of required disclosures.
 2. Require the disclosures in Topic 280 to be reported in a table that reconciles segment totals to consolidated totals.
 3. Require a table of regularly reviewed information in the format of the entity's financial statements.

Main Changes under these Alternatives

Adding Items in the Current List of Required Disclosures:

- Gross margin, certain asset balances, and cash flow measures
- Required only if the information is regularly reviewed by the CODM.
- The amounts would be based on the entity's internal measures, not GAAP measurement methods.

Reporting Topic 280 Disclosures and Reconciliations in a Table:

- Disclosure of amounts would continue to be required only if regularly reviewed by the CODM.
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- Require Topic 280 disclosures and reconciliations to be reported in a table ~ in a single location, instead of in several locations, as is common today.
- Illustration is on page 23 of the memo

Main Changes under these Alternatives

Reporting Segment Information in a Financial Statement Format

- Require segment amounts to be reported based on how these amounts relate to lines presented in the income statement or balance sheet.
- Any financial statement amounts not allocated segmentally or not regularly reviewed by the CODM segmentally would be reported in an unallocated column.
- Illustration is on page 25 of the memo

Question—Segment Disclosure Alternatives

Do IASB members have questions on the segment disclosure alternatives?