



## On the Radar Segment Reporting

ASC 280-10-10-1 states that the objective of segment reporting “is to provide information about the different types of business activities in which a public entity engages and the different economic environments in which it operates to help users of financial statements do all of the following:

- a. Better understand the public entity's performance
- b. Better assess its prospects for future net cash flows
- c. Make more informed judgments about the public entity as a whole.”

In applying the segment reporting guidance in ASC 280, an entity should perform each of the following key steps:



## Step 1

### Identification of Operating Segments

An entity's first step is to identify its operating segments. It performs such identification by using the management approach. As indicated in ASC 280-10-50-1, "[a]n operating segment is a component of a public entity that has all of the following characteristics:

- a. It engages in business activities from which it may recognize revenues and incur expenses . . . .
- b. Its operating results are regularly reviewed by the public entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.
- c. Its discrete financial information is available."

An entity may need to use judgment when evaluating whether a component has all the characteristics of an operating segment.

## Step 2

### Aggregation Into a Single Operating Segment

Once an entity has identified its operating segments, it determines which of them to report.

Two or more operating segments may be aggregated into a single operating segment if the following three criteria are met:

- Aggregation is consistent with the objectives and basic principles of ASC 280.
- The segments have similar economic characteristics.
- The segments are similar with respect to **all** of the qualitative characteristics.

An entity is not required to aggregate operating segments. Because ASC 280 does not define the term "similar" or provide extensive guidance on the aggregation criteria, the determination that two or more operating segments are similar depends on facts and circumstances and is subject to judgment.

## Step 3

### Identification of Reportable Segments

Once an entity determines which of its operating segments may be aggregated, it must apply the quantitative threshold guidance (i.e., the 10 percent tests that are based on revenue, profit or loss, and assets) in ASC 280 to determine which segments to report separately. An operating segment needs to meet only one of the 10 percent tests in ASC 280 to be a reportable segment, although it may meet more than one.

After identifying which operating segments meet the quantitative threshold requirements or are otherwise qualitatively material and must be reported separately, the entity can apply the guidance in ASC 280-10-50-13, which permits the combination of any remaining segments to produce a reportable segment if all of the following criteria are met:

- Aggregation is consistent with the objectives and principles of ASC 280.
- The segments have similar economic characteristics.
- The segments share a **majority** of qualitative aggregation criteria outlined in ASC 280.

An entity is not required to aggregate operating segments and is encouraged to consider whether to separately report information on them irrespective of whether the segments meet the quantitative requirements for separate disclosure. The total external revenue disclosed by the reportable segments should constitute greater than 75 percent of total consolidated revenue.

Because aggregation is a high hurdle, the SEC staff may ask a registrant to provide an analysis on how it determined that its aggregation of operating segments complies with both the quantitative and qualitative requirements of ASC 280.

A graphic for Step 4, Segment Disclosures. It features a dark green rounded rectangular bar with the text "Segment Disclosures" in white. To the left of this bar is a smaller, overlapping dark green shape with a white triangle pointing to the left, containing the text "Step 4" in white.

After an entity has identified its reportable segments, it must provide the following types of quantitative and qualitative disclosures for each of them, generally for each period presented:

- General information.
- Information about segment profit or loss and assets.
- Reconciliations to consolidated amounts.

A graphic for Step 5, Entity-Wide Disclosures. It features a dark grey rounded rectangular bar with the text "Entity-Wide Disclosures" in white. To the left of this bar is a smaller, overlapping dark grey shape with a white triangle pointing to the left, containing the text "Step 5" in white.

Entities are required to disclose information about products and services, geographical operations, and major customers on an entity-wide basis regardless of how the entity is organized.

These disclosures are intended to ensure some level of comparability across entities, irrespective of how the entities are managed or resources are allocated. Accordingly, an entity should carefully consider the objectives and principles of ASC 280 when evaluating the disclosure requirements.

### Recent Updates

In November 2023, the FASB issued [ASU 2023-07](#), which introduces improvements to the information that a public entity discloses about its reportable segments and addresses investor requests for more information about reportable segment expenses. The ASU does not change the current guidance related to the identification of operating segments, the determination of reportable segments, or the aggregation criteria. Rather, the new guidance introduces additional disclosure requirements and expands those requirements to entities with a single reportable segment, not just entities with multiple reportable segments.

ASU 2023-07 enhances interim disclosure requirements, clarifies the circumstances in which an entity can disclose multiple segment measures of profit or loss, and introduces the significant expense principle, which requires additional disclosure of segment expenses. In addition, the ASU provides new segment disclosure requirements for entities with a single reportable segment and contains other disclosure requirements.

The ASU is effective for all public entities for fiscal years beginning after December 15, 2023 (e.g., for calendar-year-end public entities, annual periods beginning on January 1, 2024 — i.e., December 31, 2024, Form 10-K), and interim periods within fiscal years beginning after December 15, 2024 (e.g., for calendar-year-end public entities, interim periods beginning on January 1, 2025 — i.e., Form 10-Q for the first quarter of 2025). Early adoption is permitted. The enhanced segment disclosure requirements apply retrospectively to all prior periods presented in the financial statements.

## SEC Reporting Considerations

An SEC registrant's reportable segment determination provides the basis for its required disclosures in the business and MD&A sections of its filing. For example, SEC Regulation S-K, Item 101(c), states that the registrant should provide a narrative description of the business, "focusing upon the registrant's dominant segment or each reportable segment about which financial information is presented in the financial statements." In addition, SEC Regulation S-K, Item 303, provides guidance on MD&A of financial condition and results of operations. It states, in part:

Where in the registrant's judgment a discussion of segment information and/or of other subdivisions (e.g., geographic areas, product lines) of the registrant's business would be necessary to an understanding of such business, the discussion must focus on each relevant reportable segment and/or other subdivision of the business and on the registrant as a whole.

To comply with this guidance, a registrant will often provide disclosures that are consistent with those of its reportable segments. A registrant should also be mindful of the SEC's guidance on the reporting implications of retrospective changes in reportable segments and changes in significant segment expenses.

Registrants should also consider the SEC's guidance on non-GAAP measures that applies to the financial information presented in their filings and, if applicable, the manner in which they complied with SEC Regulation G. It may be difficult to evaluate whether a non-GAAP measure is misleading in the context of Regulation G; SEC Regulation S-K, Item 10; or the non-GAAP Compliance and Disclosure Interpretations (C&DIs). Additional measures included in the financial statement footnotes will be subject to management's assessment of internal control over financial reporting and external audit procedures. Registrants are encouraged to consult with their auditors and SEC counsel if they (1) intend to disclose additional measures that are not consistent with GAAP or (2) have a single reportable segment and management concludes that it does not manage the entity on the basis of a consolidated GAAP measure of segment profit or loss (e.g., consolidated net income), or both.

For a comprehensive discussion of the requirements in ASC 280 related to identifying and disclosing operating segments, see Deloitte's Roadmap [Segment Reporting](#).

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