



A Roadmap to Segment Reporting

June 2020

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Preface

June 2020

To our friends and clients:

We are pleased to present the 2020 edition of *A Roadmap to Segment Reporting*. This Roadmap provides Deloitte's insights into and interpretations of the accounting guidance in ASC 280. Each chapter of the Roadmap contains key takeaways from the chapter's discussion, excerpts from ASC 280, Deloitte's interpretations of those excerpts, and examples to illustrate the relevant guidance. (See [Appendix E](#) for a list of changes made in the 2020 edition of this publication.)

Note that this Roadmap is not a substitute for the exercise of professional judgment, which is often essential to applying the requirements of ASC 280. It is also not a substitute for consulting with Deloitte professionals on complex accounting questions and transactions.

Subscribers to the [Deloitte Accounting Research Tool \(DART\)](#) may access any interim updates to this publication by selecting the Roadmap from the [Roadmap Series](#) page on DART. If a "Summary of Changes Since Issuance" displays, subscribers can view those changes by clicking the related links or by opening the "active" version of the Roadmap.

We hope that you find this publication a valuable resource when considering the accounting guidance on segment reporting.

Sincerely,

Deloitte & Touche LLP

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Chapter 1 — Overview and Scope

1.1 Objectives of Segment Reporting

ASC 280-10-10-1¹ 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.”

The FASB has long recognized the importance of the availability and quality of segment data to users of financial statements. In paragraph 43 of the Background Information and Basis for Conclusions of FASB Statement 131, the Board stated, in part:

Financial statement users observe that the evaluation of the prospects for future cash flows is the central element of investment and lending decisions. The evaluation of prospects requires assessment of the uncertainty that surrounds both the timing and the amount of the expected cash flows to the enterprise, which in turn affect potential cash flows to the investor or creditor. Users also observe that uncertainty results in part from factors related to the products and services an enterprise offers and the geographic areas in which it operates.

The importance of segment disclosures to financial statement users was also articulated in the FAF's 2012 post-implementation review [report](#) on FASB Statement 131, which noted:

Investors and other financial statement users view the segment footnote as very important to their investment decisions. Investors use segment information for a variety of analyses, including understanding business activities, making judgments about the company as a whole, and understanding future growth prospects.

Segment disclosures have been and are expected to remain an area of focus of the SEC staff because of their importance to investors. This Roadmap discusses the identification of operating segments and reportable segments and the corresponding disclosures.



Key Takeaways

- ASC 280, which applies to all public entities with limited exceptions, prescribes a management approach to identifying operating segments that focuses on how management has organized the entity to make operating decisions and assess performance.
- An entity's segment disclosures should be consistent with the broader description of the entity within its financial statement filings and with other published information about the entity, such as its Web site, press releases, and investor presentations.

¹ For the full titles of standards, topics, and regulations used in this publication, see [Appendix C](#). For a list of abbreviations used in this publication, see [Appendix D](#).

- Goodwill impairment testing under ASC 350 may be affected by an entity's determination of operating segments under ASC 280.
- Effective ICFR is necessary to support judgments an entity reaches in applying the segment guidance and to monitor for changes in the management approach or changes to other facts and circumstances that might result in different segment reporting.

1.2 Management Approach to Segment Reporting

ASC 280-10

05-3 A public entity could provide complete sets of financial statements that are disaggregated in several different ways, for example, by products and services, by geography, by legal entity, or by type of customer. However, it is not feasible to provide all of that information in every set of financial statements. The guidance in this Subtopic requires that general-purpose financial statements include selected information reported on a single basis of segmentation. The method for determining what information to report is referred to as the management approach. The management approach is based on the way that management organizes the segments within the public entity for making operating decisions and assessing performance. Consequently, the segments are evident from the structure of the public entity's internal organization, and financial statement preparers should be able to provide the required information in a cost-effective and timely manner.

05-4 The management approach facilitates consistent descriptions of a public entity in its annual report and various other published information. It focuses on financial information that a public entity's decision makers use to make decisions about the public entity's operating matters. The components that management establishes for that purpose are called operating segments.

05-5 To provide some comparability between public entities, this Subtopic requires that an entity report certain information about the revenues that it derives from each of its products and services (or groups of similar products and services) and about the countries in which it earns revenues and holds assets, regardless of how the entity is organized. As a consequence, some entities are likely to be required to provide limited information that may not be used for making operating decisions and assessing performance.

As noted in paragraph 60 of the Background Information and Basis for Conclusions of FASB Statement 131, basing segments on the structure of an entity's internal organization has advantages, including the following:

- "[A]n ability to see an enterprise 'through the eyes of management' enhances a user's ability to predict actions or reactions of management that can significantly affect the enterprise's prospects for future cash flows."
- "[B]ecause information about those segments is generated for management's use, the incremental cost of providing information for external reporting should be relatively low."

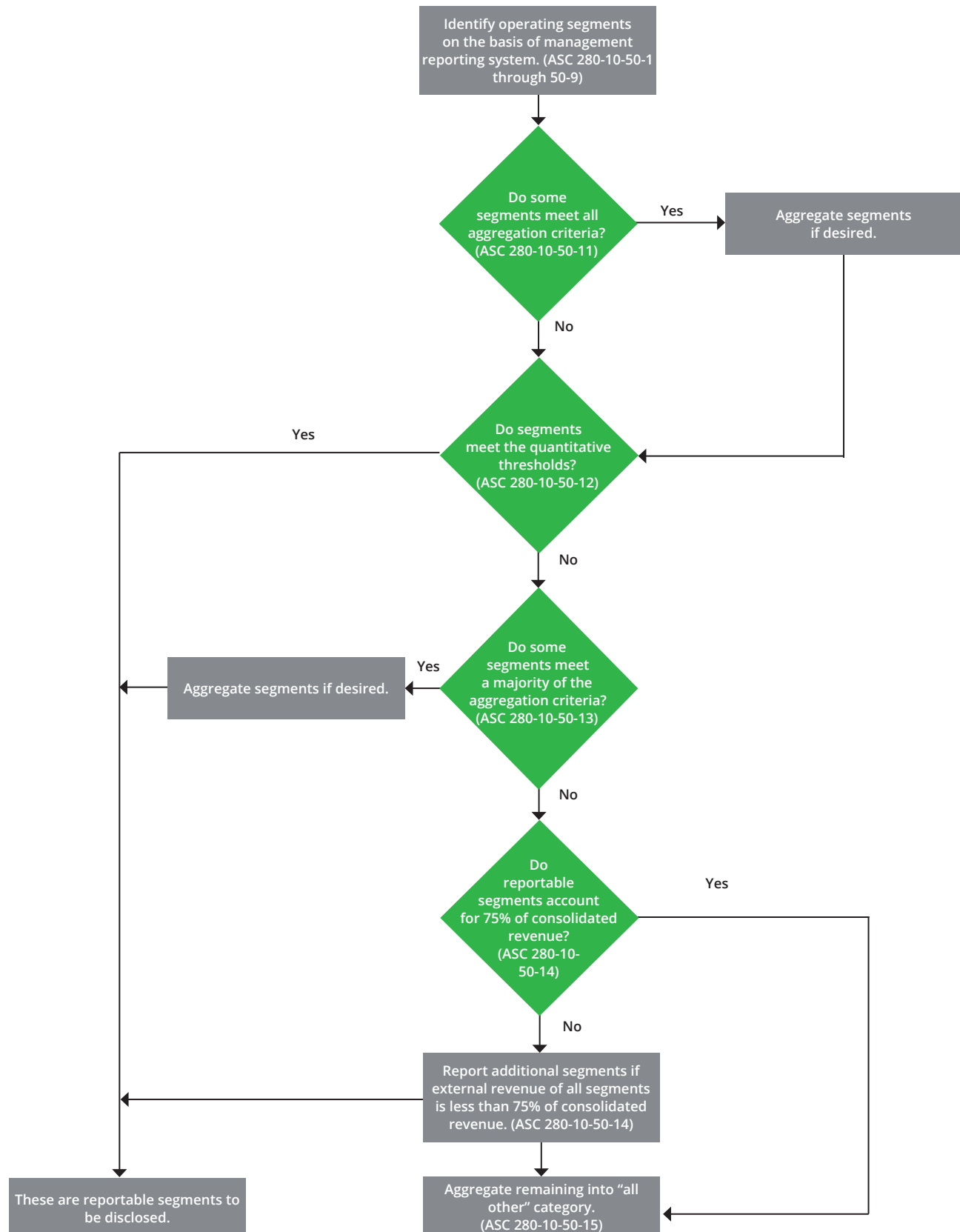
As noted in ASC 280-10-05-5, an entity is required to provide certain entity-wide disclosures regardless of how it is organized. The Board determined that while the information gathered may not be used for making operating decisions and assessing performance, it would provide some comparability between public entities and would not be unduly burdensome to obtain.

1.3 Application of the Guidance

An entity should follow each of the following key steps, all of which are explored in this Roadmap, in applying the guidance in ASC 280:

- *Step 1* — Identify operating segments using the management approach (see [Chapter 2](#)).
- *Step 2* — Determine whether two or more operating segments may be aggregated into a single operating segment (see [Chapter 3](#)).
- *Step 3* — Apply the quantitative thresholds and other criteria to determine reportable segments (see [Chapter 3](#)).
- *Step 4* — Consider what information should be disclosed for each reportable segment (see [Chapter 4](#)).
- *Step 5* — Consider what information should be disclosed on an entity-wide basis (see [Chapter 5](#)).

The diagram below, which is adapted from ASC 280-10-55-26, illustrates the main steps involved in identifying reportable segments.



1.4 Interactions With Other Published Information

The segment determinations reached by a public entity that files with the SEC form the framework for certain other disclosures within the periodic filing, including the Business and MD&A sections. Management should be able to explain why the entity's segment reporting is appropriate if other published sources of information about the entity (e.g., its Web site, press releases, investor presentations, and other parts of its periodic report) are different from the segment reporting about how the entity is being managed.

The interaction of segment reporting in the financial statements with information provided in other parts of the entity's periodic report is discussed further in [Chapter 6](#).

Example 1-1

Company A has disclosed in its 20X6 Form 10-K filing that it has a single operating segment. However, A's Web site discusses A's three main product lines, and a review of the executive leadership Web page indicates that A has a senior vice president in charge of each product line. In addition, A's most recent investor presentation provides profitability information for each product line.

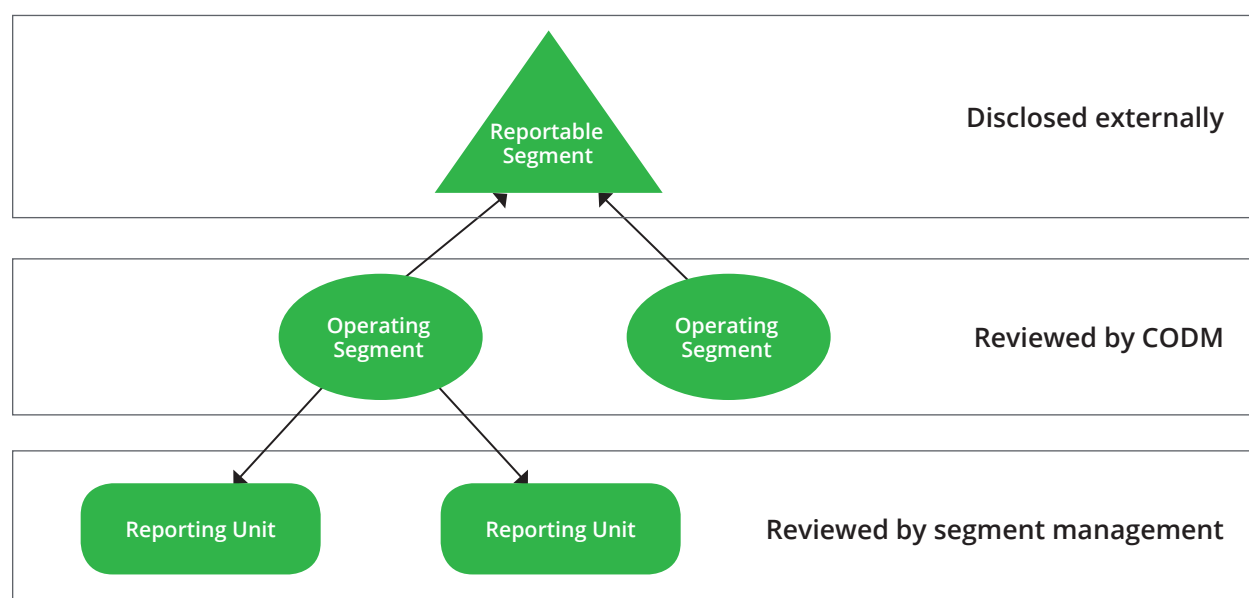
Company A's executive leadership Web page and disclosure of profitability information by product line may suggest that the management approach is based on product line and that a single operating segment may not properly reflect that management approach. Company A would be expected to be able to reconcile this contradictory evidence to its determination and reporting of a single operating segment.

1.5 Interaction of ASC 280 With Accounting for Goodwill

Under ASC 350-20, goodwill is generally tested at the level of the reporting unit, which the ASC master glossary defines as "an operating segment or one level below an operating segment (also known as a component)." Therefore, it is important for entities to clearly distinguish among operating segments, reportable segments, and reporting units. ASC 280 addresses operating segments and reportable segments, while ASC 350 addresses reporting units.

In determining reporting units under ASC 350, an entity would begin with the definition of an operating segment in ASC 280 and consider disaggregating that operating segment into economically dissimilar components to test for goodwill impairment. Likewise, in determining reportable segments under ASC 280, an entity would begin with an operating segment, as defined in U.S. GAAP, but would be permitted to aggregate operating segments that meet certain criteria into a single operating segment. Those operating segments — or aggregated segments — that meet certain thresholds in ASC 280 represent reportable segments.

The diagram below gives an overview of the interplay between these concepts.



Operating segments and reportable segments are explored further in this Roadmap. See [Appendix B](#) for additional discussion of the identification of reporting units.

1.5.1 Considerations for Entities That Are Not Within the Scope of ASC 280

Section 1.6 below addresses the scope of ASC 280. Entities that are not within the scope of that guidance but have goodwill balances that must be tested for impairment will, however, need to consider the portions of ASC 280 related to the identification of operating segments unless the entities (1) are eligible for and have elected the alternative accounting for the subsequent measurement of goodwill outlined in ASC 350-20-35-62 through 35-82 **and** (2) elect an accounting policy to test goodwill for impairment at the entity level, as discussed in ASC 350-20-35-65.

1.6 Scope

ASC 280-10

15-2 The guidance in the Segment Reporting Topic applies to all public entities, with certain exceptions noted below. Entities other than public entities are also encouraged to provide the disclosures described in this Subtopic.

15-3 The guidance in this Subtopic does not apply to the following entities:

- Parent entities, subsidiaries, joint ventures, or investees accounted for by the equity method if those entities' separate company statements also are consolidated or combined in a complete set of financial statements and both the separate company statements and the consolidated or combined statements are included in the same financial report. However, this Subtopic does apply to those entities if they are public entities and their financial statements are issued separately.
- Not-for-profit entities (regardless of whether the entity meets the definition of a public entity as defined above).
- Nonpublic entities.

ASC 280-10-20 defines a public entity as follows:

A business entity or a not-for-profit entity that meets any of the following conditions:

- a. It has issued debt or equity securities or is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).
- b. It is required to file financial statements with the Securities and Exchange Commission (SEC).
- c. It provides financial statements for the purpose of issuing any class of securities in a public market.

Throughout this Roadmap, “entities” refers to those public entities that are within the scope of ASC 280.

While only public entities as defined in ASC 280 must provide the segment disclosures required by ASC 280, nonpublic entities are not precluded from providing them; in fact, ASC 280-10-15-2 states that all entities are encouraged to do so. In addition, as discussed in [Section 1.5.1](#), entities with recognized goodwill may need to consider certain elements of ASC 280 when testing goodwill for impairment under ASC 350.

1.6.1 Financial Statements of Entities With Publicly Traded Debt Only

The requirement to provide segment disclosures is not limited to entities with publicly traded equity securities. ASC 280-10-15-2 notes that the guidance in ASC 280 applies to all public entities, which ASC 280-10-20 defines in part as those entities that have “issued debt or equity securities or [are] conduit bond obligor[s] for conduit debt securities that are traded in a public market.” Therefore, such entities would need to consider the segment disclosure requirements in ASC 280.

Example 1-2

Company A is a wholly owned U.S. subsidiary of a Japan-domiciled entity. Company A does not have any public equity that is traded in a public market. However, A has medium-term notes that are traded on the New York Stock Exchange. Because A has debt securities that are traded in a public market, A is required to present segment information in accordance with ASC 280 when preparing financial statements that comply with U.S. GAAP.

1.6.2 Segment Disclosures in Financial Statements of Businesses Acquired or to Be Acquired

ASC 280-10-15-2 limits the requirement to present operating segment information to “public entities” as that term is defined in ASC 280. Financial statements that are furnished in accordance with SEC Regulation S-X, Rule 3-05, are not required to include segment information unless the business is a public entity.

Example 1-3

Company B has no publicly traded equity or debt securities and is not providing financial statements to issue any class of securities in a public market. In addition, B is not required to file its financial statements with the SEC. Company B has been acquired by Company C, which is required to file financial statements with the SEC because its equity securities are publicly traded. Company B meets the significance tests in SEC Regulation S-X, Rule 3-05; therefore, C is required to include B's financial statements in C's Form 8-K to report the acquisition.

Because B does not meet the definition of a public entity, it is not required under ASC 280 to provide segment disclosures in the financial statements included in C's Form 8-K.

1.6.3 Separate Financial Statements Included in an SEC Filing

ASC 280-10-15-3 excludes “[p]arent entities, subsidiaries, joint ventures, or investees accounted for by the equity method if those entities’ separate company statements also are consolidated or combined in a complete set of financial statements and both the separate company statements and the consolidated or combined statements are included in the same financial report.” Accordingly, equity method investees whose financial statements are included in a registrant’s filing under SEC Regulation S-X, Rule 3-09, are not required to include segment information in the filing unless the equity method investee is a public entity.

1.6.4 Competitive Harm

While some respondents to the exposure draft of FASB Statement 131 noted the potential for competitive harm as a result of disclosing segment information, the Board decided that a competitive harm exemption was inappropriate “because it would provide a means for broad noncompliance.” Accordingly, all provisions of ASC 280 apply to entities that are within its scope. Observations about the absence of any competitive harm considerations in ASC 280 were made at the 2015 AICPA Conference on Current SEC and PCAOB Developments by Wesley Bricker, then deputy chief accountant in the SEC’s Office of the Chief Accountant (OCA), whose prepared [remarks](#) stated the following:

Some registrants have contended in their consultations, including on segment reporting, that they should not be required to apply a GAAP standard because the result would be “competitively harmful” or “misleading.” These arguments are troubling, since they disregard the thoughtful balance taken by the accounting standard setters in crafting reporting standards that provide transparent, useful information to investors. A better approach starts with identifying what information is useful to investors, why, and how that information can be appropriately reported.

1.7 ICFR Considerations

Entities need to have effective ICFR to support the judgments they use in applying the segment guidance and to monitor for changes in the management approach or changes to other facts and circumstances that might result in different segment reporting. In prepared [remarks](#), staff from the OCA reminded registrants and auditors of the importance of effective internal controls related to segment disclosures by observing the following at the 2015 AICPA Conference on Current SEC and PCAOB Developments:

The guidance on segment reporting requires the application of reasonable judgment. Effective [ICFR] supports those judgments, including the judgments needed in the determination of operating segments, aggregation, and entity-wide disclosures. Input from, and interaction with, the [chief operating decision maker (CODM)] may be an important element in the design of effective ICFR in regard to how the CODM allocates resources and assesses performance. In addition, documenting the design and effective operation of management’s controls over these judgments is an integral part of management’s support for the effectiveness of its ICFR, and will be essential to the auditor’s ability to evaluate these controls. [Footnote omitted]

1.8 SEC Considerations

Given its importance to investors in presenting insight into management’s approach to the company and review of key financial results, segment reporting continues to be a source of SEC comments. In a manner consistent with the previous year’s trends, comments focus on (1) the identification and aggregation of operating segments, (2) changes in reportable segments, (3) reporting considerations for entities with a single reportable segment, and (4) entity-wide disclosures. See Deloitte’s [A Roadmap to SEC Comment Letter Considerations, Including Industry Insights](#) for SEC comment letter trends observed in practice.

