Staff paper

FASB | IASB Joint Education Meeting

Date	**30 September 2022**
Project	**Segment Reporting (SEGRPT)**
Topic	**Standard Setting–Segment Reporting–Overview and Decisions Reached to Date**
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Introduction

1. Topic 280, Segment Reporting, and IFRS 8, *Operating Segments*, are substantially converged standards. The FASB's project is focused on making certain improvements to the disclosure requirements in Topic 280. The Board completed its initial deliberations in July 2022.

2. The purpose of this session is to provide IASB members with an update on the project and key amendments in the forthcoming proposed Update.

Section A: Project Scope and Background

3. To aid in setting its future technical agenda, in 2016, the Board issued an Invitation to Comment, *Agenda Consultation*, to solicit feedback about the major areas of financial reporting that stakeholders noted should be improved. One of the topical areas focused on the reporting of an entity's performance, including segment disclosures required under Topic 280.

4. Many preparer and practitioner respondents to the 2016 Invitation to Comment stated that a fundamental reconsideration of Topic 280 was not needed. Many investor and practitioner respondents supported exploring ways to require additional information by segment. Respondents also suggested that improvements could be made to the segment aggregation criteria. In 2017, the Board added a project to its technical agenda and directed the staff to conduct two research studies to evaluate how the segment reporting guidance could be improved.

2018 Aggregation Study

5. In 2018, the Board undertook the first study with preparers to research the potential effect of 2 broad alternatives to either improve the aggregation criteria by relying on a practical limit of 10 reportable segments or re-ordering the process for determining a public entity's reportable segments whereby any

operating segment that exceeds a quantitative threshold would be separately reportable and any remaining operating segments may be combined. Feedback from preparers identified concerns about the operability of both alternatives. While the alternatives would have resulted in public entities disclosing more reportable segments, both would have resulted in a loss of natural groupings of operating segments that share similar economics and would have limited the ability to put similar operating segments together within a reportable segment. Both alternatives potentially would have resulted in a large *all other* grouping that includes dissimilar segments.

6. In addition, feedback from the Board's Investor Advisory Committee (IAC) was mixed. Some IAC members were satisfied with the general number of segments reported by public entities currently. However, some IAC members were concerned about the level within an organization at which the operating segments are initially identified, which is a result of applying the management approach. IAC members asserted that the management approach is a good basis for segment reporting but that the Board should focus its efforts on improving the current disclosure requirements for each reportable segment. As a result, the Board decided that the costs of either of the two researched alternatives outweighed the benefits. Accordingly, the amendments in the forthcoming proposed Update would not affect how an entity identifies its operating segments, aggregates those operating segments, or applies the quantitative thresholds to determine its reportable segments.

2019 Disclosure Study

7. In 2019, the Board undertook a second study with preparers that considered the effect of various potential changes to the segment disclosure requirements, including principles that would require the disclosure of segment expenses, assets, and liabilities, and other potential changes to the information disclosed for each reportable segment. While public entities are currently required to report certain information about a reportable segment's expenses and assets, the 2019 study focused on incremental improvements that would add to the existing segment disclosure requirements.

8. Feedback from preparers indicated that changes to the disclosures about a segment's assets and liabilities may not be relevant to a wide cross section of entities. Public entities that engage in insurance, technology, or other service-based industries often may not allocate specific assets at a segment level. Similarly, preparers indicated that many of their liabilities, such as long-term debt, arise at the corporate level or are centrally managed and the liabilities are not allocated to specific segments for internal reporting purposes. Subsequent outreach with investors indicated general support for amending segment disclosures and, in particular, improving segment expenses. The Board further deliberated those issues, which resulted in the amendments in the forthcoming proposed Update about significant segment expenses.

Section B: Main Provisions in the Forthcoming Proposed Update

9. The amendments in the forthcoming proposed Update focus on improvements to the reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The proposed amendments in this Update would:

    (a) Require that a public entity disclose, on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker (CODM) and included within each reported measure of segment profit or loss (collectively referred to as the “significant expense principle”).

    (b) Require that a public entity disclose, on an annual and interim basis, an amount for *other segment items* by reportable segment and a description of its composition. The other segment items category is the difference between segment revenue less the significant expenses disclosed under the significant expense principle and each reported measure of segment profit or loss.

    (c) Require that a public entity provide all annual disclosures about a reportable segment’s profit or loss and assets currently required by Topic 280 in interim periods.

    (d) Clarify that if the CODM uses more than one measure of a segment’s profit or loss, at least one of the reported segment profit or loss measures (or the single reported measure if only one is disclosed) should be the measure that is most consistent with the measurement principles used in measuring the corresponding amounts in the public entity's consolidated financial statements. In other words, in addition to the measure that is most consistent with GAAP measurement principles, a public entity is not precluded from reporting additional measures of a segment’s profit or loss that are used by the CODM.

    (e) Require that a public entity that has a single reportable segment provide all the disclosures required by the amendments in this proposed Update and all existing segment disclosures in Topic 280.

Section C: Next Steps

10. The Board completed the initial deliberations in July 2022 and voted to proceed to an issuance of a proposed Update. As a result, the next steps in the project include:

    (a) Issuance of a proposed Update: late September 2022 or early October

    (b) Comments Due: 75-day comment period

    (c) Redeliberations: Estimated to commence in 1Q 2023.

Question

Question
Do IASB members have questions or comments on the project or other aspects of this paper?