Simpson Thacher

Memorandum

FASB to Move Forward With Updates to Segment Reporting Requirements, Including Disclosure of Significant Segment Expenses

August 8, 2023

On July 26, 2023, the Financial Accounting Standards Board ("FASB") voted 6-1 to adopt amendments to *Segment Reporting* (Topic 280) of the FASB Accounting Standards Codification ("Topic 280") that would result in additional reportable segment disclosures relating to significant segment expenses and other topics. In announcing the proposed updates, FASB observed that segment information is critically important to investors' understanding of a public entity's different business activities.

The proposed updates to Topic 280, described previously by FASB Chair Richard Jones as the "most significant change to segment reporting since 1997," will soon require public companies to disclose significant segment expenses on both an annual and interim basis. The updates will also ask companies to identify the chief operating decision maker (the "CODM") who regularly receives such segment information and will extend the current coverage of annual reportable segment disclosures to interim periods.

FASB had published a proposed Accounting Standards Update ("ASU") for comment in October 2022 and expects to publish the final text of the amendments later this fall. The new standards will go into effect for annual reporting periods beginning after December 15, 2023 with an option for early application by companies.

In this memorandum, we summarize the changes to segment reporting and what will be asked of public companies under the new standards.

The New Standards and Impact on Public Companies

Although the final ASU detailing the latest segment reporting standards will not be available for a couple of months, FASB has indicated minimal deviation from the proposed ASU published last October. Among other items, the final ASU is expected to include the following:

1. On an annual and interim basis, public entities must disclose significant segment expenses that are (a) regularly provided to the CODM and (b) included in the measure of segment profit or loss. If significant segment expenses are not provided to the CODM, a company must disclose that it does not share such information with its CODM.
2. For interim periods, public entities must provide the same disclosures regarding a reportable segment's profit/loss and assets currently required on an annual basis.

3. On both an annual and interim basis, public entities must include an amount and qualitative description for “other segment items,” which is the difference between segment revenue less the significant expenses disclosed and each reported measure of segment profit or loss.
4. Public entities may report additional measures of segment profit/loss used by the CODM so long as at least one of the reported measures is the measure most consistent with generally accepted accounting principles (“GAAP”).
5. Public entities will be required to disclose either the title and position of the CODM or the name of the group or committee that acts as the CODM.

Based on FASB’s deliberation at the July meeting, the final ASU may include a few changes, clarifications and additional illustrations. One of the more significant changes may be the inclusion of new narrative disclosure on an annual basis explaining how the CODM uses each reported measure of a segment’s profit or loss to allocate resources or assess performance. Another potential change may be an emphasis on the prohibition from disclosing additional measures of segment reporting that are not considered by the CODM. Both changes received staff and Board support in FASB’s recent redeliberations.

Insofar as public companies are already compiling and presenting significant segment expenses for review by their executives, the administrative burden for public entities is unlikely to be great. Additionally, while the final ASU is not expected to include a definition for “significant,” FASB along with most commenters on the proposed ASU believe that this principle will not present a practical impediment for companies because it is used elsewhere in existing standards under Topic 280.

The amendments and existing disclosures in Topic 280 would also apply to public companies with only a single reportable segment. The amendments would not change how a public company identifies or aggregates its operating segments nor how it applies the quantitative thresholds to determine its reportable segments.

Simpson Thacher will monitor FASB’s announcements for its issuance of the final ASU and the impact of these amendments on public companies.

For further information regarding this memorandum, please contact one of the following authors:

NEW YORK CITY

John C. Ericson
+1-212-455-3520
jericson@stblaw.com

Joseph H. Kaufman
+1-212-455-2948
jkaufman@stblaw.com

Karen Hsu Kelley
+1-212-455-2408
kkelley@stblaw.com

Charles Mathes
+1-212-455-2258
charles.mathes@stblaw.com

Lesley Peng
+1-212-455-2202
lpeng@stblaw.com

John Balletta
+1-212-455-3868
john.balletta@stblaw.com

PALO ALTO

William B. Brentani
+1-650-251-5110
wbrentani@stblaw.com

WASHINGTON, D.C.

William R. Golden
+1-202-636-5526
wgolden@stblaw.com