In addition to the disclosure requirements prescribed under ASC 280-10-50, SEC filers should be cognizant of the relationship between segment reporting and certain required SEC disclosures and guidance, such as those within the Business and MD&A sections of the registrant's filing and the SEC's guidance on non-GAAP measures. Further, a change in an entity's segment structure may have certain reporting implications on historical financial statements, registration statements, and other nonpublic offerings. See [Chapter 6](#) for a discussion of these SEC reporting considerations.

Chapter 2 — Identification of Operating Segments

2.1 Overview

As stated in ASC 280-10-05-3, the method used to determine what information to report under ASC 280 is called the management approach and is “based on the way that management organizes the segments within the public entity for making operating decisions and assessing performance.” Accordingly, the first step for an entity in applying ASC 280 is the identification of operating segments.

ASC 280-10

50-1 An 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 (including revenues and expenses relating to transactions with other components of the same public entity).
- 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.

Evaluating whether a component has all the characteristics of an operating segment can require judgment, including the consideration of whether:

- The component engages in business activities from which it may recognize revenues and incur expenses (see [Section 2.2](#)).
- The component's operating results are regularly reviewed by the CODM (see [Section 2.3](#)).
- Discrete financial information is available for the component (see [Section 2.4](#)).



Key Takeaways

- Identification of operating segments requires the use of the management approach, which is “based on the way that management organizes the segments within the public entity for making operating decisions and assessing performance.”
- An operating segment possesses the following characteristics: (1) engagement in business activities from which it may recognize revenues and incur expenses, (2) operating results that are regularly reviewed by the CODM to allocate resources and assess performance, and (3) availability of discrete financial information.
- Evaluating whether a component has all the characteristics of an operating segment can require judgment.

- Various information sources may help an entity identify operating segments, including the entity's organizational structure (i.e., who are the CODM's direct reports), the CODM's periodic reporting package, the level at which budgets are reviewed and approved by the CODM, and an understanding of the incentive compensation structure.

2.2 Engagement in Business Activities

One characteristic of an operating segment is that the component engages in business activities from which it may recognize revenues and incur expenses. Because ASC 280-10-50-1 uses the words “may recognize revenues,” the absence of revenues does not preclude a component from being an operating segment.

In addition, ASC 280-10-55-5 clarifies that “[a] division that recognizes revenues and incurs expenses but does not have any assets associated with it for internal reporting purposes could be considered an operating segment, if, under the specific facts and circumstances being considered, it otherwise meets the definition in paragraph 280-10-50-1.”

2.2.1 Research and Development Activities

ASC 280-10

50-3 An operating segment may engage in business activities for which it has yet to recognize revenues, for example, start-up operations may be operating segments before recognizing revenues.

An operating segment can be a component that does not recognize external or internal revenues but for which the CODM is making resource allocation decisions and assessing performance on the basis of expenses. This may occur, for example, when a component is focused on research and development activities and the CODM is regularly reviewing operating results for that component to assess performance and allocate resources (see further discussion in [Section 2.3](#)).

Example 2-1

Company P, a diversified pharmaceutical company, has allocated a portion of its combined assets to a component for the research and development of new drugs. Expenses have been incurred; however, the component has yet to recognize revenues from any of the activities. Discrete financial information is available for the component, and the CODM reviews that information to allocate resources and assess performance.

Company P's intent is to allocate resources to the specific business purpose of research and development. Although revenues potentially will never be recognized from this pursuit, management has made a risk-and-reward determination that the cost of the research will be recovered through future revenues of the component. Company P therefore determines that the component meets the definition of an operating segment.

2.2.2 Corporate Headquarters and Functional Departments

ASC 280-10

50-4 Not every part of a public entity is necessarily an operating segment or part of an operating segment. For example, a corporate headquarters or certain functional departments may not recognize revenues or may recognize revenues that are only incidental to the activities of the public entity and would not be operating segments. For purposes of this Subtopic, a public entity's pension and other postretirement benefit plans are not considered operating segments.

55-3 A corporate division that recognizes revenues (for example, a treasury operation that recognizes interest income) and incurs expenses could be considered an operating segment, if, under the specific facts and circumstances being considered, it meets the definition in paragraph 280-10-50-1. Some believe that corporate divisions could not be considered operating segments because paragraph 280-10-50-4 indicates that not every part of a public entity is necessarily an operating segment or part of an operating segment, for example, a corporate headquarters or certain functional departments that do not recognize revenues or that recognize revenues that are only incidental to the activities of the public entity.

55-4 However, a corporate division that recognizes revenues and that has available discrete financial information and whose operating results are reviewed regularly by the chief operating decision maker should be considered an operating segment. Even if the revenues are considered incidental, this Subtopic does not preclude such a division from being a reportable segment if management believes the additional information may contribute to a better understanding of the public entity.

Some entities may be organized by functional departments that are accountable for either revenue or costs but not both. Identifying the operating segments of those entities will require careful consideration. Entities that are organized by function rather than by products and services or by geography will need to determine what information the CODM regularly reviews to allocate resources and assess performance. They should also be particularly mindful of the disclosures required by ASC 280, including disclosures related to how the entity is organized (see [Section 4.2](#)) and the entity-wide disclosures about products, services, and geography (see [Chapter 5](#)).

2.3 Operating Results Are Regularly Reviewed

Another characteristic of an operating segment is that the CODM regularly reviews the component's operating results to make decisions about the allocation of resources to the component and to assess its performance. Therefore, in assessing whether an operating segment possesses this characteristic, an entity will need to first identify the CODM. The entity should carefully consider its identification of the CODM to ensure that it appropriately determines its operating segments.

2.3.1 Identification of the CODM

ASC 280-10

50-5 The term *chief operating decision maker* identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the segments of a public entity. Often the chief operating decision maker of a public entity is its chief executive officer or chief operating officer, but it may be a group consisting of, for example, the public entity's president, executive vice presidents, and others.

2.3.1.1 Overview of CODM

While the CODM is often an individual, such as the CEO, COO, or a similar role, sometimes the function is performed by a group. The CODM determines the allocation of resources and assesses the performance of the operating segments. Typically, the CODM is the highest-ranking management individual at the entity who performs such functions, although the CODM is not necessarily identified on the basis of rank within the entity. This point was reiterated at the 2015 AICPA Conference on Current SEC and PCAOB Developments when staff from the SEC's Division of Corporation Finance (the "Division") observed that an entity's ultimate decision maker (e.g., the CEO) is not necessarily the CODM; therefore, the entity should identify the CODM by determining which individual (or group of individuals) is responsible for allocating resources to and assessing the performance of the entity.

2.3.1.2 Identify Key Operating Decisions

Determining the key operating decisions that must be made for an entity to recognize revenues and incur expenses will often help the entity identify the CODM. While such decisions will vary depending on the entity and industry, they may include the following:

- Entering into significant revenue contracts.
- Expanding into new markets or launching new products.
- Making significant capital expenditures.
- Designing and implementing key marketing strategies.
- Hiring and firing key personnel.
- Approving operating budgets.

When considering key operating decisions, the entity should distinguish between those decisions made for the entity as a whole, which would typically be made by the CODM, and those decisions related to operating, budgeting, and reporting that are specific to a business unit or component of the entity, which would typically reside with the segment manager. See further discussion of the segment manager in [Section 2.3.2.3.1](#).

2.3.1.3 Chief Executive Officer Versus Chief Operating Officer

Some management structures may include both a CEO and a COO, or a similar role. At the 2014 AICPA Conference on Current SEC and PCAOB Developments, then OCA Deputy Chief Accountant Dan Murdock [observed](#) the following:

We have seen entities default to the CEO as the CODM, but I encourage you to take a fresh look at this determination. When identifying the CODM, remember to think about what the key operating decisions are and who is making those decisions for the entity as a whole. Those key operating decisions might not be made at the strategic or ultimate decision level — such as the CEO — but rather by someone who is closer to the day-to-day operations. The guidance does not require the CODM to have ultimate decision making authority, but it is important that the identified individual — or individuals — are evaluating the entity's **operating** results to assess performance and to allocate resources. Failing to appropriately identify the CODM would make it highly unlikely you will get to the right [identification of operating segments].

Accordingly, the entity should evaluate what role the COO plays in the organization. For example, a COO may be more administratively focused and responsible for carrying out the CEO's decisions but not make the key operating decisions or assess performance, which may indicate that the COO is not the CODM or part of a CODM group. However, entities should carefully consider all facts and circumstances, including the stated responsibilities of the COO and his or her interactions with the CEO or CODM group.

Example 2-2

Company A is a manufacturer of sporting equipment used for tennis, badminton, and squash. Company A's organizational structure includes a CEO and a COO as well as a business president for each of the tennis, badminton, and squash product units. The business presidents are responsible for the operating, budgeting, and reporting aspects of their respective units and have management personnel within their units who report to them. The business presidents each report to the COO and are responsible for making resource allocation recommendations to the COO for their respective units. The COO evaluates the performance of each unit on the basis of a variety of financial reports and is responsible for entity-wide resource allocation decisions.

The COO reports to the CEO. The CEO receives monthly reports on consolidated operations but does not receive information about each of the product units. In addition, the CEO defers all operating decisions to the COO and instead focuses on the strategic direction of the company.

In this instance, the COO would most likely be considered the CODM or a part of a CODM group with the CEO. While the CEO may be seen as the highest level of management, the COO is responsible for the key operating decisions, including entity-wide resource allocation decisions, and for assessing the performance of the three product units.

Example 2-3

Assume the same facts as in Example 2-2 except that the three presidents report directly to the CEO. While the COO participates in meetings with the CEO and the presidents, the purpose of such participation is to ensure that the COO understands the business because it is expected that the COO will assume the role of CEO when the CEO retires in the near term. The CEO makes all key operating decisions, including entity-wide resource allocation decisions.

The CEO is most likely the CODM because the CEO, and not the COO, is responsible for the key operating decisions, including entity-wide resource allocation and assessing the performance of the three product units.

2.3.1.4 Management Committees

In some organizations, the CODM may be a management committee composed of, for example, the entity's CEO or president, its chief financial officer, its executive vice presidents, and others, all of whom participate in decisions made by the committee. However, the existence of a management committee does not itself necessarily mean that the management committee is the CODM. For instance, the ability of the CEO or COO to override the committee's decisions would indicate that the individual with override authority is the CODM, not the committee. In identifying the CODM, an entity must consider its management structure as well as its facts and circumstances, particularly when evaluating whether an individual's override authority is substantive.

2.3.2 Clarifying the Terms "Operating Results" and "Regularly Reviewed"

We believe that the term "operating results" implies at least some measure of profitability. However, the operating results regularly reviewed by the CODM do not need to reflect all costs that would be necessary for the operation of the component as a stand-alone business. Some measure of profitability, such as gross profit or EBITDA, is likely to be sufficient for the CODM to allocate resources and assess performance. See discussion of discrete financial information in [Section 2.4](#).

ASC 280 also does not define "regularly reviewed." In general, we believe that a regular review, for most public entities, would be held at least quarterly. Entities should use judgment in determining which operating results are regularly reviewed by the CODM.

2.3.2.1 *Information Sources for Regular Review*

Insight into the level at which a CODM reviews operating results to allocate resources and assess performance may be obtained from a variety of sources, including the following:

- Information provided to and reviewed by the CODM (the CODM package; see [Section 2.3.2.2](#)).
- The entity's organizational structure, including meetings between the CODM and his or her direct reports (see [Section 2.3.2.3](#)).
- The level at which budgets are prepared and reviewed (see [Section 2.3.2.4](#)).
- The basis on which compensation is determined (see [Section 2.3.2.5](#)).
- The information provided to the board of directors (see [Section 2.5](#)).

No single factor is determinative in the entity's analysis. Rather, the entity must consider the totality of the information and carefully consider whether any of it may be inconsistent with the information it used to identify its operating segments.

2.3.2.2 *Information Provided to and Reviewed by the CODM (CODM Package)*

Typically, the CODM will receive periodic reporting packages that include operating results at a disaggregated level. Such reports may indicate the levels at which the CODM is monitoring the business to allocate resources and assess performance.

Historically, when evaluating an entity's operating segments, the SEC staff has placed a great deal of emphasis on the information regularly provided to and reviewed by the CODM. The SEC staff would frequently request copies of the CODM package, as well as the information provided to the entity's board of directors, and would attempt to reconcile that information to the entity's reported operating segments.

In its 2012 post-implementation review [report](#) on FASB Statement 131, the FAF observed that:

Advances in information technology also make the guidance for determining operating segments more difficult to apply and audit. Technology allows more detailed financial information to be available to the CODM. The ability of the CODM to access more detail makes less clear what the CODM "receives" and "regularly reviews." As a result, it might be more difficult to determine operating segments and less clear how to aggregate them.

Partly in response to the FAF's observation, the SEC staff has noted that its historical views regarding an entity's CODM package are evolving and that in the past it may have overemphasized the importance of the CODM package. The SEC staff indicated that rather than viewing the CODM package as the determinative factor in identifying operating segments, it would consider the CODM package as only one of many factors in the determination.

Similarly, the SEC staff noted that it would not view the CODM package as a safe harbor for entities. That is, the SEC staff might conclude that other, potentially conflicting information would overcome the absence of operating results in the CODM package for a potential operating segment. Entities should expect the SEC staff to:

- Question whether there are disaggregated operating results not included in the CODM package that are nonetheless regularly reviewed by the CODM.
- Continue to review other publicly available information for consistency with the entity's segment disclosures, such as the information in the forepart of the Form 10-K (i.e., the Business and MD&A sections), the entity's Web site, analysts' reports, and press releases.

While the CODM package is not the determinative factor in the identification of operating segments, it is still a significant information source. Therefore, the staff will continue to ask what information is regularly provided to the CODM and, in some instances, may request copies of the CODM package.

2.3.2.2.1 Other Financial Reporting

In certain instances, an entity may prepare stand-alone financial statements for one or more subsidiaries (e.g., when such financial statements are necessary to meet a statutory reporting requirement). The existence of such stand-alone financial statements is not in itself determinative that the portion of the entity being reported on is representative of an operating segment. Rather, those financial statements should be evaluated to determine whether they are regularly reviewed by the CODM to make decisions about resources to be allocated and to assess the subsidiary's performance.

2.3.2.3 Organizational Structure

An entity's management structure will often offer insight into how the CODM is reviewing operating results to allocate resources and assess performance. As discussed in [Section 1.2](#), the framework for segment reporting is the management approach, which is based on an entity's internal organization. Determining the following may help an entity understand how management is structured:

- Who the CODM's direct reports are.
- What decisions the CODM's direct reports make.
- How frequently the CODM meets with his or her direct reports, and what is typically discussed in those meetings.
- Whether there are other individuals, groups, or committees within the entity with whom the CODM regularly meets to discuss operating results.

2.3.2.3.1 Segment Manager

ASC 280-10

50-7 Generally, an operating segment has a segment manager who is directly accountable to and maintains regular contact with the chief operating decision maker to discuss operating activities, financial results, forecasts, or plans for the segment. The term *segment manager* identifies a function, not necessarily a manager with a specific title.

50-8 The chief operating decision maker also may be the segment manager for certain operating segments. A single manager may be the segment manager for more than one operating segment. If the characteristics in paragraphs 280-10-50-1 and 280-10-50-3 apply to more than one set of components of a public entity but there is only one set for which segment managers are held responsible, that set of components constitutes the operating segments.

An entity's understanding of the organizational structure and of who the CODM's direct reports are, including how those direct reports interact with the CODM, can help it gain insight into how the CODM is reviewing operating results to allocate resources and assess performance.

Example 2-4

Company A is a multinational retailer of women's clothing. It operates four brands: WorkOut Wear, Business Wear, Casual Wear, and Evening Wear. The company's CEO is the CODM.

In identifying its operating segments, A notes the following:

- Each brand has a division president that reports directly to the CEO.
- The quarterly CODM package includes a consolidated P&L statement as well as revenue and EBITDA for each brand.
- The CODM and division presidents meet quarterly to review the divisional P&L information, including actual results and comparisons to budget.
- Annual budgets are prepared by each division president through EBITDA. The final budgets for each division are approved by the CEO.
- Total annual compensation for the division presidents is based, in part, on brand EBITDA.

Given these facts, A appears to have four operating segments: WorkOut Wear, Business Wear, Casual Wear, and Evening Wear, since (1) each segment engages in business activities that recognize revenues and incur expenses, (2) the CODM is regularly reviewing the operating results of each brand to allocate resources and assess performance, and (3) discrete financial information is available for each brand. Each of the four division presidents also appears to be a segment manager. Each of the division presidents is directly accountable to and maintains regular contact with the CODM to discuss the operating activities, financial results, and forecasts for the division.

Example 2-5

Assume that Company A in Example 2-4 undergoes a reorganization in which the four division presidents are consolidated into a single president of operations who reports to the CODM. The CODM continues to receive revenue and EBITDA by brand each quarter and discusses operating results for each brand with the president of operations. The CODM prepares and approves budgets for each brand, and the president of operations is compensated on the basis of consolidated financial results.

Given these facts, it appears that A still has four operating segments upon the reorganization: WorkOut Wear, Business Wear, Casual Wear, and Evening Wear since the CODM continues to review operating results of each brand to allocate resources and assess performance. The president of operations is likely to be considered the segment manager for each brand.

2.3.2.4 Budgeting Process

An entity's budgeting process can be instructive on how resource allocation decisions are made (including the level at which resources are allocated) and how performance is assessed. For example, the process may indicate:

- The level at which budgets are reviewed and approved by the CODM (i.e., the consolidated budget level or some disaggregated level).
- The level at which the CODM regularly reviews performance against those budgets.

Accordingly, the CODM's review of budgets (and performance against those budgets) on a disaggregated basis may indicate the level at which the CODM is regularly reviewing operating results to allocate resources and assess performance.

2.3.2.5 *Compensation Structure*

An entity's compensation structure, including how the CODM's direct reports are compensated, may also provide insight into how the CODM is allocating resources and assessing performance. For instance, the fact that a portion of compensation for the CODM's direct reports is tied to the performance of the components or business units they oversee may indicate that the CODM is allocating resources and assessing performance at that level. We believe that this conclusion is consistent with the guidance in ASC 280-10-50-7, which notes that operating segments will generally have "a segment manager who is directly accountable to and maintains regular contact with the [CODM]." Therefore, the existence of managers whose compensation is associated with their accountability to the CODM for the performance of components or business units may help an entity identify its operating segments. However, as discussed above, compensation structure is not determinative in the analysis (i.e., a compensation structure based on consolidated results would not necessarily indicate that the entity has a single operating segment).

2.4 Discrete Financial Information

Another characteristic of an operating segment is the availability of discrete financial information. While ASC 280 does not define "discrete financial information," we believe that it generally involves some measure of a component's profitability that can be readily distinguished from that of other components of the organization. For example, if the information provided to the CODM contains revenue and gross profit by service line, discrete financial information would be available, and there would generally be enough information to assess performance and make resource allocation decisions by service line.

However, this measure does not need to reflect GAAP-based earnings or all costs that would be necessary for running the component as a stand-alone business. In many instances, the availability of gross margin for the component will be sufficient to qualify as discrete financial information. This is consistent with comments made at the AICPA Conference on Current SEC and PCAOB Developments in 2015 and 2016 by Division staff members, who noted that the absence of fully allocated costs to a component does not preclude the component from having discrete financial information.

Further, as discussed in ASC 280-10-55-5, allocation of assets is not necessary for a component to be considered an operating segment. Thus, discrete financial information may consist of only limited results of operations information, such as revenues and gross profit margin, without balance sheet information.

2.4.1 Revenue Information Provided to the CODM

For some entities, the information provided to and regularly reviewed by the CODM will consist of consolidated operating results and revenue by product or service line or by geography. As discussed above, revenue alone will generally not be sufficient for a CODM to assess performance and allocate resources. However, entities should carefully consider all facts and circumstances, including why the CODM receives disaggregated revenue, how the CODM uses such information, and whether revenue alone is sufficient for the CODM to allocate resources and assess performance.

2.5 Multiple Sets of Data or Components

ASC 280-10

50-6 For many public entities, the three characteristics of operating segments described in paragraph 280-10-50-1 clearly identify a single set of operating segments. However, a public entity may produce reports in which its business activities are presented in a variety of different ways. If the chief operating decision maker uses more than one set of segment information, other factors may identify a single set of components as constituting a public entity's operating segments, including the nature of the business activities of each component, the existence of managers responsible for them, and information presented to the board of directors.

50-9 The characteristics in paragraphs 280-10-50-1 and 280-10-50-3 may apply to two or more overlapping sets of components for which managers are held responsible. That structure is sometimes referred to as a matrix form of organization. For example, in some public entities, certain managers are responsible for different product and service lines worldwide, while other managers are responsible for specific geographic areas. The chief operating decision maker regularly reviews the operating results of both sets of components, and financial information is available for both. In that situation, the components based on products and services would constitute the operating segments.

Given the framework of the management approach under ASC 280, there may be more than one way to provide discrete financial information to the CODM (e.g., by products and services and also by geography, which would suggest overlapping sets of components). In those instances, an entity may need to use additional judgment to identify operating segments and should consider the following:

- *The nature of the business activities of each component* — For example, if information about products and services and geography is provided, what is the relevance and importance of each type of information to the overall entity? Is primarily one product sold in multiple geographic areas or are multiple products primarily sold in one geographic area?
- *The existence of segment managers* — Which components have segment managers who are accountable to the CODM?
- *What information is presented to the board of directors* — Does the board of directors receive one or more than one set of information? In this regard, paragraph 70 of the Background Information and Basis for Conclusions of FASB Statement 131 observes that in many enterprises, “only one set of data is provided to the board of directors. That set of data generally is indicative of how management views the enterprise's activities.”

2.6 Vertically Integrated Operations

ASC 280-10

50-2 An operating segment shall include components of a public entity that sell primarily or exclusively to other operating segments of the public entity if the public entity is managed that way. Information about the components engaged in each stage of production is particularly important for understanding vertically integrated public entities in certain businesses, for example, oil and gas entities. This information is also important because different activities within the entity may have significantly different prospects for future cash flows.

Some operating segments may derive their revenues only from other segments within the entity. Understanding how the CODM manages the business is the key factor in identifying operating segments. As noted in ASC 280-10-50-2, a component is not required to have external customers or revenues to be classified as an operating segment for financial reporting purposes. In addition, entities with vertically integrated operating segments will need to carefully consider the qualitative criteria in ASC 280-10-50-11 when evaluating whether aggregation of the operating segments is appropriate. See [Section 3.2](#) for further discussion of aggregation.

Example 2-6

Company B is a vertically integrated manufacturer that sells processed food products to external customers. Company B's operations include a flour mill that sells refined flour to the food processing segment of B. Although the flour mill has no external customers, the financial results of the milling operation are prepared separately, and the CODM regularly reviews them to assess performance and make decisions regarding the allocation of resources. The flour mill would therefore meet the definition of an operating segment.

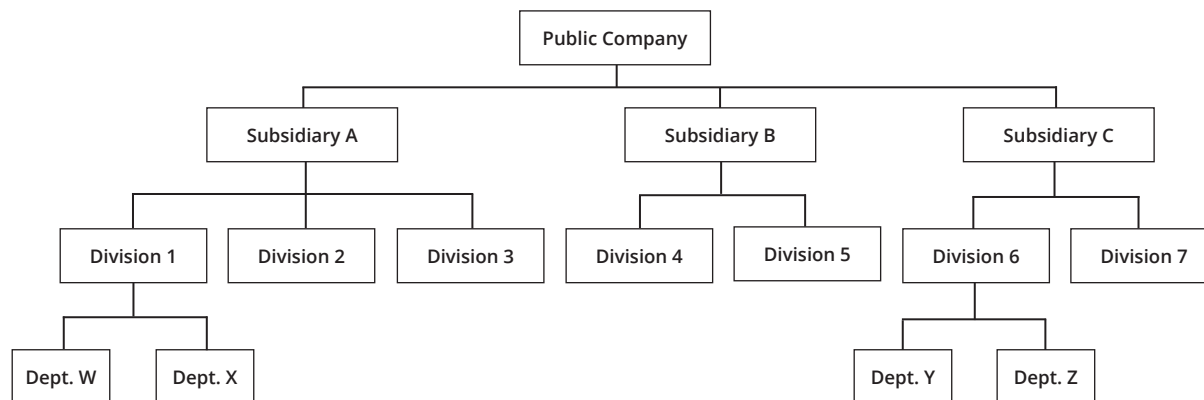
2.7 Subsidiary Financial Statements

Operating segments should be identified at the reporting-entity level. In some instances, a public entity may have a consolidated subsidiary that meets the definition of a public entity and is therefore within the scope of ASC 280. In such cases, the parent entity would apply the guidance in ASC 280 to identify the operating segments at the consolidated level, and a separate evaluation would be performed for the subsidiary reporting entity.

ASC 280-10

Example 1: Subsidiary of a Public Entity Has Public Debt and Separate Financial Statements Have Reportable Segments

55-27 Assume that an entity is organized as follows.



55-29 Subsidiary C is itself a public entity because it has public debt outstanding. The segment information for the separate financial statements of Subsidiary C discloses three reportable segments (Dept. Y, Dept. Z, and Division 7).

55-30 In this situation it should not be automatically assumed that the reportable segments of Subsidiary C are also reportable segments within the consolidated financial statements of Public Company. Determining the number of operating segments of a public entity depends on the specific facts and circumstances and should be separately evaluated for each public entity that is required to apply this Subtopic.

2.8 Equity Method Investees

ASC 280-10

55-2 An equity method investee could be considered an operating segment, if, under the specific facts and circumstances being considered, it meets the definition in paragraphs 280-10-50-1 and 280-10-50-3. An investee accounted for by the equity method could be considered an operating segment even though the investor has no control over the performance of the investee. Paragraph 280-10-50-1(b) provides that an operating segment is one whose 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. Management may regularly review the operating results and performance of an equity method investee for purposes of evaluating whether to retain the investor-investee relationship. This Subtopic does not require that the chief operating decision maker be responsible for making decisions about resources to be allocated within the segment. That is, this Subtopic does not require that the chief operating decision maker be responsible for making decisions at the investee operating level that affect its operations and performance. Therefore, control over the investee is not a criterion for the investee to be considered an operating segment. For information relating to equity method investees, see Topic 323.

An entity's operating segments are not limited to its consolidated operations. Equity method investments and joint ventures, for example, may also represent operating segments if they otherwise meet the criteria in ASC 280-10-50-1. ASC 280 does not require that the CODM be responsible for making decisions about resources to be allocated within the segment. Rather, as observed in ASC 280-10-55-2, the CODM may be regularly reviewing the operating results and performance of an equity method investee "for purposes of evaluating whether to retain the investor-investee relationship." Accordingly, "control over the investee is not a criterion for the investee to be considered an operating segment."

Example 2-7

Company A manufactures and sells prepackaged food. Company A also holds a 30 percent investment in a venture that operates a flour mill and purchases flour from the venture to use in its operations. It uses the equity method to account for its investment in the venture.

The venture's financial results are provided quarterly to the venture's owners. Company A's CODM reviews the results to make decisions about resources to be allocated to the investment (e.g., whether to participate in any capital calls) and to assess the mill's performance to determine whether to retain the investment.

In this instance, the joint venture would represent an operating segment given the following factors:

- The joint venture engages in business activities (flour milling) from which it recognizes revenues and incurs expenses.
- The CODM regularly reviews the joint venture's operating results to allocate resources and assess performance.
- Discrete financial information is available for the venture.

2.9 Comparison to Competitors

The management approach required for determining operating segments under ASC 280 is specific to each preparer. While an entity can review segment disclosures from the financial statements of other public entities, including its direct competitors, the disclosures are unlikely to be comparable unless all aspects of the entities related to the segment determination are comparable.

While the FASB requires entities to use the management approach to identify operating segments, it acknowledges that some level of comparability may be important for financial statement users. ASC 280-10-05-5 notes:

To provide some comparability between public entities, this Subtopic requires that an entity report certain information about the revenues that it derives from each of its products and services (or groups of similar products and services) and about the countries in which it earns revenues and holds assets, regardless of how the entity is organized. As a consequence, some entities are likely to be required to provide limited information that may not be used for making operating decisions and assessing performance.

See further discussion of entity-wide disclosures of products and services and geographic areas in [Chapter 5](#).

Example 2-8

Company A and Company B both manufacture and distribute windows, siding, and insulation used in the construction of residential and commercial units. Under A's structure, decisions are made and performance is evaluated on a regional basis (e.g., North, South), whereas B makes decisions and evaluates performance on a product-line basis (e.g., siding, insulation).

Accordingly, A and B would not report similar operating segments. Rather, A would report operating segments based on regions, and B would report operating segments based on product lines.

2.10 Reconsideration of Identified Operating Segments

The identification of operating and reportable segments may be affected by changes in facts and circumstances. For example, a change in the management approach and resulting segment disclosures may result from changes in senior management, significant acquisitions, and significant dispositions as well as changes in the products and services offered by the entity or changes in the entity's geographic footprint. As discussed in [Section 1.7](#), effective ICFR is necessary to support an entity's judgment in applying segment guidance and to monitor for changes in the management approach or changes to other facts and circumstances that might result in different segment reporting.

ASC 280 requires a change in reportable segments to be presented in the first period during which the entity is managed on the basis of the new organizational structure. At times, there may be a transition period during which changes to the organizational structure are being implemented and the entity therefore will need to use significant judgment to determine the first period in which it is being managed under the new structure. It may be helpful for the entity to consider the following in making this determination:

- When changes to the CODM's direct reports and their job responsibilities become effective.
- When the CODM begins receiving and reviewing discrete financial information under the new reporting structure.
- Whether the CODM has been managing the business under the new structure.

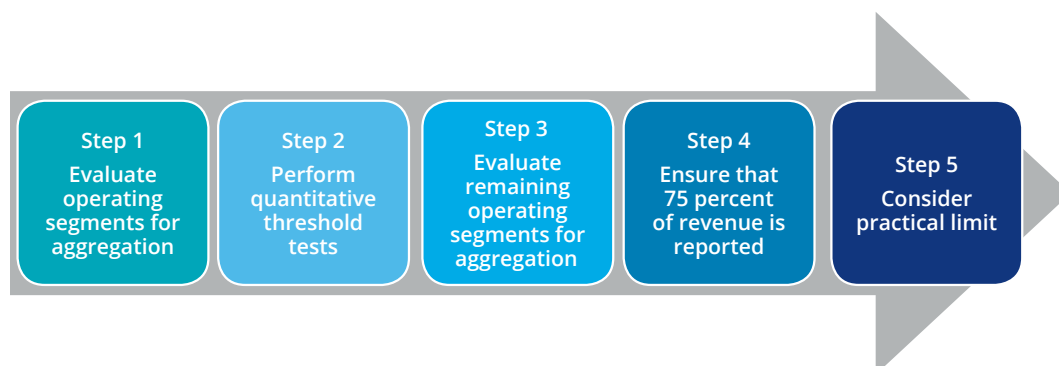
If there are changes in identified operating segments, the entity will also be required to perform an updated analysis of the aggregation of operating segments, to identify reportable segments, and to recast the information presented for each reportable segment. In addition, such changes may result in a change to the entity's reporting units for goodwill impairment testing purposes (see [Appendix B](#)).

Chapter 3 — Reportable Segments

3.1 Overview

As discussed in [Chapter 2](#), an entity determines what information to report under ASC 280 by using the management approach, which ASC 280-10-05-3 states is “based on the way that management organizes the segments within the public entity for making operating decisions and assessing performance.” Further, paragraph 72 of the Background Information and Basis for Conclusions of FASB Statement 131 notes that to meet the objectives of segment reporting without providing overly detailed information, an entity applies a “modified management approach,” which takes into account aggregation criteria and quantitative thresholds.

The following steps should be considered in the identification of reportable segments:



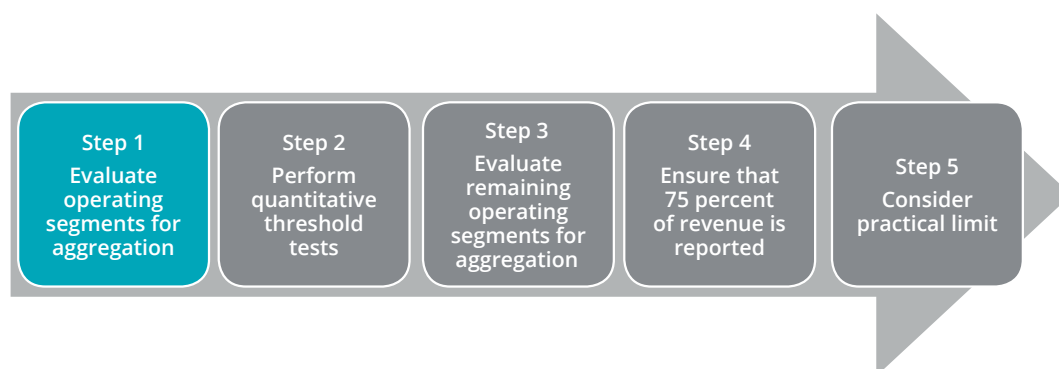
This chapter discusses an entity's requirements and considerations related to performing each of these steps. While the steps provide a helpful guide, an entity is encouraged to consider whether to separately report information on material segments, irrespective of whether the segment meets the quantitative requirements for separate disclosure. We believe that such an approach is consistent with the objectives and principles of ASC 280, which aim to help users of financial statements understand an entity's performance, assess its prospects for future cash flows, and make more informed judgments about the entity as a whole. Further, as discussed throughout this Roadmap, an entity's identified reportable segments should “facilitate consistent descriptions” of the entity in its annual report and other published information, such as its earnings release, its investor presentations, and the financial information on its Web site.



Key Takeaways

- To determine which subset of operating segments to report, an entity uses a modified management approach based on aggregation criteria and quantitative requirements.
- An entity must use reasonable judgment when aggregating two or more operating segments into a single operating segment, and all the aggregation criteria need to be met, including the requirement that aggregation be consistent with the objectives and principles of ASC 280.
- The evaluation of whether two or more operating segments are similar with respect to the aggregation criteria should take into account the range of the entity's business activities and the economic environments in which it operates.
- When evaluating whether operating segments have similar economic characteristics, an entity cannot solely look to projected economic performance and ignore historical differences (i.e., projected similarity does not overcome past differences).
- If an operating segment represents 10 percent or more of revenue, profitability, or total assets, separate disclosure is required. An entity may need to disclose additional segments separately to ensure that reportable segments constitute at least 75 percent of reported revenue.
- The reportable segment analysis may need to be reconsidered in interim periods if there has been a change in facts and circumstances, including a change in management structure.

3.2 Step 1: Evaluate Operating Segments for Aggregation



3.2.1 Criteria for Aggregation

ASC 280-10

50-11 Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar. Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the objective and basic principles of this Subtopic, if the segments have similar economic characteristics, and if the segments are similar in all of the following areas (see paragraphs 280-10-55-7A through 55-7C and Example 2, Cases A and B [paragraphs 280-10-55-33 through 55-36]):

- a. The nature of the products and services
- b. The nature of the production processes
- c. The type or class of customer for their products and services
- d. The methods used to distribute their products or provide their services
- e. If applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities.

50-18A An entity need not aggregate similar segments, and it may present segments that fall below the quantitative thresholds.

Under ASC 280-10-50-11, two or more operating segments may be aggregated into a single operating segment if the following three criteria are met:

- *Criterion 1* — Aggregation is consistent with the objectives and basic principles of ASC 280 (see [Section 3.2.2](#)).
- *Criterion 2* — The segments have similar economic characteristics (see [Section 3.2.3](#)).
- *Criterion 3* — The segments are similar with respect to the five qualitative characteristics specified in ASC 280-10-50-11(a)–(e) (see [Section 3.2.4](#)).

Further, an entity is not required to aggregate similar operating segments. Accordingly, step 1 is optional, and an entity may proceed directly to the quantitative tests in step 2.

3.2.1.1 Evaluation of “Similar”

ASC 280-10

Aggregation Criteria

55-7A Paragraph 280-10-50-11 states that operating segments are considered to be similar if they can be expected to have essentially the same future prospects. Therefore, the similarity of the economic characteristics should be evaluated based on future prospects and not necessarily on the current indicators only. In other words, if the segments do not currently have similar gross margins and sales trends but the economic characteristics and the other five criteria are met and the segments are expected to again have similar long-term average gross margins and sales trends, the two segments may be aggregated.

55-7B Likewise, if segments generally do not have similar economic characteristics, but in the current year have similar gross margins or sales trends and it is not expected that the similar gross margins or sales trends will continue in the future, it should not be presumed that the segments should be aggregated for the current-year segment disclosures just because current economic measures are similar.

ASC 280-10 (continued)

55-7C Aggregation of segments should be consistent with the objective and basic principles of this Subtopic — 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 in order to help users of financial statements better understand the public entity's performance, better assess its prospects for future net cash flows, and make more informed judgments about the public entity as a whole. This Subtopic mentions that segments having similar economic characteristics would be expected to have similar long-term average gross margins. That measure is used, only as an example, because gross margin is a measure of profitability that is less likely to be affected by allocations. Evaluating similar economic characteristics is a matter of judgment that depends on specific facts and circumstances.

ASC 280 does not define the term “similar” or provide extensive guidance on the aggregation criteria. Therefore, the determination of whether two or more operating segments are similar depends on facts and circumstances and is subject to judgment. At the 2015 AICPA Conference on Current SEC and PCAOB Developments, staff from the SEC’s OCA [noted](#):

In determining whether two operating segments are “similar” with respect to the economic characteristics and each of the qualitative criteria, the guidance notes the evaluation should be made relative to the range of the entity’s business activities and the economic environments in which it operates. For example, some entities operate within a single industry segment but may have multiple product lines by which it has defined its operating segments. Under the guidance, the entity would need to consider the range of those product lines and the characteristics of each that drive economic performance when evaluating aggregation. In doing so, it may be helpful to consider whether a reasonable investor would consider the two operating segments to be similar. Often, publicly available industry reports and other analysis by users will indicate the key characteristics by which a reasonable investor may analyze the entity. [Footnote omitted]

3.2.1.2 Application of Reasonable Judgment

When applying the aggregation criteria in ASC 280-10-50-11, an entity must use reasonable judgment. At the 2015 AICPA Conference on Current SEC and PCAOB Developments, staff from the SEC’s OCA [observed](#):

Reasonable judgment with a thorough understanding of an entity’s specific facts and circumstances is required in applying these criteria. This judgment is informed by the starting point in the analysis, which is that management has first determined the information it finds useful (and uses) in managing the business is at a disaggregated operating segment level. [Footnote omitted]

Accordingly, when evaluating whether it has met the aggregation criteria in ASC 280-10-50-11, an entity may find it helpful to first consider why it has identified multiple operating segments for resource allocation and performance assessment purposes. While the CODM’s review and the segment reporting objectives are not identical, both focus on performance and decision-making about the future. Understanding how management runs the business and the usefulness of disaggregated information for the CODM will often help the entity decide whether two or more operating segments are similar.

In its reviews, the SEC staff has routinely requested clarification about whether an entity’s operating segments have been aggregated and, if so, the entity’s analysis resulting in a conclusion that aggregation was appropriate. We believe that an entity should maintain contemporaneous documentation of its aggregation analysis, including the evaluation of ICFR related to its key judgments. This analysis should address each of the aggregation criteria, including whether aggregation is consistent with the objectives and basic principles of ASC 280 and how the entity determined that providing more detailed segment disclosure would detract from these objectives.

3.2.1.3 *All Aggregation Criteria Must Be Met*

All three of the criteria in ASC 280-10-50-11 must be met for an entity to aggregate two or more operating segments. Paragraph 74 of the Background Information and Basis for Conclusions of FASB Statement 131 states, in part:

[T]he Board rejected recommendations that the criteria be indicators rather than tests and that the guidance require only the expectation of similar long-term performance of segments to justify aggregation because those changes might result in a level of aggregation that would cause a loss of potentially valuable information. For the same reason, the Board also rejected suggestions that segments need be similar in only a majority of the characteristics in [ASC 280-10-50-11] to justify aggregation.

This requirement was reiterated at the 2014 AICPA Conference on Current SEC and PCAOB Developments, when then OCA Deputy Chief Accountant Dan Murdock [noted](#) the following:

The underlying principle [to aggregation of operating segments] is that separate reporting of segment information will not add significantly to an investor's understanding of an entity if its operating segments have characteristics that are so similar they can be expected to have essentially the same future prospects. That said, the aggregation criteria are intended to be a high hurdle, and you need to meet all of the criteria in order to aggregate operating segments. The FASB specifically rejected recommendations that the criteria be indicators rather than tests and that an expectation of similar long-term performance alone would be sufficient to justify aggregation, noting that such relaxed criteria might result in a level of aggregation that would cause a loss of potentially valuable information. [Footnotes omitted]

3.2.1.4 *Aggregation Into a Single Reportable Segment*

In some situations, an entity may evaluate the aggregation criteria and conclude that all of its operating segments may be aggregated into a single reportable segment. While such a determination may not necessarily be incorrect, it may be subject to heightened regulatory scrutiny given that ASC 280 was intended to elicit useful information about the different types of business activities in which an entity engages. An entity that determines that aggregation into a single reportable segment is reasonable is likely to be challenged by the SEC staff to explain why, if the CODM uses disaggregated information to allocate resources and assess performance, that information would not be meaningful to users of the financial statements.

3.2.2 **Aggregation Must Be Consistent With the Objectives and Principles of ASC 280 (Criterion 1)**

ASC 280-10-50-11 requires the aggregation of operating segments to be consistent with the objectives and basic principles of segment reporting outlined in ASC 280-10-10-1, which are intended to help financial statement users:

- Better understand an entity's different types of business activities, the different economic environments in which it operates, its performance, and its prospects for future net cash flows.
- Make more informed judgments about the entity as a whole.

Example 3-1

Company A owns and operates the Best Burger chain of restaurants, with locations across the United States and Europe. Company A has identified two operating segments: the United States and Europe. In evaluating whether aggregation is consistent with the objectives and principles of ASC 280, A notes that, while restaurants in both the United States and Europe offer the same menu, the economic environment in Europe has put significant pressure on sales, and A is not expecting its sales in Europe to grow as much as those in the United States. In addition, foreign currency changes in Europe have significantly affected A's current and projected cash flows for the Europe segment. As a result of the different economic environments of the United States and Europe segments and the different prospects for future cash flows of the Europe segment, aggregation of the United States and Europe operating segments may not be consistent with the objectives and principles of ASC 280.

Example 3-2

Consider [Example 2-6](#), in which Company B is a vertically integrated manufacturer that sells processed food products to external customers. Company B's operations include a flour mill that sells refined flour to the food processing segments of B. Although the flour mill has no external customers, the financial results of the milling operation are prepared separately, and the CODM regularly reviews them to assess performance and make decisions regarding the allocation of resources. Therefore, the flour mill operation would meet the definition of an operating segment.

Assume that B has identified two operating segments: flour mill and processed food products. The business activity of the flour mill (i.e., to process wheat into flour) may be considered different from that of the processed food products segment (i.e., to process ingredients into prepared foods). Therefore, aggregation of the flour mill and processed food products segments may not be consistent with the objectives and principles of ASC 280.

3.2.3 Similar Economic Characteristics (Criterion 2)

ASC 280-10-50-11 states, in part, that operating segments must have similar economic characteristics to be aggregated:

Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar.

Unlike the quantitative thresholds outlined in ASC 280-10-50-12, there are no defined thresholds or "bright lines" in the evaluation of whether two or more operating segments possess similar economic characteristics. That is, ASC 280 does not define the term "similar" or provide guidance on the time horizon of historical and expected future periods to be evaluated. Rather, an entity must carefully consider the specific facts and circumstances when evaluating whether two or more operating segments have similar economic characteristics.

3.2.3.1 What Measures to Consider

While ASC 280-10-50-11 specifies that segments with similar economic characteristics would be expected to have similar long-term average gross margins, it does not describe other factors an entity can use to evaluate economic characteristics. ASC 280-10-55-7C states, in part:

This Subtopic mentions that segments having similar economic characteristics would be expected to have similar long-term average gross margins. That measure is used, only as an example, because gross margin is a measure of profitability that is less likely to be affected by allocations.

As noted above, the measures that will be relevant for an entity will depend on its facts and circumstances; however, it should consider, at a minimum, the measure(s) of profitability used by the

CODM for allocating resources and assessing performance. The entity may also decide to examine performance metrics such as sales growth, operating cash flows, return on assets, EBITDA, inventory turnover, and other standard industry measures.

Further, an entity should consider competitive, operating, and financial risks related to each business or industry type in determining whether two operating segments have similar economic characteristics. If operating segments are in different geographical areas, the entity may need to evaluate factors such as economic and political conditions, currency risks, and foreign exchange control regulations.

3.2.3.2 Quantitative Considerations

When evaluating the similarity of measures of profitability used by the CODM, an entity will need to use reasonable judgment. Generally, we believe that as the differences in the ranges of measures of profitability increase among the operating segments evaluated for aggregation, so too will the amount of evidence needed for the entity to assert that the operating segments have similar economic characteristics. In assessing the range of measures, the entity should consider:

- The particular measures of profitability used by the CODM (e.g., an acceptable range related to gross profit may be lower than an acceptable range related to pretax income that may incorporate nonrecurring or other one-time charges).
- The expected variability of such measures.
- The consistency of the measures of profitability throughout the entity's industry (e.g., an acceptable range related to a measure associated with a relatively stable amount of profitability may be lower than that associated with less stable amounts).

3.2.3.3 Time Horizon for Analysis

As ASC 280-10-50-11 notes, "Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics." While the guidance does not define "long-term" or the period over which an entity should evaluate economic performance, it does require an entity to consider past, present, and future financial performance when evaluating whether two or more operating segments have similar economic characteristics. Accordingly, an entity cannot solely look to projected economic performance and ignore current or historical differences. The presence of operating segments with historically dissimilar financial performance may indicate that the segments do not have similar economic characteristics, even if management projects that financial performance will converge over time. Therefore, an entity should carefully consider the underlying factors that historically resulted in the segments' dissimilar financial performance.

We believe that when an entity considers economic performance, its aggregation analysis should take into account historical, current, and projected performance. The SEC staff typically requests an analysis of revenues and profit or loss (e.g., gross profit or operating profit) by operating segment that covers the past three to five years as well as the current interim period and demonstrates that aggregated operating segments exhibit similar economic characteristics (e.g., similar sales trends, similar gross margin percentages). The SEC staff may also ask a public entity to provide projected profitability for several years into the future; therefore, an entity may want to consider its forecasts and long-range plans when evaluating whether economic characteristics are similar.

3.2.3.4 Adjustments to Measures of Profitability

Adjustments that are made to the measure of profitability evaluated by the CODM in the determination of whether the operating segments have similar economic characteristics can result in questions about whether the operating segments subject to the adjustments have similar economic characteristics.

While adjustments for certain one-time, nonrecurring charges may be appropriate, an entity should be able to demonstrate that the adjustments would not obscure underlying dissimilarities in economic characteristics.

3.2.4 Similar Qualitative Characteristics (Criterion 3)

To be eligible for aggregation under ASC 280-10-50-11, operating segments must be similar with respect to the following five qualitative characteristics:

- “The nature of the products and services” (see [Section 3.2.4.1](#)).
- “The nature of the production processes” (see [Section 3.2.4.2](#)).
- “The type or class of customer for their products and services” (see [Section 3.2.4.3](#)).
- “The methods used to distribute their products or provide their services” (see [Section 3.2.4.4](#)).
- “If applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities” (see [Section 3.2.4.5](#)).

3.2.4.1 Nature of Products and Services

ASC 280 does not indicate how to determine whether products and services have a similar nature, and there are differences between the concepts of (1) similar products and services and (2) similar economic characteristics. While products and services whose nature is similar tend to have similar economic characteristics, the reverse is not necessarily true.

As described in paragraph 68 of the Background Information and Basis for Conclusions of FASB Statement 131, the assessment of whether products or services are similar may depend, in part, on the nature and breadth of a company's product lines and overall operations. Paragraph 68 states, in part:

An enterprise with a relatively narrow product line may not consider two products to be similar, while an enterprise with a broad product line may consider those same two products to be similar. For example, a highly diversified enterprise may consider all consumer products to be similar if it has other businesses such as financial services and road construction. However, an enterprise that sells only consumer products might consider razor blades to be different from toasters.

Example 3-3

Company A is a large manufacturer of cleaning solvents and solutions for use by residential homeowners and commercial business entities (e.g., restaurants and hotels). Company A's environmentally friendly cleaning solutions are geared toward residential homeowners, and its industrial-strength cleaners are geared toward commercial businesses. Company A has identified two operating segments: residential and commercial.

Because the production processes and key ingredients for each segment's products are similar, they have similar gross margins. However, A is expecting higher growth within the residential segment because customers are increasingly looking for environmentally friendly solutions.

Accordingly, A may conclude that, relative to the range of its business activities and the economic environments in which it operates, the nature of its residential operating segment's products (environmentally friendly cleaning solutions) is not sufficiently similar to that of its commercial operating segment's products (industrial-strength cleaners) and that therefore the two operating segments are not similar under ASC 280-10-50-11. However, A would need to carefully consider all relevant facts and circumstances.

Example 3-4

Assume the same facts as in Example 3-3, except that A has diversified beyond cleaning solvents to also own and operate the following:

- *Web solutions* — A Web-based application for cleaning services that matches homeowners with housecleaners. The application is free to use for the homeowner. Company A receives a listing fee from the housecleaner and sells advertising in the application to large retailers and manufacturers.
- *Recycling solutions* — Recycling services for large electronics and appliances such as vacuum cleaners, washing machines, and dishwashers. In exchange for a fee, recycling solutions will pick up the electronics or appliances and recycle the materials.

Company A has identified four operating segments: residential cleaning solvents, commercial cleaning solvents, Web solutions, and recycling solutions.

Company A may determine that the products and services for the residential and commercial operating segments have a similar nature given the range of A's products and services, which include the Web-based application and recycling services. However, as in the previous example, all facts and circumstances should be considered. Company A would need to ensure that all of the aggregation criteria in ASC 280-10-50-11 have been met, including the requirement for operating segments to have similar economic characteristics and for aggregation to be consistent with the objectives and principles of ASC 280, before it could conclude that the residential and commercial operating segments may be aggregated.

3.2.4.2 Nature of Production Processes

Indicators of similarities in the nature of production processes may include the sharing of common or interchangeable production or sales facilities, equipment, labor forces, or service groups as well as similar levels of labor or capital.

The production process for two different products may be similar even if the nature of the products themselves is not similar.

3.2.4.3 Type or Class of Customer for the Entity's Products and Services

Management should evaluate the type or class of customers on the basis of the same criteria it uses to evaluate the customer for operational purposes. This evaluation may consider marketing and promotional efforts, the existence of common or interchangeable sales forces, average spending per customer, and customer demographics, such as average age and income. Generally, retail and wholesale operations would not be considered similar and therefore would not satisfy this criterion.

An entity should also carefully consider the mix of customers in an operating segment (e.g., a combination of retail and wholesale operations or company-owned and franchised stores). Even if two or more operating segments have similar customers, if one of the segments has an incremental customer base, the two segments will most likely not have a similar class of customer.

Example 3-5

Company A is a retailer of women's fashion and has identified two operating segments: luxury handbags and budget handbags. The luxury handbag operating segment consists solely of company-owned retail locations across the United States. Company A's budget handbags are sold at its company-owned retail locations as well as wholesale to large department stores.

Since the budget handbag operating segment contains a customer base (i.e., wholesale to the department stores) that the luxury handbag operating segment does not, A would most likely conclude that the nature or class of customer for the luxury and budget segments is not similar. Company A would also need to consider other factors, such as the type or class of customer for its luxury handbags versus that for its budget handbags.

3.2.4.4 *Methods Used to Distribute the Entity's Products or to Provide Services*

An entity should evaluate the methods of distribution on the basis of the nature of the distribution channels used (e.g., retail outlets, mail order, Web site).

3.2.4.5 *Nature of Regulatory Environment*

An entity should also evaluate the nature of the regulatory environments in which it operates. For example, there may be differences between the operating segments of a diversified entity when those segments are not all subject to the same or similar regulatory environment (e.g., banking, insurance, or public utilities).

3.2.5 Consistent Description of the Entity

As stated in ASC 280-10-05-4, the management approach “facilitates consistent descriptions of a public entity in its annual report and various other published information.” The information presented in the segment footnote of the financial statements should be consistent with (1) the information presented throughout a public entity's SEC filings, including the annual report to shareholders, Form 10-K (including the description of business and MD&A), and Form 10-Q; and (2) its other external information (including company Web sites, financial analysts' reports, interviews and other public statements made by management, and other public documents). When evaluating whether two or more operating segments may be aggregated into a single operating segment, an entity should consider whether such aggregation would be consistent with the entity's presentation of its operations in other sources of public information.

Example 3-6

Company A is a large retailer that operates stores that sell two types of products: (1) clothing for men and women and (2) home products (e.g., linens, decorative items, and some clothing). In A's MD&A in Form 10-K, its discussion of changes in operations of the home product stores was different from that of the clothing stores regarding customer demographics, products offered, and sales and profit margin trends. The president's letter also stressed important distinctions between the two segments.

Company A is therefore likely to conclude that the home product segment should not be aggregated with the clothing segment because all of the aggregation criteria in ASC 280-10-50-11 are not satisfied. Specifically, on the basis of the discussion in MD&A and in the president's letter, it does not appear that the two operating segments have similar economic characteristics and similar products and types or classes of customer.

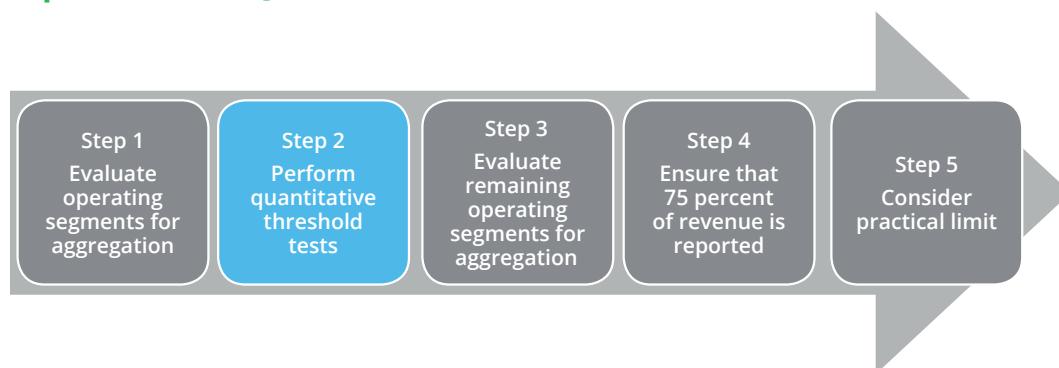
3.2.6 Reassessment of Aggregation Criteria in Interim Periods

While an entity generally will not need to reassess the aggregation criteria in each interim period, if a change in facts and circumstances suggests that aggregation of operating segments in the current or future periods is no longer appropriate, management should reassess the aggregation criteria in the period in which the change occurred. If different reportable segments are identified as a result of this reassessment, the disclosures required under ASC 280-10-50-34 and 50-35 should be provided. See further discussion in [Section 4.9](#).

3.2.7 Disclosure of Aggregated Operating Segments

ASC 280-10-50-21(a) requires disclosure if operating segments have been aggregated. When evaluating an entity's reported segments, the SEC staff has routinely requested clarification about whether operating segments have been aggregated and, if so, the analysis in which the entity concluded that aggregation was appropriate. See further discussion of ASC 280's disclosure requirements in [Chapter 4](#).

3.3 Step 2: Perform Quantitative Threshold Tests



ASC 280-10

Reportable Segments

50-10 A public entity shall report separately information about each operating segment that meets both of the following criteria:

- a. Has been identified in accordance with paragraphs 280-10-50-1 and 280-10-50-3 through 50-9 or results from aggregating two or more of those segments in accordance with [ASC 280-10-50-11]
- b. Exceeds the quantitative thresholds in paragraph 280-10-50-12.

Paragraphs 280-10-50-13 through 50-18 specify other situations in which separate information about an operating segment shall be reported. Paragraph 280-10-55-26 and Examples 1 and 2 (see paragraphs 280-10-55-27 through 55-45) illustrate how to apply the main provisions in this Subtopic for identifying reportable operating segments.

Quantitative Thresholds

50-12 A public entity shall report separately information about an operating segment that meets any of the following quantitative thresholds (see Example 2, Cases C, D, and E [paragraphs 280-10-55-39 through 55-45]):

- a. Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 percent or more of the combined revenue, internal and external, of all operating segments.
- b. The absolute amount of its reported profit or loss is 10 percent or more of the greater, in absolute amount, of either:
 1. The combined reported profit of all operating segments that did not report a loss
 2. The combined reported loss of all operating segments that did report a loss.
- c. Its assets are 10 percent or more of the combined assets of all operating segments.

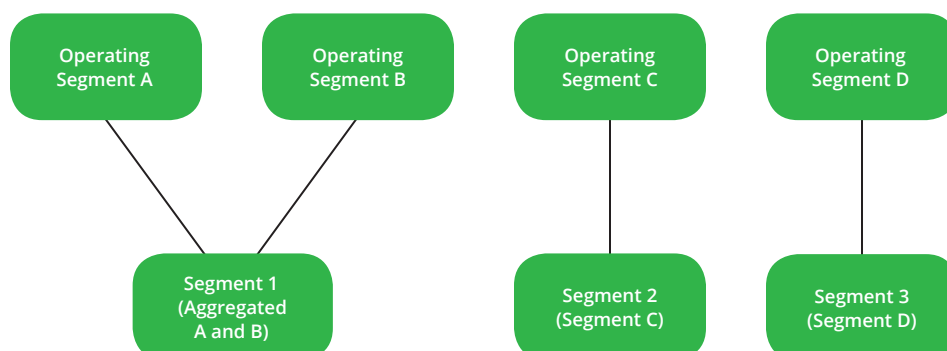
Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to readers of the financial statements.

50-18A An entity need not aggregate similar segments, and it may present segments that fall below the quantitative thresholds.

50-19 Public entities are encouraged to report information about segments that do not meet the quantitative thresholds if management believes that it is material. Those who are familiar with the particular circumstances of each public entity must decide what constitutes material.

Once an entity considers the aggregation criteria in ASC 280-10-50-11, it must apply the quantitative threshold guidance (i.e., the 10 percent tests) in ASC 280-10-50-12 to determine which segments should be reported separately. An operating segment needs to meet only one of the criteria in ASC 280-10-50-12 to be a reportable segment, although it may meet more than one.

Under the quantitative threshold guidance, an entity performs the 10 percent tests for each operating segment or aggregated segment. For example, in the structure below, Operating Segments A and B have been aggregated into a single operating segment, Segment 1, while Operating Segments C and D have not been aggregated.



Accordingly, the 10 percent tests would be performed on Segments 1, 2, and 3.

3.3.1 Combined Revenue of All Operating Segments

Under the first of the three 10 percent tests in ASC 280-10-50-12, an entity considers the reported revenue of each operating segment, including sales to external customers and intersegment sales or transfers. To calculate 10 percent of combined revenue, the entity uses as the denominator the sum of revenue reported to the CODM for each identified operating segment. While the combined revenue total represents all operating segments included in the information reviewed by the CODM, the total may be greater than or less than the consolidated amount reported in the financial statements because of eliminations and other amounts that are not included in the operating segment information.

Example 3-7

Company A manufactures basketballs, footballs, soccer balls, and volleyballs. In addition, A has a processing plant that produces the leather used in each of its products. Approximately 90 percent of the leather is used internally; the remainder is sold to third parties. Company A records intercompany sales between the leather plant and each of its divisions. The CODM receives and uses the gross revenue and profit margin of the leather plant, inclusive of intercompany sales, to allocate resources and assess performance. Company A has identified five operating segments: basketball, football, soccer, volleyball, and the leather plant. None of the operating segments have been aggregated under ASC 280-10-50-11.

In the current year, the CODM receives the following revenue information:

| | | |
|---------------------------|-----------------|------------|
| Basketball revenue | \$ 600 | 27% |
| Football revenue | 500 | 23% |
| Soccer revenue | 200 | 9% |
| Volleyball revenue | 200 | 9% |
| Leather plant revenue | <u>700</u> | <u>32%</u> |
| Combined segment revenue | 2,200 | 100% |
| Intercompany eliminations | <u>630</u> | |
| Consolidated revenue | <u>\$ 1,570</u> | |

After performing the 10 percent test on the \$2,200 of combined operating segment revenue, A would determine that the basketball, football, and leather plant segments each meet the quantitative requirements in ASC 280-10-50-12 and that therefore each would be a reportable segment. Although the soccer and volleyball segments each account for less than 10 percent of combined revenue, A would still need to consider them under the profit-or-loss and the combined-asset tests (discussed below) to determine whether they would be reportable segments.

3.3.2 Reported Profit or Loss

Under the second of the three 10 percent tests in ASC 280-10-50-12, an entity considers the profit or loss reported for each operating segment. An operating segment would be a reportable segment if:

- b. The absolute amount of its reported profit or loss is 10 percent or more of the greater, in absolute amount, of either:
 1. The combined reported profit of all operating segments that did not report a loss
 2. The combined reported loss of all operating segments that did report a loss.

See [Example 3-8](#) for an illustration of this calculation.

We believe that the measure of profit or loss to be used for this calculation would be the measure disclosed for each segment; namely, the measure used by the CODM for allocating resources and assessing performance. This is consistent with the guidance in ASC 280-10-55-39, which states:

The intent of the threshold criterion of paragraph 280-10-50-12(b) is to require an evaluation of the magnitude of each segment profit or loss compared with a combined reported profit and loss of all operating segments, assuming profit or loss is determined on a consistent basis. That combined measure of all segment profits and losses should approximate (absent any reconciling items) the consolidated amount.

In some instances, an entity may identify different measures of profit and loss for different segments (see [Section 3.3.2.1](#)).

3.3.2.1 *Different Measures of Profit or Loss*

ASC 280-10

55-40 [A]ssume that the measure of segment profit and loss used by the chief operating decision maker is a different measure for each segment (for example, if the chief operating decision maker uses net income for purposes of evaluating the performance of Segments A and F but uses operating income for purposes of evaluating the performance of Segments B, C, D and E). In this Case, the 10 percent of segment profit thresholds should be based on either operating income or net income of the segments. [However,] the amounts reported for segment profit or loss would be net income for Segments A and F and operating income for Segments B, C, D, and E[.]

The CODM may use different measures of profitability for different segments (e.g., EBITDA for some segments and operating income for others). ASC 280-10-55-40 clarifies that in such instances, the threshold in ASC 280-10-40-12(b) should be applied to a consistent measure of profitability (e.g., the entity would need to select either EBITDA or operating income for the calculation). While a consistent measure is applied for the 10 percent test, an entity would still need to disclose the actual measure of profitability used by the CODM for each segment.

3.3.3 Combined Assets of All Operating Segments

Under the third of the three 10 percent tests in ASC 280-10-50-12, an entity considers whether the assets of the operating segment are 10 percent or more of the combined assets of all operating segments. In a manner similar to its performance of the first test in ASC 280-10-50-12, the entity uses the sum of assets reported to the CODM for each identified operating segment as the denominator to calculate 10 percent of the combined assets. This total may be greater or less than the consolidated amount because of eliminations and other amounts not included in the operating segments information. In addition, if the CODM does not review asset information by segment, this test need not be performed. See [Example 3-8](#) for an illustration of this calculation.

3.3.4 Illustrative Example of Quantitative Thresholds

The chart in Example 3-8 below illustrates how an entity would apply the quantitative thresholds in ASC 280-10-50-12 to identify reportable segments.

Example 3-8

Company A has identified the following operating segments: computer hardware, computer software, and customer service. The shaded cells indicate a segment that meets the specific threshold requirements in ASC 280-10-50-12.

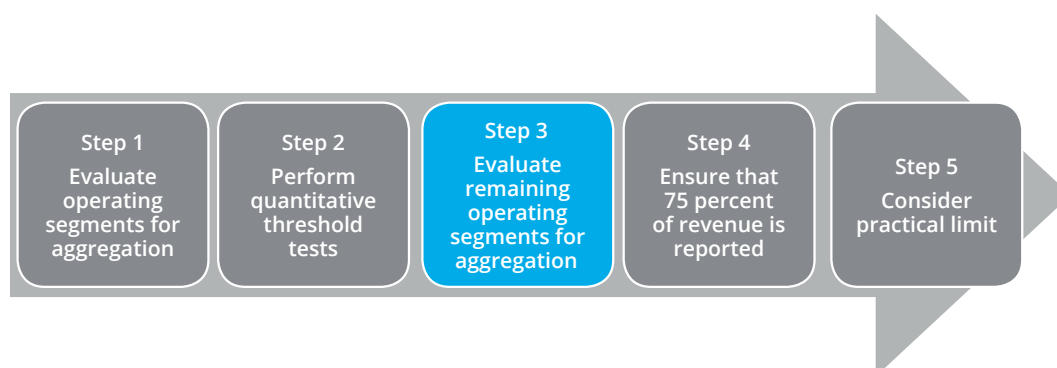
| Threshold Number: | 1 | | 2 | | 3 |
|----------------------|-----------------|--------------------------|-----------------------|-------------------|----------------|
| Segment | Segment Revenue | Segment Profit or (Loss) | Segments With Profits | Segment With Loss | Segment Assets |
| Computer hardware | \$ 500 | \$ (50) | \$ — | \$ 50 | \$ 400 |
| Computer software | 2,500 | 200 | 200 | — | 300 |
| Customer service | <u>2,500</u> | <u>150</u> | <u>150</u> | <u>—</u> | <u>100</u> |
| Segment total | 5,500 | 300 | 350 | 50 | 800 |
| Eliminations | <u>(500)</u> | <u>(10)</u> | <u>—</u> | <u>—</u> | <u>(10)</u> |
| Consolidated total | <u>\$ 5,000</u> | <u>\$ 290</u> | <u>\$ 350</u> | <u>\$ 50</u> | <u>\$ 790</u> |
| Calculated threshold | \$ 550 | | \$ 35 | | \$ 80 |

Company A performs calculations as follows to determine which segments exceed the 10 percent threshold requirement:

- *Revenue* — Company A combines the revenue for all operating segments, \$5,500, and excludes the \$500 intersegment revenue elimination. Ten percent of total segment sales of \$5,500, or \$550, represents the threshold amount.
- *Profit or loss* — Company A uses the greater, in absolute value, of the total of all segments that reported a profit and the total of all segments that reported a loss. Since the absolute value of the total of all segments with profits, \$350, is greater than the absolute value of the segment with a loss, \$50, 10 percent of the \$350, or \$35, is the profit or loss threshold amount.
- *Assets* — Company A multiplies \$800, which is the total of segment assets identified excluding intersegment amounts, by 10 percent to arrive at the \$80 asset threshold amount.

Accordingly, the computer hardware, computer software, and customer service segments would each be presented as a reportable segment because each meets one (or more) of the 10 percent threshold requirements.

3.4 Step 3: Evaluate Remaining Operating Segments for Aggregation



ASC 280-10

50-13 An entity may combine information about operating segments that do not meet the quantitative thresholds with information about other operating segments that do not meet the quantitative thresholds to produce a reportable segment only if aggregation is consistent with the objective and basic principles of this Topic, the segments have similar economic characteristics, and the operating segments share a majority of the aggregation criteria listed in paragraph 280-10-50-11.

Once an entity has identified those operating segments that meet the 10 percent 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 if all of the following criteria are met:

- Aggregation is consistent with the objectives and principles of ASC 280 (see [Section 3.2.2](#)).
- The segments have similar economic characteristics (see [Section 3.2.3](#)).
- The segments share a majority of qualitative aggregation criteria outlined in ASC 280-10-50-11 (see [Section 3.2.4](#)).

Aggregation of any remaining operating segments must be consistent with the objectives and principles of ASC 280. This requirement was [discussed](#) by staff of the SEC's OCA at the 2015 AICPA Conference on Current SEC and PCAOB Developments:

In performing [the analysis in ASC 280-10-50-13], registrants should consider what additional level of detail would be useful to users of the financial statements for purposes of understanding the entity's performance, assessing its prospects for future cash flows, and making more informed judgments about the entity as a whole.

ASC 280-10**Example 2: Identifying Reportable Segments**

55-31 Assume that an entity has identified six operating segments prior to applying the aggregation criteria. Segments B and D have been identified as reportable segments based on the 10 percent threshold criteria in paragraph 280-10-50-12. The revenue from external customers (there are no intersegment transactions) for each of the six segments is as follows.

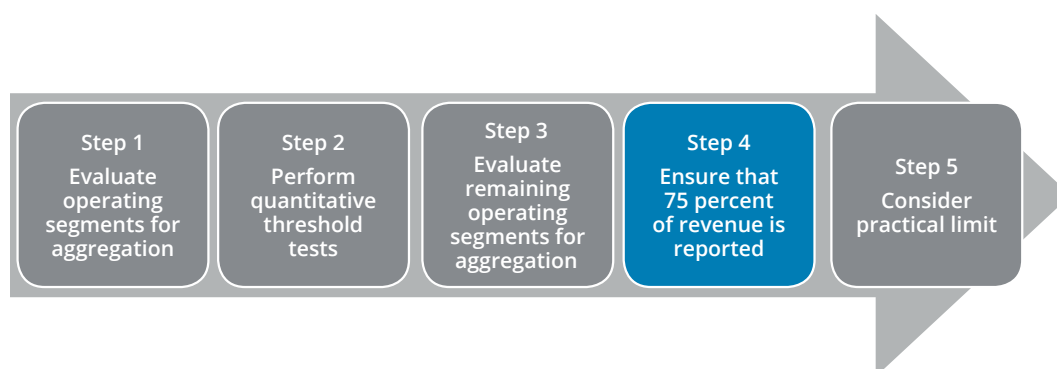
| | Revenue |
|--------------------------------|----------------|
| Segment A | \$ 6 |
| Segment B | 38 |
| Segment C | 4 |
| Segment D | 35 |
| Segment E | 9 |
| Segment F | <u>8</u> |
| Consolidated external revenues | <u>\$ 100</u> |

Case A: Aggregation if Only a Majority of the Aggregation Criteria Is Met

55-33 Segment E is below the 10 percent threshold while Segment D is above the 10 percent threshold. Assume that only a majority of the aggregation criteria is met.

55-34 The aggregation criteria in paragraph 280-10-50-11 (which requires all of the specified criteria to be met) permit aggregation of identified operating segments prior to an evaluation of the significance of the identified operating segments to determine which are reportable. In other words, segments are first identified, then identified segments may be aggregated, if management so chooses, and if the aggregation criteria in that paragraph are met (at this stage all of the specified criteria must be met to be able to aggregate the identified operating segments). Next, an evaluation of the significance of the identified operating segments is performed to determine which are reportable. An operating segment is considered reportable if it meets any one of the threshold criteria. After reportable segments are identified based on the threshold criteria, paragraph 280-10-50-13 permits a public entity to aggregate segments that do not meet the quantitative thresholds (at this stage only a majority of the specified criteria must be met). Therefore, if an operating segment is not a reportable segment because it does not meet any of the 10 percent threshold criteria in paragraph 280-10-50-12 and does not meet all of the aggregation criteria in paragraph 280-10-50-11 with another segment that does meet at least one of the 10 percent threshold criteria, it can only be aggregated with segments that do not meet the 10 percent threshold criteria if a majority of the aggregation criteria are met. In this Case, when only a majority of the criteria is met, Segment E could be aggregated with one or more of Segments A, C, or F but could not be aggregated with Segments B or D. When all of the criteria are met, any segments may be aggregated.

3.5 Step 4: Ensure That 75 Percent of Revenue Is Reported



ASC 280-10

50-14 If total of external revenue reported by operating segments constitutes less than 75 percent of total consolidated revenue, additional operating segments shall be identified as reportable segments (even if they do not meet the criteria in paragraph 280-10-50-12) until at least 75 percent of total consolidated revenue is included in reportable segments.

In step 4, an entity evaluates whether its reportable segments constitute at least 75 percent of total consolidated revenue. Unlike the 10 percent revenue test in step 2, this test takes into account external revenue reported by operating segments and total consolidated revenue.

ASC 280 does not specify which of the remaining segments an entity must identify as reportable to meet the 75 percent requirement or that the additional segments need to be the next largest (relative to those already identified) by any of the measures. The entity should therefore use judgment and evaluate each situation on the basis of the individual facts and circumstances. Additional operating segments would be treated no differently from other reportable operating segments (i.e., required disclosures would be the same). Even if a segment does not meet the quantitative requirements, management may elect to separately report the segment if disclosure would be material to financial statement users.

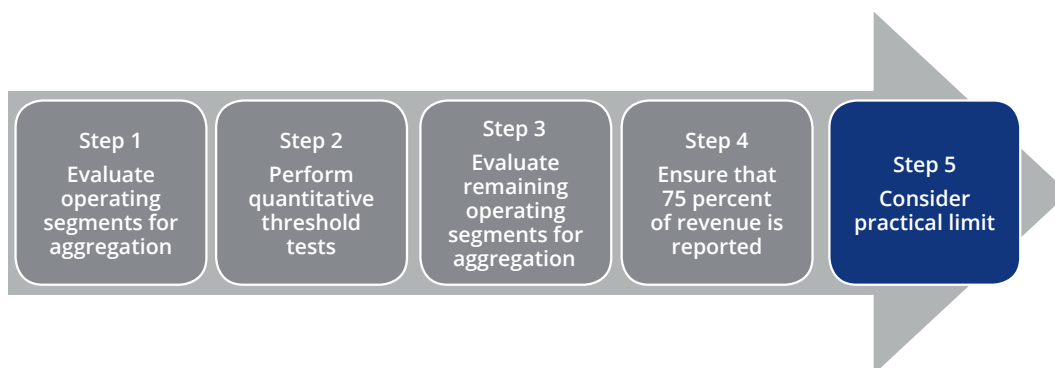
Example 3-9

Assume the same facts as in [Example 3-7](#), in which the basketball, football, and leather plant segments each meet the 10 percent revenue test and are reportable segments. Also assume that soccer and volleyball did not meet any of the quantitative thresholds in ASC 280-10-50-12.

| | Segment | Revenue | External | Revenue |
|------------------------------|------------------------|-------------------|------------------|------------------|
| Basketball revenue | \$ 600 | 27% | \$ 600 | 38% |
| Football revenue | 500 | 23% | 500 | 32% |
| Soccer revenue | 200 | 9% | 200 | 13% |
| Volleyball revenue | 200 | 9% | 200 | 13% |
| Leather plant revenue | <u>700</u> | <u>32%</u> | <u>70</u> | <u>4%</u> |
| Combined segment revenue | 2,200 | 100% | 1,570 | 100% |
| Intercompany eliminations | <u>630</u> | | | |
| Consolidated revenue | <u><u>\$ 1,570</u></u> | | | |

The calculation of whether these three reportable segments constitute 75 percent of total consolidated revenue would be performed on the \$1,570 of external revenue. The basketball, football, and leather plant revenue segments account for 74 percent of total external revenue. Therefore, either the soccer or the volleyball operating segment would need to be shown as a reportable segment to meet the 75 percent requirement.

3.6 Step 5: Consider Practical Limit of 10 Reportable Segments

**ASC 280-10**

50-18 There may be a practical limit to the number of reportable segments that a public entity separately discloses beyond which segment information may become overly detailed. Although no precise limit has been determined, as the number of segments that are reportable in accordance with paragraphs 280-10-50-12 through 50-17 increases above 10, the public entity should consider whether a practical limit has been reached.

The guidance acknowledges that there may be a practical limit on the number of reportable segments. For example, an entity might have identified a large number of operating segments that it has elected not to aggregate. Once the number of reportable operating segments exceeds a reasonable amount (e.g., 10), the entity should evaluate the criteria used by management to determine whether aggregation is appropriate. The fact that the number of operating segments exceeds a practical limit may be an

indication that either the CODM or the operating segments have not been properly identified. See [Chapter 2](#) for a discussion of the identification of the CODM and operating segments.

3.7 Presentation of Nonreportable Operating Segments

ASC 280-10

50-15 Information about other business activities and operating segments that are not reportable shall be combined and disclosed in an all other category separate from other reconciling items in the reconciliations required by paragraphs 280-10-50-30 through 50-31. The sources of the revenue included in the all other category shall be described.

3.8 Reconsideration of Quantitative Thresholds

ASC 280-10

50-16 If management judges an operating segment identified as a reportable segment in the immediately preceding period to be of continuing significance, information about that segment shall continue to be reported separately in the current period even if it no longer meets the criteria for reportability in paragraph 280-10-50-12.

50-17 If an operating segment is identified as a reportable segment in the current period due to the quantitative thresholds, prior-period segment data presented for comparative purposes shall be restated to reflect the newly reportable segment as a separate segment even if that segment did not satisfy the criteria for reportability in paragraph 280-10-50-12 in the prior period unless it is impracticable to do so. For purposes of this Subtopic, information is impracticable to present if the necessary information is not available and the cost to develop it would be excessive.

An entity should generally consider the 10 percent tests in ASC 280-10-50-12 annually (see Section 3.8.1 below for interim reassessment considerations). An operating segment that meets one of the 10 percent tests in the current year should be presented as a reportable segment, and prior periods should be restated unless doing so is impracticable. When there has been a change in reportable segments under the 10 percent tests, an entity will most likely need to reperform the remaining steps to identify its reportable segments as well as determine whether 75 percent of revenue has been reported (see [Section 3.5](#)).

3.8.1 Interim Reassessment

The identification of reportable segments under ASC 280-10-50-12 is usually required only for annual reporting periods if an entity's organizational structure does not change during the interim period. ASC 280-10-55-16 states, in part:

[G]enerally, a public entity need not apply the quantitative tests in each interim period. However, if facts and circumstances change that would suggest that application of the quantitative tests in an interim period would reveal a reportable segment that was previously not reportable, and management expects that the segment will continue to be of significance, the segment should be disclosed as a new, separate reportable segment.

See [Section 2.10](#) for guidance that applies when there has been a change in the structure of an entity's internal organization during an interim period.

3.8.2 Operating Segment No Longer Meets Quantitative Threshold

An entity is not required to continue to separately disclose an operating segment that no longer meets the quantitative requirements in the current period but qualified as a reportable segment in the prior period if the segment is not considered to be of continuing significance. Prior years' information should be restated to conform to the current year's presentation, with appropriate disclosure describing the restatement. An operating segment that no longer meets the quantitative requirements in ASC 280-10-50-12 through 50-14 should continue to be separately reported if management deems the operating segment to be of continuing significance to financial statement users. An entity may also want to continue reporting an operating segment if management expects (e.g., on the basis of budgets for the coming year) that the operating segment will again meet the quantitative requirements in the subsequent year. Doing so would provide comparability and would inform users that the segment is expected to be significant in the future.

An operating segment that has never met the quantitative requirements may also be disclosed if management deems that its disclosure would be material to financial statement users.

Chapter 4 — Disclosure Requirements

4.1 Overview

ASC 280 requires both quantitative and qualitative disclosures for each reportable segment. Generally, these disclosures are provided for each period presented. The disclosure requirements in ASC 280 for each reportable segment can be categorized as follows:

- General information (see [Section 4.2](#)).
- Information about profit or loss and assets (see [Section 4.3](#)).
- Reconciliations (see [Section 4.5](#)).

In accordance with the management approach, the disclosures for each reportable segment should be consistent with the information provided to the CODM (see further discussion in [Section 4.4](#)).

In addition to disclosures for each reportable segment, an entity must provide certain entity-wide information (see further discussion in [Chapter 5](#)).



Key Takeaways

- Disclosure of the factors used to identify reportable segments and the basis of organization of the entity give financial statement users important context regarding the management approach to segment disclosures. Such disclosures are particularly important when an entity is organized as a single operating segment.
- The measure of profit or loss disclosed for each reportable segment should be the measure used by the CODM to assess performance and allocate resources. This measure may vary by reportable segment.
- When there has been a change in reportable segments, corresponding information for earlier periods, including interim periods, must be restated unless restatement is impracticable.
- Although an entity is not required to restate its financial information to reflect a change in measurement of segment profit and loss, presentation of all segment information on a comparable basis is preferable if it is practicable.

4.2 General Information

ASC 280-10

50-21 A public entity shall disclose the following general information (see Example 3, Case A [paragraph 280-10-55-47]):

- a. Factors used to identify the public entity's reportable segments, including the basis of organization (for example, whether management has chosen to organize the public entity around differences in products and services, geographic areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated)
- b. Types of products and services from which each reportable segment derives its revenues.

An entity must disclose the factors used in the identification of reportable segments as well as the types of products and services from which each reportable segment derives its revenue. Its disclosures should include how management has chosen to organize its business (i.e., by product or service or geography) and whether operating segments have been aggregated. Disclosure about the basis of organization is an important aspect of the management approach to segment reporting because it provides insights into how management has organized the business.

4.2.1 Reporting Considerations for Entities With a Single Reportable Segment

An entity should disclose a single reportable segment if it is (1) organized as a single operating segment or (2) organized as more than one operating segment and (a) elects to aggregate into a single operating segment and (b) meets the criteria for such aggregation (see [Section 3.2](#) for a discussion of aggregation).

The SEC staff continues to stress the importance of the disclosure requirement related to the entity's basis of organization, particularly when an entity is organized as a single operating segment. At the 2015 AICPA Conference on Current SEC and PCAOB Developments, staff from the SEC's OCA [observed](#) the following:

At times, application of the guidance will result in identification of a single operating segment. When such identification is consistent with the guidance, it can be a significant signal to investors about how management has allocated resources. Upon arriving at this conclusion, registrants should disclose that they allocate resources and assess financial performance on a consolidated basis and should explain the basis for that management approach. It would seem counter to the objectives of segment reporting if the business description indicates the entity is diversified across businesses or products, yet is not managed in a disaggregated way. [Footnote omitted]

An entity with more than one reportable segment is required to disclose, for each reportable segment, the measure of profit or loss used by the CODM to assess performance and allocate resources. See [Section 4.3](#) for additional discussion of segment disclosures.

An entity with one reportable segment should not disclose in the notes to its financial statements financial information whose measurement basis differs from the one used in its consolidated financial statements, even if the measures are reviewed by the CODM or their disclosure is argued to be beneficial to readers (e.g., EBITDA for the entity as a whole or for portions of the entity). Specifically, the SEC staff has challenged single segment entities on their inclusion in the notes to their financial statements of measures whose measurement basis differs from the one used in their consolidated financial statements as being inconsistent with the objective of ASC 280. Further, as noted by the staff at the 2016 AICPA Conference on Current SEC and PCAOB Developments, the presentation of such measures outside of the financial statements (e.g., in MD&A) would be within the scope of the SEC's guidance on non-GAAP measures since the disclosure is not required by U.S. GAAP. See [Section 6.4](#) for additional discussion of non-GAAP measures.

4.3 Information About Profit or Loss and Assets for Each Reportable Segment

ASC 280-10

50-22 A public entity shall report a measure of profit or loss and total assets for each reportable segment. A public entity also shall disclose all of the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss (see Example 3, Case B [paragraph 280-10-55-48]):

- a. Revenues from external customers
- b. Revenues from transactions with other operating segments of the same public entity
- c. Interest revenue
- d. Interest expense
- e. Depreciation, depletion, and amortization expense
- f. Unusual items as described in paragraph 220-20-45-1
- g. Equity in the net income of investees accounted for by the equity method
- h. Income tax expense or benefit
- i. Subparagraph superseded by Accounting Standards Update No. 2015-01
- j. Significant noncash items other than depreciation, depletion, and amortization expense.

A public entity shall report interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest and the chief operating decision maker relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources to be allocated to the segment. In that situation, a public entity may report that segment's interest revenue net of its interest expense and disclose that it has done so.

50-23 Disclosure of interest revenue and interest expense included in reported segment profit or loss is intended to provide information about the financing activities of a segment.

50-24 If a segment is primarily a financial operation, interest revenue probably constitutes most of segment revenues and interest expense will constitute most of the difference between reported segment revenues and reported segment profit or loss. If the segment has no financial operations or only immaterial financial operations, no information about interest is required.

An entity must present a measure of profit or loss for each reportable segment. See [Section 4.4](#) for further discussion of how to measure the amount of profit or loss to be reported for each reportable segment.

Further, ASC 280-10-50-22 outlines additional amounts that should be disclosed if they are included in the segment measure of profitability reviewed by the CODM or are otherwise provided to the CODM. An entity should therefore carefully consider what kind of information is regularly provided to the CODM. ASC 280-10-55-15 states, in part:

[T]he segment profit or loss amounts listed in paragraph 280-10-50-22 are required if they are included in the measure of segment profit or loss that is used by the chief operating decision maker or if they are otherwise regularly provided to the chief operating decision maker, even if not included in that measure. Disclosure of those amounts is required even though they may not be included in the measure of segment profit or loss or in the determination of segment assets, as applicable, that is reviewed by the chief operating decision maker.

Example 4-1

Company A has identified two reportable segments: retail operations and wholesale operations. The measure of profitability used by the CODM is EBITDA. In reviewing the monthly reporting package, the CODM receives information about revenue from external customers and EBITDA by reportable segment. The CODM also receives a schedule of intersegment revenue by reportable segment as well as summaries of depreciation and amortization expense related to each segment. As a result, A would disclose revenue from external customers, intersegment revenue, depreciation and amortization, and EBITDA by reportable segment. Since the other items listed in ASC 280-10-50-22 are not included in the EBITDA profitability measure or otherwise regularly provided to the CODM, A would not be required to disclose them for each reportable segment.

4.3.1 Interest Revenue and Interest Expense

Generally, interest revenue should be reported separately from interest expense. The disclosure requirements are intended to elicit some information about the reportable segment's financing activities. However, under an exception in ASC 280-10-50-22, net interest revenue may be disclosed when "a majority of the segment's revenues are from interest and the chief operating decision maker relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources to be allocated to the segment." In such instances, the entity should also disclose that interest revenue is presented net of interest expense. Paragraph 95 of the Background Information and Basis for Conclusions of FASB Statement 131 further clarifies, stating, in part:

The Board decided that segments that derive a majority of revenue from interest should be permitted to disclose net interest revenue instead of gross interest revenue and gross interest expense if management finds that amount to be more relevant in managing the segment. Information about interest is most important if a single segment comprises a mix of financial and nonfinancial operations. If a segment is primarily a financial operation, interest revenue probably constitutes most of segment revenues and interest expense will constitute most of the difference between reported segment revenues and reported segment profit or loss. If the segment has no financial operations or only immaterial financial operations, no information about interest is required.

In addition, an entity should consider interest expense and interest income on intersegment transactions. ASC 280-10-55-11 states, in part:

For internal reporting purposes, if interest expense is charged to a segment on advances from another segment and the interest is included in the measure of performance, the amounts of interest expense and interest income shall include the amounts charged internally between the segments.

4.3.2 Specific Asset Information for Each Reportable Segment

ASC 280-10

50-25 A public entity shall disclose both of the following about each reportable segment if the specified amounts are included in the determination of segment assets reviewed by the chief operating decision maker or are otherwise regularly provided to the chief operating decision maker, even if not included in the determination of segment assets:

- a. The amount of investment in equity method investees
- b. Total expenditures for additions to long-lived assets other than any of the following (see Example 3, Case B [paragraph 280-10-55-48]):
 1. Financial instruments
 2. Long-term customer relationships of a financial institution
 3. Mortgage and other servicing rights
 4. Deferred policy acquisition costs
 5. Deferred tax assets.

50-26 If no asset information is provided for a reportable segment, that fact and the reason therefore shall be disclosed.

In some situations, the CODM receives no asset information by reportable segment or receives asset information unrelated to the items listed in ASC 280-10-50-25. The disclosure requirements for the specific asset information listed in ASC 280-10-50-25 are applicable only when the specified amounts are included in the segment assets reviewed by the CODM or the CODM receives such information.

4.4 Measurement of Segment Disclosures

ASC 280-10

50-27 The amount of each segment item reported shall be the measure reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing a public entity's general-purpose financial statements and allocations of revenues, expenses, and gains or losses shall be included in determining reported segment profit or loss only if they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker. Similarly, only those assets that are included in the measure of the segment's assets that is used by the chief operating decision maker shall be reported for that segment. If amounts are allocated to reported segment profit or loss or assets, those amounts shall be allocated on a reasonable basis.

Under the management approach to segment reporting, disclosures for each reportable segment when an entity reports more than one segment should be consistent with the measure reported to the CODM. ASC 280 does not require segment information to be presented in accordance with U.S. GAAP. An entity determines which measure it uses for the segment disclosures on the basis of the method it uses to prepare financial information reviewed by the CODM. See [Section 4.2.1](#) for a discussion of reporting considerations for entities with a single reportable segment.

This notion is further articulated in paragraph 81 of the Background Information and Basis for Conclusions of FASB Statement 131, which states:

The Board decided that the information to be reported about each segment should be measured on the same basis as the information used by the chief operating decision maker for purposes of allocating resources to segments and assessing segments' performance. . . . The Board does not think that a separate measure of segment profit or loss or assets should have to be developed solely for the purpose of disclosing segment

information. For example, an enterprise that accounts for inventory using a specialized valuation method for internal purposes should not be required to restate inventory amounts for each segment, and an enterprise that accounts for pension expense only on a consolidated basis should not be required to allocate pension expense to each operating segment.

4.4.1 Allocation of Items to Reportable Segments

ASC 280 does not require an entity to allocate to a reportable segment items that are not directly linked to that segment unless the entity allocates them as part of preparing the reports used by the CODM. Examples of such items include costs associated with (1) entity-wide employee benefit plans or (2) income taxes when the entity files a consolidated income tax return. If items are allocated for use by the CODM, the amounts included in the segment disclosures should reflect these allocations.

For example, an entity that reports interest expense only on a consolidated basis would not include an interest expense amount in the segment footnote. Conversely, if interest expense were allocated to the various segments in the reports used by the CODM, such amounts should be included in the segment footnote. Any unallocated amounts, if material, should be reported in the required reconciliation to the consolidated amounts.

Although U.S. GAAP does not provide guidance on allocation methods, any allocation made for segment reporting purposes must be reasonable. For example, allocating computer department costs to a department that does not use computers, or allocating excessive costs to a particular segment, would not appear to be reasonable. In addition, the nature of any allocations to an operating segment should be disclosed.

4.4.2 Multiple Measures Used by the CODM

ASC 280-10

50-28 If the chief operating decision maker uses only one measure of a segment's profit or loss and only one measure of a segment's assets in assessing segment performance and deciding how to allocate resources, segment profit or loss and assets shall be reported at those measures. If the chief operating decision maker uses more than one measure of a segment's profit or loss and more than one measure of a segment's assets, the reported measures shall be those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the public entity's consolidated financial statements.

55-9 If a public entity uses multiple performance measures in evaluating segment performance and allocating assets, the reported measures shall be those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the public entity's consolidated financial statements (see paragraphs 280-10-50-27 through 50-29). Preparing segment information in accordance with the GAAP used at the consolidated level would be difficult because some GAAP are not intended to apply at a segment level. Examples include accounting for income taxes in a public entity that files a consolidated income tax return.

55-10 Entities may use multiple performance measures in evaluating segment performance and allocating resources including both pretax and after-tax measures. Because it may not always be practicable to apply GAAP relating to income taxes to the segment level, after-tax segment measures are not typically in accordance with GAAP. Therefore, either a pretax or after-tax measure could be used for reporting segment information, with disclosure of the difference in measurement principles for determining taxes, if an after-tax measure is used. However, if the after-tax measures are determined on the same basis as the consolidated financial statements, the after-tax measure would be the preferable measure of segment profit or loss to report.

Sometimes the CODM may receive a profit or loss metric for internal reporting purposes whose measurement basis is different from the one used in the consolidated financial statements. For example, an entity may “add back” deferred revenue in reporting revenue and gross margin to the CODM for internal reporting purposes. If the measure of profit or loss is the only one reported to the CODM, that amount would be disclosed for each reportable segment.

In other instances, multiple measures of profit or loss or assets may be used by the CODM. In such cases, the measures presented should be those that most closely reflect the measurement principle applied to the consolidated financial statements. For example, if the CODM receives revenue and gross margin with and without the deferred revenue adjustment, ASC 280-10-50-28 requires that the disclosed measure be the one without the deferred revenue adjustment since it would be the measure closest to the measures used in the U.S. GAAP-based consolidated financial statements.

Example 4-2

Company A operates a chain of grocery stores and uses the LIFO method to calculate inventory and cost of goods sold for financial reporting purposes. However, since the reports provided to the CODM use the FIFO method to evaluate performance of segment operations, A may use LIFO for U.S. GAAP financial reporting and FIFO for operating segment reporting.

Example 4-3

EBITDA is the measure of segment profit or loss that Company A uses to evaluate performance and make decisions about the allocation of resources. Company A also provides the CODM with a full reconciliation of EBITDA to net income by segment.

Accordingly, A would not be permitted to use EBITDA as its sole measure of profit or loss in its segment disclosures. When the CODM receives all the reconciling items that separate, by segment, EBITDA from net income and a total for net income (i.e., a full reconciliation to net income), it is assumed that the CODM uses that information to assess performance and allocate resources. As stated in ASC 280-10-50-28, if more than one measure of a segment's profit or loss is reported, the measure that should be reported in the segment disclosure is the one that is most consistent with U.S. GAAP. In A's case, net income would appear to be that measure.

However, use of EBITDA as the sole measure of segment profit or loss may be appropriate if a full reconciliation of EBITDA to net income by segment is not provided to the CODM. For example, if the CODM receives a partial reconciliation that includes only depreciation, amortization, and interest expense, the use of EBITDA for segment reporting purposes would appear to be appropriate.

4.4.3 Explanation of Segment Profit or Loss and Segment Assets

ASC 280-10

50-29 A public entity shall provide an explanation of the measurements of segment profit or loss and segment assets for each reportable segment. At a minimum, a public entity shall disclose all of the following (see Example 3, Cases A through C [paragraphs 280-10-55-47 through 55-49]):

- a. The basis of accounting for any transactions between reportable segments.
- b. The nature of any differences between the measurements of the reportable segments' profits or losses and the public entity's consolidated income before income taxes and discontinued operations (if not apparent from the reconciliations described in paragraphs 280-10-50-30 through 50-31). Those differences could include accounting policies and policies for allocation of centrally incurred costs that are necessary for an understanding of the reported segment information.
- c. The nature of any differences between the measurements of the reportable segments' assets and the public entity's consolidated assets (if not apparent from the reconciliations described in paragraphs 280-10-50-30 through 50-31). Those differences could include accounting policies and policies for allocation of jointly used assets that are necessary for an understanding of the reported segment information.
- d. The nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss and the effect, if any, of those changes on the measure of segment profit or loss.
- e. The nature and effect of any asymmetrical allocations to segments. For example, a public entity might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.

4.4.4 Proportionate Consolidation Used to Measure Performance of an Equity Investee

ASC 280-10

55-8 In measuring the performance of its equity investees, proportionate consolidation shall be used for reporting segment information if that is the way in which such information is reviewed by the chief operating decision maker. . . . If proportionate consolidation is used for segment reporting, this Subtopic also requires disclosure of the accounting policy followed for segment reporting (see paragraph 280-10-50-29(b)), the elimination of the investee's revenues and assets in reconciling to consolidated results (see paragraphs 280-10-50-30 through 50-31), and the investment in and equity income from the investee (see paragraphs 280-10-50-22(g) and 280-10-50-25(a)). Even though the proportionate consolidation method may be used for internal reporting purposes (and thus for external reporting of segment information), that method is not permitted for purposes of preparing general-purpose financial statements in accordance with generally accepted accounting principles (GAAP) except where it is established industry practice (for example, in some oil and gas venture accounting).

4.5 Reconciliations

ASC 280-10

50-30 A public entity shall provide reconciliations of all of the following (see Example 3, Case C [paragraphs 280-10-55-49 through 55-50]):

- a. The total of the reportable segments' revenues to the public entity's consolidated revenues.
- b. The total of the reportable segments' measures of profit or loss to the public entity's consolidated income before income taxes and discontinued operations. However, if a public entity allocates items such as income taxes to segments, the public entity may choose to reconcile the total of the segments' measures of profit or loss to consolidated income after those items.
- c. The total of the reportable segments' assets to the public entity's consolidated assets.
- d. The total of the reportable segments' amounts for every other significant item of information disclosed to the corresponding consolidated amount. For example, a public entity may choose to disclose liabilities for its reportable segments, in which case the public entity would reconcile the total of reportable segments' liabilities for each segment to the public entity's consolidated liabilities if the segment liabilities are significant.

50-31 All significant reconciling items shall be separately identified and described. For example, the amount of each significant adjustment to reconcile accounting methods used in determining segment profit or loss to the public entity's consolidated amounts shall be separately identified and described.

Reconciliations for income statement amounts should be performed for each period presented. However, as noted in ASC 280-10-50-20, "reconciliations of balance sheet amounts for reportable segments to consolidated balance sheet amounts are required only for each year for which a balance sheet is presented."

4.6 Cash Flow Information

ASC 280-10

45-1 This Subtopic does not require that a public entity report segment cash flow. However, paragraphs 280-10-50-22 and 280-10-50-25 require that a public entity report certain items that may provide an indication of the cash-generating ability or cash requirements of an entity's operating segments.

As noted in paragraph 94 of the Background Information and Basis for Conclusions of FASB Statement 131:

The Board decided to require disclosure of significant noncash items included in the measure of segment profit or loss and information about total expenditures for additions to long-lived segment assets (other than financial instruments, long-term customer relationships of a financial institution, mortgage and other servicing rights, deferred policy acquisition costs, and deferred tax assets) if that information is reported internally because it improves financial statement users' abilities to estimate cash-generating potential and cash requirements of operating segments.

4.7 Comprehensive Example

ASC 280-10-55-46 through 55-50 illustrate the disclosures outlined in ASC 280.

ASC 280-10

Example 3: Illustrative Disclosures

55-46 . . . The following Cases are for a single hypothetical public entity referred to as Diversified Company.

Case A: Disclosure of Descriptive Information About Reportable Segments

55-47 The following is an example of the disclosure of descriptive information about a public entity's reportable segments. (References to paragraphs in which the relevant requirements appear are given in parentheses.)

- a. Description of the types of products and services from which each reportable segment derives its revenues (see paragraph 280-10-50-21(b)).

Diversified Company has five reportable segments: auto parts, motor vessels, software, electronics, and finance. The auto parts segment produces replacement parts for sale to auto parts retailers. The motor vessels segment produces small motor vessels to serve the offshore oil industry and similar businesses. The software segment produces application software for sale to computer manufacturers and retailers. The electronics segment produces integrated circuits and related products for sale to computer manufacturers. The finance segment is responsible for portions of the company's financial operations including financing customer purchases of products from other segments and real estate lending operations in several states.

- b. Measurement of segment profit or loss and segment assets (see paragraph 280-10-50-29).

The accounting policies of the segments are the same as those described in the summary of significant accounting policies except that pension expense for each segment is recognized and measured on the basis of cash payments to the pension plan. Diversified Company evaluates performance based on profit or loss from operations before income taxes not including nonrecurring gains and losses and foreign exchange gains and losses.

- c. Diversified Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.
- d. Factors management used to identify the public entity's reportable segments (see paragraph 280-10-50-21(a)).

Diversified Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Most of the businesses were acquired as a unit, and the management at the time of the acquisition was retained.

Case B: Information About Reported Segment Profit or Loss and Segment Assets

55-48 The following table illustrates a suggested format for presenting information about reported segment profit or loss and segment assets (see paragraphs 280-10-50-22 and 280-10-50-25). The same type of information is required for each year for which an income statement is presented. Diversified Company does not allocate income taxes or unusual items to segments. In addition, not all segments have significant noncash items other than depreciation and amortization in reported profit or loss. The amounts in this Example are assumed to be the amounts in reports used by the chief operating decision maker.

ASC 280-10 (continued)

| | Auto Parts | Motor Vessels | Software | Electronics | Finance | All Other | Totals |
|--|-----------------------|--------------------------|-----------------|--------------------|----------------|-------------------------|---------------|
| Revenues from external customers | \$ 3,000 | \$ 5,000 | \$ 9,500 | \$ 12,000 | \$ 5,000 | \$ 1,000 ^(a) | \$35,500 |
| Intersegment revenues | — | — | 3,000 | 1,500 | — | — | 4,500 |
| Interest revenue | 450 | 800 | 1,000 | 1,500 | — | — | 3,750 |
| Interest expense | 350 | 600 | 700 | 1,100 | — | — | 2,750 |
| Net interest revenue ^(b) | — | — | — | — | 1,000 | — | 1,000 |
| Depreciation and amortization | 200 | 100 | 50 | 1,500 | 1,100 | — | 2,950 |
| Segment profit | 200 | 70 | 900 | 2,300 | 500 | 100 | 4,070 |
| Other significant noncash items: | | | | | | | |
| Cost in excess of billings on long-term contracts | — | 200 | — | — | — | — | 200 |
| Segment assets | 2,000 | 5,000 | 3,000 | 12,000 | 57,000 | 2,000 | 81,000 |
| Expenditures for segment assets | 300 | 700 | 500 | 800 | 600 | — | 2,900 |
| <p>^(a) Revenue from segments below the quantitative thresholds are attributable to four operating segments of Diversified Company. Those segments include a small real estate business, an electronics equipment rental business, a software consulting practice, and a warehouse leasing operation. None of those segments has ever met any of the quantitative thresholds for determining reportable segments.</p> <p>^(b) The finance segment derives a majority of its revenue from interest. In addition, management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that segment. Therefore, as permitted by paragraph 280-10-50-22, only the net amount is disclosed.</p> | | | | | | | |

Case C: Reconciliations of Reportable Segment Revenues, Profit or Loss, and Assets, to the Consolidated Totals

55-49 The following are examples of reconciliations of reportable segment revenues, profit or loss, and assets, to the public entity's consolidated totals (see paragraph 280-10-50-30(a) through (c)). Reconciliations also are required to be shown for every other significant item of information disclosed (see paragraph 280-10-50-30(d)). For example, if Diversified Company disclosed segment liabilities, they are required to be reconciled to total consolidated liabilities. The public entity's financial statements are assumed not to include discontinued operations. As discussed in the illustration in paragraph 280-10-55-47, the public entity recognizes and measures pension expense of its segments based on cash payments to the pension plan, and it does not allocate certain items to its segments.

ASC 280-10 (continued)**Revenues**

| | |
|--|------------------|
| Total revenues for reportable segments | \$ 39,000 |
| Other revenues | 1,000 |
| Elimination of intersegment revenues | <u>(4,500)</u> |
| Total consolidated revenues | <u>\$ 35,500</u> |

Profit or Loss

| | |
|--|-----------------|
| Total profit or loss for reportable segments | \$ 3,970 |
| Other profit or loss | 100 |
| Elimination of intersegment profits | (500) |
| Unallocated amounts: | |
| Litigation settlement received | 500 |
| Other corporate expenses | (750) |
| Adjustment to pension expense in consolidation | <u>(250)</u> |
| Income before income taxes | <u>\$ 3,070</u> |

Assets

| | |
|--|------------------|
| Total assets for reportable segments | \$ 79,000 |
| Other assets | 2,000 |
| Elimination of receivables from corporate headquarters | (1,000) |
| Goodwill not allocated to segments | 4,000 |
| Other unallocated amounts | <u>1,000</u> |
| Consolidated total | <u>\$ 85,000</u> |

Other Significant Items

| | Segment Totals | Adjustments | Consolidated Totals |
|--|-------------------|-------------|------------------------|
| Interest revenue | \$ 3,750 | \$ 75 | \$ 3,825 |
| Interest expense | 2,750 | (50) | 2,700 |
| Net interest revenue (finance segment only) | 1,000 | — | 1,000 |
| Expenditures for assets | 2,900 | 1,000 | 3,900 |
| Depreciation and amortization | 2,950 | — | 2,950 |
| Cost in excess of billing on long-term contracts | 200 | — | 200 |

ASC 280-10 (continued)

55-50 The reconciling item to adjust expenditures for assets is the amount of expenses incurred for the corporate headquarters building, which is not included in segment information. None of the other adjustments are significant.

4.8 Interim Period Information

ASC 280-10

50-32 A public entity shall disclose all of the following about each reportable segment in condensed financial statements of interim periods:

- a. Revenues from external customers
- b. Intersegment revenues
- c. A measure of segment profit or loss
- d. Total assets for which there has been a material change from the amount disclosed in the last annual report
- e. A description of differences from the last annual report in the basis of segmentation or in the basis of measurement of segment profit or loss
- f. A reconciliation of the total of the reportable segments' measures of profit or loss to the public entity's consolidated income before income taxes and discontinued operations. However, if a public entity allocates items such as income taxes to segments, the public entity may choose to reconcile the total of the segments' measures of profit or loss to consolidated income after those items. Significant reconciling items shall be separately identified and described in that reconciliation.

50-33 Interim disclosures are required for the current quarter and year-to-date amounts. Paragraph 270-10-50-1 states that when summarized financial data are regularly reported on a quarterly basis, the information in the previous paragraph with respect to the current quarter and the current year-to-date or the last 12 months to date should be furnished together with comparable data for the preceding year.

4.9 Restatement of Segment Data Because of Change in Reportable Segments

ASC 280-10

50-34 If a public entity changes the structure of its internal organization in a manner that causes the composition of its reportable segments to change, the corresponding information for earlier periods, including interim periods, shall be restated unless it is impracticable to do so. Accordingly, a public entity shall restate those individual items of disclosure that it can practicably restate but need not restate those individual items, if any, that it cannot practicably restate. Following a change in the composition of its reportable segments, a public entity shall disclose whether it has restated the corresponding items of segment information for earlier periods.

50-34A For example, a fundamental reorganization of an entity may cause it to be very difficult and expensive to restate segment information and therefore it may not be practicable.

Unless restatement is impracticable, an entity must restate prior-period segment data when there has been a change in the composition of the entity's reportable segments. Such a change could result from a revamping of the internal management structure that leads to the identification of new or different operating segments, as discussed in [Section 2.10](#). Restatement of prior segment data would also be

required when an operating segment is identified as a new reportable segment in the current period on the basis of quantitative thresholds, as discussed in [Chapter 3](#).

Paragraph 100 of the Background Information and Basis for Conclusions of FASB Statement 131 observes, in part:

The Board decided to require restatement of previously reported segment information following a change in the composition of an enterprise's segments unless it is impracticable to do so. Changes in the composition of segments interrupt trends, and trend analysis is important to users of financial statements.

The information in the segment footnote should be presented consistently for all periods. Therefore, unless restatement is impracticable, prior-period segment data presented for comparative purposes for an operating segment that is identified as a reportable segment in the current period should be restated to reflect the newly reportable segment as a separate segment. See [Section 4.9.1](#) for further discussion of the impracticability exception.

Also see [Section 6.5](#) for additional information on implications of retrospective changes in reportable segments.

4.9.1 Disclosure When Restatement of Earlier Periods Is Impracticable

ASC 280-10

50-35 If a public entity has changed the structure of its internal organization in a manner that causes the composition of its reportable segments to change and if segment information for earlier periods, including interim periods, is not restated to reflect the change, the public entity shall disclose in the year in which the change occurs segment information for the current period under both the old basis and the new basis of segmentation unless it is impracticable to do so.

If restatement of earlier-period segment information is impracticable, an entity must provide current-period segment information under both the old basis and new basis of segmentation for the year in which the change occurs. Such information would not be required if it is impracticable to provide it. However, an entity that determines that it would be impracticable to present the segment information under both the old basis and new basis should be prepared to demonstrate and support that conclusion with adequate documentation.

Situations in which it is impracticable to restate earlier-period operating segment disclosures are expected to be unusual.

4.9.2 Change in Measure of Segment Profit or Loss

ASC 280-10

50-36 Although restatement is not required to reflect a change in measurement of segment profit and loss, it is preferable to show all segment information on a comparable basis to the extent it is practicable to do so. If prior years' information is not restated, paragraph 280-10-50-29(d) nonetheless requires disclosure of the nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss and the effect, if any, of those changes on the measure of segment profit or loss.

4.9.3 Restatement of Prior Periods Because of the Disposal of Part of an Operating Segment

ASC 280-10

55-7 If a reportable segment meets the conditions in paragraphs 205-20-45-1A through 45-1G to be reported in discontinued operations, an entity is not required to also disclose the information required by this Subtopic. Paragraph 280-10-55-19 addresses whether there is a need to restate previously reported information if there is a disposal of a component that was previously disclosed as a reportable segment.

55-19 Segment information for prior periods for disposal of a component that was previously disclosed as a reportable segment is not required to be restated. However, if the income statement and balance sheet information for the discontinued component have been reclassified in comparative financial statements, the segment information for the discontinued component need not be provided for those years. Paragraph 280-10-55-7 addresses disclosure requirements if a component of a public entity that is reported as a discontinued operation is a reportable segment.

ASC 205-20 provides guidance for determining whether a disposal group should be presented as a discontinued operation in the income statement. A discontinued operation may be a reportable segment, an operating segment, or a component of an operating segment.

ASC 280-10-55-7 notes that when the discontinued operation is a reportable segment, an entity is not required to separately disclose information for the discontinued operation within the segment footnote. However, if the discontinued operation is only a component of a reportable segment, the entity should not include the discontinued operation in the disclosures for the reportable segment but should restate prior periods, beginning in the period in which the component is presented as a discontinued operation.

We believe that the failure of a disposal to meet the criterion to be presented as a discontinued operation would not be considered a change in an entity's internal organization that causes the composition of its reportable segments to change. Accordingly, prior periods would not need to be restated.

Example 4-4

Company A has identified the following reportable segments: computer hardware, computer software, and customer service. Before year-end, A disposed of a portion of its computer hardware segment, and the disposal does not meet the criterion to be presented as a discontinued operation.

In preparing the current-year segment disclosures, A is not required to restate prior-period segment information to remove the portion of the computer hardware segment disposed of before year-end or to quantify the effect in the segment footnote.

4.9.4 Changes After Year-End but Before the Financial Statements Are Issued

The SEC staff made the following observation in its *Current Accounting and Disclosure Issues in the Division of Corporation Finance* (updated November 30, 2006) related to what happens when an entity changes its internal structure after year-end but before the financial statements are issued:

If management changes the structure of its internal organization after fiscal year end, or intends to make a change, the new segment structure should not be presented in financial statements until operating results managed on the basis of that structure are reported. Disclosures based on the historical reportable segments should be presented until financial statements for periods managed on the basis of the new organizational structure are presented. However, supplemental disclosure of the future effects of the changes may be useful.

Chapter 5 — Entity-Wide Disclosures

5.1 Overview

In addition to the disclosures discussed in [Chapter 4](#) about each reportable segment, ASC 280 requires disclosure about products and services and geographical operations on an entity-wide basis regardless of how the entity is organized.

ASC 280-10

05-5 To provide some comparability between public entities, this Subtopic requires that an entity report certain information about the revenues that it derives from each of its products and services (or groups of similar products and services) and about the countries in which it earns revenues and holds assets, regardless of how the entity is organized. As a consequence, some entities are likely to be required to provide limited information that may not be used for making operating decisions and assessing performance.

50-38 Paragraphs 280-10-50-40 through 50-42 apply to all public entities subject to this Subtopic including those public entities that have a single reportable segment. Some public entities' business activities are not organized on the basis of differences in related products and services or differences in geographic areas of operations. That is, a public entity's segments may report revenues from a broad range of essentially different products and services, or more than one of its reportable segments may provide essentially the same products and services. Similarly, a public entity's segments may hold assets in different geographic areas and report revenues from customers in different geographic areas, or more than one of its segments may operate in the same geographic area. Information required by paragraphs 280-10-50-40 through 50-42 need be provided only if it is not provided as part of the reportable operating segment information required by this Subtopic.

50-39 Entity-wide disclosures are required only for annual reporting.

Entity-wide disclosure requirements apply to every entity that is subject to ASC 280, irrespective of the number of identified operating segments or the basis on which the entity is organized for resource allocation and performance assessment purposes. However, an entity would not have to repeat the disclosures if they were otherwise provided. For example, if an entity's operating segments are based on products and services, and revenue for each product or service (or group of similar products and services) is disclosed in the reportable segments' disclosure, this information need not be repeated in the entity-wide disclosures.

However, if an entity manages its business on the basis of geographic regions and determines its reportable segments accordingly, it still must provide separate geographic disclosures for each country in which revenues are material. Some entities provide this disclosure by presenting material countries separately from subtotals by region. See further discussion in [Section 5.5.1](#).



Key Takeaways

- Entity-wide disclosures are intended to ensure some level of comparability across entities, regardless of how these 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.
- Disclosure of information about products and services will be particularly important when an entity has identified a single operating segment.

5.1.1 Annual Presentation

While an entity must include entity-wide disclosures only in its annual reporting, nothing would preclude it from providing such information on an interim basis.

5.2 Basis of Presentation for Entity-Wide Disclosures

Entity-wide disclosures should not be based on the financial information used under the management approach for identifying reportable segments. Rather, the basis used for the entity-wide disclosures would be the same as that used to produce the U.S. GAAP financial statements and not the segment footnote (unless each basis happened to be the same). The result is that the entity-wide disclosures would align with the corresponding amounts in the U.S. GAAP financial statements.

5.3 Combination With Other Disclosure Requirements

An entity may combine entity-wide disclosures with those required by other pronouncements if doing so would benefit financial statement users. For instance, combining disclosure of risks and uncertainties required by ASC 275 related to concentrations of customers, products or services, or geographic area with entity-wide disclosures in ASC 280 could result in a seamless presentation of these amounts and the inherent risks associated with them.

Further, an entity should consider the disclosure requirements under ASC 606, which requires entities to disclose revenue by disaggregating it into categories “that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.” For more information, see [Chapter 14](#) of Deloitte’s *A Roadmap to Applying the New Revenue Recognition Standard*.

5.4 Information About Products and Services

ASC 280-10

50-40 A public entity shall report the revenues from external customers for each product and service or each group of similar products and services unless it is impracticable to do so. The amounts of revenues reported shall be based on the financial information used to produce the public entity’s general-purpose financial statements. If providing the information is impracticable, that fact shall be disclosed.

As noted in [Section 5.1](#), an entity that bases its segments on products and services will generally not have to repeat the entity-wide disclosures of revenue by product and service since it would have disclosed revenue from external customers as part of its segment disclosures in accordance with ASC 280-10-50-22 (see [Section 4.3](#) for further discussion). However, when a range of products and services is provided by a reportable segment, an entity should consider whether these products and services are sufficiently similar that additional disclosure would not be needed to meet the requirements in ASC 280-10-50-40. These disclosures may also be particularly important when the entity has identified a single reportable segment.

ASC 280 does not provide further guidance on evaluating whether a group of products or services is similar for disclosure purposes. We believe that an entity may look to the aggregation criteria in ASC 280-10-50-11 to determine whether groups of products or services are similar.

The SEC staff has also provided guidance on determining whether groups of products and services are similar in its *Current Accounting and Disclosure Issues in the Division of Corporation Finance* (updated November 30, 2006), which states:

Registrants should remember to identify the products and services from which each reportable segment derives its revenues, and to report the total revenues from external customers for each product or service or each group of similar products and services. Disclosures for products and services that are not substantially similar must be disaggregated. The staff has objected to overly broad views of what constitutes similar products. In its assessment of whether dissimilar products have been aggregated, the staff may review public disclosures and marketing materials that describe the registrant's products.

In addition, paragraph 68 of the Background Information and Basis for Conclusions of FASB Statement 131 states, in part:

An enterprise with a relatively narrow product line may not consider two products to be similar, while an enterprise with a broad product line may consider those same two products to be similar. For example, a highly diversified enterprise may consider all consumer products to be similar if it has other businesses such as financial services and road construction. However, an enterprise that sells only consumer products might consider razor blades to be different from toasters.

5.5 Information About Geographic Areas

ASC 280-10

50-41 A public entity shall report the following geographic information unless it is impracticable to do so (see Example 3, Case D [paragraph 280-10-55-51]):

- a. Revenues from external customers attributed to the public entity's country of domicile and attributed to all foreign countries in total from which the public entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. A public entity shall disclose the basis for attributing revenues from external customers to individual countries.
- b. Long-lived assets other than financial instruments, long-term customer relationships of a financial institution, mortgage and other servicing rights, deferred policy acquisition costs, and deferred tax assets located in the public entity's country of domicile and located in all foreign countries in total in which the public entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately.

The amounts reported shall be based on the financial information that is used to produce the general-purpose financial statements. If providing the geographic information is impracticable, that fact shall be disclosed. A public entity may wish to provide, in addition to the information required by the preceding paragraph, subtotals of geographic information about groups of countries.

55-24 The geographic information specified by paragraph 280-10-50-41 is required, if material, by country. That paragraph also states, however, that a public entity may always provide, in addition to the information required by this paragraph, subtotals of geographic information about groups of countries, for example, the European Monetary Union.

An entity must meet the disclosure requirements in ASC 280-10-50-41 even if the information in its disclosures is not regularly reviewed or provided to the CODM. This was clarified in ASC 280-10-55-21, which notes:

Unlike other provisions of this Subtopic, in which segment information is disclosed on a management approach basis and, therefore, disclosure of certain items is not required if such amounts are not reviewed by or not included in measures that are reviewed by the chief operating decision maker, supplemental geographic disclosures should be disclosed in accordance with paragraph 280-10-50-41.

The SEC staff has also provided guidance on disclosures about geographic areas in its [Current Accounting and Disclosure Issues in the Division of Corporation Finance](#) (updated November 30, 2006), which states:

Information about geographic areas is also required to be disclosed based on countries, both the country of domicile and for foreign countries. If a registrant manages its business by geographic regions and determines its reportable segments accordingly, it still must provide the separate geographic disclosures for each country in which revenues are material. Some registrants provide this disclosure by presenting material countries separately within the subtotals by region.

5.5.1 Materiality of Revenues Attributed to Individual Countries

ASC 280-10

55-20 Paragraph 280-10-50-41 provides requirements for entity-wide disclosure of certain information by geographic areas. If revenues attributed to or assets located in an individual foreign country are material, such amounts are required to be disclosed.

ASC 280 does not specify what is material with regard to the disclosure requirements in ASC 280-10-50-41. Accordingly, an entity's determination of materiality should be based on the judgment of management and take into account both quantitative and qualitative factors. Paragraph 105 of the Background Information and Basis for Conclusions of FASB Statement 131 states:

Statement 14 requires disclosure of geographic information by geographic region, whereas this Statement requires disclosure of individually material countries as well as information for the enterprise's country of domicile and all foreign countries in the aggregate. This Statement's approach has two significant benefits. First, it will reduce the burden on preparers of financial statements because most enterprises are likely to have material operations in only a few countries or perhaps only in their country of domicile. Second, and more important, it will provide information that is more useful in assessing the impact of concentrations of risk. Information disclosed by country is more useful because it is easier to interpret. Countries in contiguous areas often experience different rates of growth and other differences in economic conditions. Under the requirements of Statement 14, enterprises often reported information about broad geographic areas that included groupings such as Europe, Africa, and the Middle East. Analysts and others have questioned the usefulness of that type of broad disclosure.

We believe that disclosures would be required for revenue amounts of greater than 10 percent of consolidated revenue and may be required for lesser amounts if considered material.

5.5.2 Basis of Allocation of Revenue

ASC 280-10

55-22 Paragraph 280-10-50-41 requires disclosure of revenues from external customers attributed to all foreign countries in total from which the public entity derives revenues and separate disclosure of revenues from external customers attributed to an individual foreign country if material. In determining the revenues attributed to foreign countries, a public entity may allocate revenues from external customers to geographic areas in whatever way it chooses (for example, by selling location, customer location, or the location to which the product is transported, which may differ from the location of the customer), as long as that method is reasonable, consistently applied, and disclosed.

ASC 280 does not prescribe how revenues should be allocated, although an entity typically chooses to allocate them on the basis of the location of the customer, the location to which the product was shipped, or the location in which the sale was originated. For example, an entity based in the United States has a subsidiary in the United Kingdom that has sales to a customer in France. As a result, the entity may attribute the revenue to the location of the customer (France) or the location of the selling subsidiary (United Kingdom) as long as such attribution is consistently applied.

ASC 280 also requires disclosure of the basis for attributing revenues to individual countries.

5.5.3 What to Include in Long-Lived Asset Disclosures

ASC 280-10

55-23 This Subtopic does not define what is intended to be included in long-lived assets. In addition, the provisions of this Subtopic allow for flexibility and judgment by the preparer. However, the purpose of the entity-wide disclosures is to provide information about risks and uncertainties in certain geographic areas. One of the reasons for requiring disclosure of long-lived assets in geographic areas as opposed to total assets is that long-lived assets are potentially at greater risk because they are difficult to move and are relatively illiquid. *Long-lived assets*, as that phrase is used in paragraph 280-10-50-41, implies hard assets that cannot be readily removed, which would exclude intangibles.

ASC 280 does not indicate what constitutes long-lived assets for entity-wide disclosure purposes. However, ASC 280-10-50-41 observes that the disclosures **do not include** the following:

- Financial instruments.
- Long-term customer relationships of a financial institution.
- Mortgage and other servicing rights.
- Deferred policy acquisition costs.
- Deferred tax assets.

In addition, ASC 280-10-55-23 clarifies that the term “long-lived assets” “implies hard assets that cannot be readily removed, which would exclude intangibles.”

While an entity will need to use judgment in determining what assets to disclose, it should carefully consider the principle in ASC 280-10-55-23 that requires it “to provide information about risks and uncertainties in certain geographic areas.” Further, paragraph 104 of the Background Information and Basis for Conclusions of FASB Statement 131 notes the following:

[Analysts] said that information about assets located in different areas assists them in understanding concentrations of risks (for example, political risks such as expropriation).

5.5.4 Considerations for U.S. Territories

Questions may arise about how to treat U.S. territories under the geographic disclosure requirements in ASC 280-10-50-41. The FASB clarified in ASC 280-10-55-25 that:

[T]he degree of interrelationship between the United States and Puerto Rico (as well as non-self-governing U.S. territories such as the Virgin Islands and American Samoa) is such that Puerto Rican operations of U.S. public entities shall be considered domestic operations. Factors such as proximity, economic affinity, and similarities in business environments also indicate this classification for the Puerto Rican operations of U.S. public entities. It should be noted that this Subtopic does not prohibit additional disclosures about Puerto Rican operations that might be useful in analyzing and understanding an entity's financial statements.

5.5.5 Example of Geographic Disclosures

ASC 280-10

55-51 The following illustrates the geographic information required by paragraph 280-10-50-41. Because Diversified Company's segments are based on differences in products and services, no additional disclosures of revenue information about products and services are required (see paragraph 280-10-50-40).

| Geographic Information | | |
|-------------------------|-------------------------|-------------------|
| | Revenues ^(a) | Long-Lived Assets |
| United States | \$ 19,000 | \$ 11,000 |
| Canada | 4,200 | — |
| Taiwan | 3,400 | 6,500 |
| Japan | 2,900 | 3,500 |
| Other foreign countries | <u>6,000</u> | <u>3,000</u> |
| Total | <u>\$ [35,500]</u> | <u>\$ 24,000</u> |

^(a) Revenues are attributed to countries based on location of customer.

5.6 Impracticability

The entity-wide disclosure requirements in ASC 280-10-50-40 for products and services, and those in ASC 280-10-50-41 for geographic information, include an impracticability exception. If, after careful consideration, an entity determines that providing the disclosures would be impracticable, an entity should disclose that fact. However, while the SEC staff has accepted registrants' assertions of impracticability, use of the exception is expected to be unusual and infrequent. Accordingly, an entity should have a reasonable basis for asserting that the disclosures are impracticable and should periodically reassess this assertion.

5.7 Information About Major Customers

ASC 280-10

50-42 A public entity shall provide information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10 percent or more of a public entity's revenues, the public entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues. The public entity need not disclose the identity of a major customer or the amount of revenues that each segment reports from that customer. For purposes of this Subtopic, a group of entities known to a reporting public entity to be under common control shall be considered as a single customer, and the federal government, a state government, a local government (for example, a county or municipality), or a foreign government each shall be considered as a single customer (see Example 3, Case E [paragraph 280-10-55-52]).

ASC 280-10-50-42 requires a public entity to disclose revenues from any single external customer that equal or exceed 10 percent of the public entity's revenues. This disclosure should include the:

- Total amount of revenues from the customer.
- Identity of the segment or segments reporting the revenues.

While the name of the customer is not required under ASC 280-10-50-42, SEC registrants should consider the similar requirements in SEC Regulation S-K, Item 101(c) (see further discussion in [Section 6.2](#)).

ASC 280-10-50-42 also clarifies the following regarding performance of the 10 percent test:

- Determination of the customer is made at the parent level; therefore, a group of entities under common control would be considered a single customer.
- The federal government is considered one customer. Each individual state government and any foreign government would also be considered a single customer.

5.7.1 Example of Major Customers Disclosure

ASC 280-10

55-52 The following is an example of the information about major customers required by paragraph 280-10-50-42. Neither the identity of the customer nor the amount of revenues for each operating segment is required.

Revenues from one customer of Diversified Company's software and electronics segments represents approximately \$5,000 of the company's consolidated revenues.

Chapter 6 — SEC Reporting Considerations

6.1 Overview

ASC 280 requires an entity to disclose qualitative information about each reportable segment (see [Chapter 4](#)) as well as to provide entity-wide disclosures about products and services and geographical operations regardless of how the entity is organized (see [Chapter 5](#)). Segments as defined by ASC 280 also provide a basis for an SEC registrant's required disclosures in the Business and MD&A sections of the registrant's filing.



Key Takeaways

- Segments as defined by ASC 280 provide the basis for disclosures in the Business and MD&A sections of a registrant's filing.
- Registrants should carefully consider the reporting implications of retrospective changes in reportable segments.

6.2 Disclosures Within the Business Section

SEC Regulation S-K, Item 101, requires a registrant to describe its business. For example, 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." The registrant's reportable segments as defined by ASC 280 therefore form the basis for these disclosures.

The description of each reportable segment should include the following items to the extent that they are material to an understanding of the registrant's business as a whole:

| SEC Regulation S-K | Description |
|--|--|
| Item 101(c)(1)(i) Principal products produced and services rendered | "The principal products produced and services rendered by the registrant in the segment and the principal markets for, and methods of distribution of, the segment's principal products and services." "[S]tate for each of the last three fiscal years the amount or percentage of total revenue contributed by any class of similar products or services which accounted for 10 percent or more of consolidated revenue in any of the last three fiscal years or 15 percent or more of consolidated revenue, if total revenue did not exceed \$50,000,000 during any of such fiscal years." |

(Table continued)

| SEC Regulation S-K | Description |
|---|--|
| Item 101(c)(1)(ii) Status of product development | <p>If a registrant has made public information about a new product or segment for which a material investment will be required, describe the status of development of that product or segment. For example, “whether in the planning stage, whether prototypes exist, the degree to which product design has progressed or whether further engineering is necessary.”</p> <p>Disclosure is not required of otherwise nonpublic corporate information that would adversely affect the registrant’s competitive position.</p> |
| Item 101(c)(1)(iii) Raw materials | “The sources and availability of raw materials.” |
| Item 101(c)(1)(iv) Patents, trademarks, licenses, franchises, and concessions held | “The importance to the segment and the duration and effect of all patents, trademarks, licenses, franchises and concessions held.” |
| Item 101(c)(1)(v) Seasonality | “The extent to which the business of the segment is or may be seasonal.” |
| Item 101(c)(1)(vi) Working capital | “The practices of the registrant and the industry (respective industries) relating to working capital items (e.g., where the registrant is required to carry significant amounts of inventory to meet rapid delivery requirements of customers or to assure itself of a continuous allotment of goods from suppliers; where the registrant provides rights to return merchandise; or where the registrant has provided extended payment terms to customers).” |
| Item 101(c)(1)(vii) Dependence on a single or few customers | <p>“The dependence of the segment upon a single customer, or a few customers, the loss of any one or more of which would have a material adverse effect on the segment.”</p> <p>“The name of any customer and its relationship, if any, with the registrant or its subsidiaries shall be disclosed if sales to the customer by one or more segments are made in an aggregate amount equal to 10 percent or more of the registrant’s consolidated revenues and the loss of such customer would have a material adverse effect on the registrant and its subsidiaries taken as a whole.”</p> <p>“The names of other customers may be included, unless in the particular case the effect of including the names would be misleading. For purposes of this paragraph, a group of customers under common control or customers that are affiliates of each other shall be regarded as a single customer.”</p> <p>See Section 5.7 for a discussion of similar disclosure requirements in ASC 280 for significant customers.</p> |
| Item 101(c)(1)(viii) Backlog orders | “The dollar amount of backlog orders believed to be firm, as of a recent date and as of a comparable date in the preceding fiscal year, together with an indication of the portion thereof not reasonably expected to be filled within the current fiscal year, and seasonal or other material aspects of the backlog. (There may be included as firm orders government orders that are firm but not yet funded and contracts awarded but not yet signed, provided an appropriate statement is added to explain the nature of such orders and the amount thereof. The portion of orders already included in sales or operating revenues on the basis of percentage of completion or program accounting shall be excluded.)” |

(Table continued)

| SEC Regulation S-K | Description |
|---|---|
| Item 101(c)(1)(ix) Government contracts | "A description of any material portion of the business that may be subject to renegotiation of profits or termination of contracts or subcontracts at the election of the Government." |
| Item 101(c)(1)(x) Competitive conditions | <p>"Competitive conditions in the business involved including, where material, the identity of the particular markets in which the registrant competes, an estimate of the number of competitors and the registrant's competitive position, if known or reasonably available to the registrant. Separate consideration shall be given to the principal products or services or classes of products or services of the segment, if any."</p> <p>"Generally, the names of competitors need not be disclosed. The registrant may include such names, unless in the particular case the effect of including the names would be misleading. Where, however, the registrant knows or has reason to know that one or a small number of competitors is dominant in the industry it shall be identified."</p> <p>"The principal methods of competition (e.g., price, service, warranty or product performance) shall be identified, and positive and negative factors pertaining to the competitive position of the registrant, to the extent that they exist, shall be explained if known or reasonably available to the registrant."</p> |

In addition, Regulation S-K, Item 101(c)(1), states that the following matters should be "discussed with respect to the registrant's business in general; where material, the industry segments to which these matters are significant shall be identified":

| SEC Regulation S-K | Description |
|--|---|
| Item 101(c)(1)(xii) Environmental regulation compliance | <p>"[T]he material effects that compliance with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, may have upon the capital expenditures, earnings and competitive position of the registrant and its subsidiaries."</p> <p>"[A]ny material estimated capital expenditures for environmental control facilities for the remainder of its current fiscal year and its succeeding fiscal year and for such further periods as the registrant may deem [material]."</p> |
| Item 101(c)(1)(xiii) Employees | "The number of persons employed by the registrant." |

[Sections 6.2.1 and 6.2.3 have been deleted; Section 6.2.2 has been incorporated into Section 6.2.]

6.3 MD&A of Financial Condition and Results of Operations (SEC Regulation S-K, Item 303)

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) of the registrant's business would be appropriate to an understanding of such business, the discussion shall focus on each relevant, reportable segment and/or other subdivision of the business and on the registrant as a whole.

To meet the objective of this guidance, a registrant will often provide disclosures that are consistent with those of its reportable segments. [Paragraph 9220.3](#) of the SEC Financial Reporting Manual (FRM), which states:

In order to comply with the requirement to discuss significant components of revenue and expenses, registrants will often provide a discussion along segmental lines (as determined under SFAS 131 [ASC 280]). Segment analysis is usually necessary to enable a reader to understand the consolidated amounts, but it should not result in repetitive disclosure that lengthens MD&A unnecessarily, or obscures salient information. The discussion and analysis of segments may be integrated with the discussion of the consolidated amounts to avoid unnecessary duplication. The discussion and analysis should be comprehensive. All components of the registrant's results of operations, including those that may not be allocated to the segments in determining the segmental profit or loss (such as certain corporate overhead items or income taxes for example) should be discussed.

As outlined in footnote 28 of Section 501.06.a of the Codified Financial Reporting Releases, when a company presents a segment measure of profit or loss that is determined on a basis that differs from consolidated operating profit as defined by U.S. GAAP, the discussion of the registrant's results of operations at the segment level may need to address the segment measure as well as the applicable reconciling items: "For example, if a material charge for restructuring or impairment relates to a specific segment, but is not included in management's measure of the segment's operating profit or loss, registrants would be expected to discuss in Management's Discussion and Analysis the applicable portion of the charge, the segment to which it relates and the circumstances of its incurrence."

In March 2019, in response to recommendations in the SEC staff's 2016 [Report on Modernization and Simplification of Regulation S-K](#), the SEC issued a [final rule](#) that revises certain disclosure requirements in Regulation S-K. The final rule's provisions became effective on May 2, 2019. The final rule is intended to eliminate repetitive disclosures and give registrants more flexibility in determining how to present MD&A. It permits registrants that present three years of financial statements to omit discussion of the earliest year of changes in financial condition and results of operations if such discussion was already included in any of the registrants' prior EDGAR filings that required such information. Registrants electing to omit such discussion must disclose, in the current filing, the location of such discussion in the prior filing. Registrants should consider the total mix of available information, including the impact of any recastable events (e.g., a retrospective accounting change such as a change in reportable segments) on the prior-period MD&A, when determining whether to omit discussion of the earliest year and the most appropriate form of presentation. If a registrant concludes that it is necessary to discuss operations related to the earliest period presented, it may limit the discussion to the information that has changed or has been determined to be significant to its operations or financial condition.

6.4 Consideration of SEC Guidance on Non-GAAP Measures

A registrant should also be mindful of the SEC's guidance on non-GAAP measures applicable to the financial information presented in its filing. Financial measures that a registrant must disclose under U.S. GAAP are not considered non-GAAP measures under the SEC's guidance. The most common examples of such measures are related to segment financial information such as revenue, profit or loss, and total assets for each reportable segment. (See the discussion in [Section 4.2.1](#) of reporting considerations for entities with a single reportable segment and the discussion in [Section 4.4](#) of the basis for presentation of segment measures.) However, a registrant should ensure that reported amounts are consistent with the measures required to be reported under ASC 280. Any aggregation of individual segment amounts or other segment information voluntarily provided outside the footnotes (e.g., in MD&A) would be within the scope of the SEC's guidance on non-GAAP measures.

Also see [Section 2.5](#) of Deloitte's *A Roadmap to Non-GAAP Financial Measures* for further considerations.

6.5 Reporting Implications of Retrospective Changes in Reportable Segments

As noted in [Section 4.9](#), unless restatement is impracticable, an entity must restate prior-period segment disclosures when there has been a change in the composition of its reportable segments. Disclosure based on the new reportable segments should not ordinarily be presented until financial statements for periods managed on the basis of the new structure are presented in the normal course of filings. Accordingly, an SEC registrant must consider the impact of the retrospective change on the historical financial statements included in its Exchange Act reports (e.g., Forms 10-K and 10-Q) and in registration statements under the Securities Act (e.g., registration statements on Form S-3) and other nonpublic offerings.

6.5.1 Financial Statements and Other Affected Financial Information in Exchange Act Reports

If there has been a change in the composition of an entity's reportable segments, the entity must retrospectively restate its segment disclosures for all prior periods presented when it first reports the change in reportable segments. In addition, the entity should update other affected financial information for prior periods (e.g., description of the business, MD&A¹) to reflect the change in reportable segments.

If a registrant first reports a change in reportable segments in interim financial statements in a Form 10-Q, the registrant is not immediately required to retrospectively adjust the annual financial statements presented in the most recent Form 10-K (annual pre-event financial statements) to reflect the change in reportable segments. A registrant is generally not required to adjust the annual pre-event financial statements to reflect the change in reportable segments until they are comparatively presented with the annual financial statements that report the change in reportable segments (generally in the registrant's next Form 10-K). However, see [Section 6.5.2](#) for circumstances and types of filings in which this requirement may be accelerated.

Example 6-1

In January 20X6, Company A, an SEC registrant with a calendar year-end, changed its management structure, which resulted in a change in its reportable segments. When A files its Form 10-Q for the quarter ended March 31, 20X6, it must retrospectively restate its segment disclosures for the comparative interim period ended March 31, 20X5. Company A must also update the business description and MD&A for the comparative interim period ended March 31, 20X5, to reflect the changed segments. However, there is no immediate requirement for A to retrospectively restate its segment disclosures for the annual financial statements presented in its Form 10-K for the year ended December 31, 20X5.

¹ See [Section 9830](#) of the FRM for guidance on MD&A in registration statements.

6.5.2 Registration Statements and Other Nonpublic Offerings

The requirement to retrospectively revise the annual pre-event financial statements and other affected financial information may be accelerated when the pre-event financial statements are reissued, as discussed in ASC 855-10-25-4 (see Form S-3, Item 11(b)(ii)). Such reissuance may occur when a registrant (1) files a new or amended registration statement, (2) files a Form S-8, (3) issues a prospectus supplement to a currently effective registration statement (e.g., an existing Form S-3 that already is effective but upon which the registrant wishes to draw down or issue securities), or (4) issues securities in a nonpublic offering. The discussion below addresses these requirements in the context of a change in reportable segments. A registrant may need to similarly consider other retrospective changes, such as reporting a discontinued operation under ASC 205-20 and certain accounting changes resulting from the adoption of a newly issued standard. See Deloitte's [A Roadmap to Disposals of Long-Lived Assets and Discontinued Operations](#) for details.

6.5.2.1 New Registration Statements (Other Than Form S-8)

If a registrant files a new or amended registration statement² **before** it files the Form 10-Q that first reports a change in reportable segments, the registrant is not required (or permitted)³ to file restated financial statements for prior periods to reflect the change in reportable segments. However, the registrant should consult with its legal counsel and independent accountants regarding the appropriate disclosure to provide in the registration statement.

If a registrant files a new or amended registration statement **after** it files the Form 10-Q that first reports a change in reportable segments, the registrant is generally required to file restated financial statements that reflect the change in reportable segments for all periods presented. In addition, the registrant should update other affected financial information (e.g., description of the business, MD&A) to reflect the change in reportable segments. For new or amended registration statements that normally incorporate the financial statements by reference (e.g., Form S-3), the registrant may file restated financial statements as well as other affected financial information that reflect the new segments on Form 8-K; alternatively, the registrant can include the retrospectively adjusted financial statements and related information in its registration statement. If the restated financial statements and other information are filed on Form 8-K, that form will be incorporated by reference into the registration statement and will update the affected sections of the registrant's previously filed Exchange Act reports (e.g., Form 10-K or Form 10-Q). Because they were not incorrect when filed, prior Exchange Act reports should not be amended (i.e., the registrant should not file a Form 10-K/A or Form 10-Q/A). For more information, see [Topic 13](#) of the FRM.

To prepare itself for a potential registration statement, a registrant is permitted to file restated financial statements and other affected financial information that reflect the new segments in a Form 8-K once the change in reportable segments has been reported in a Form 10-Q. However, the registrant is not required to do so until immediately before a registration statement is filed. If the registrant expects to file a new registration statement, it may file the Form 8-K simultaneously with or any time after it files the Form 10-Q that reports the change in reportable segments but before or simultaneously with the filing of the new registration statement.

² SEC registrants that file a proxy statement with the SEC should also refer to this guidance. For a Schedule TO (used to file tender offers), see [paragraph 14310.3](#) of the FRM.

³ See the [highlights](#) of the June 23, 2009, CAQ SEC Regulations Committee joint meeting with the SEC staff.

Example 6-2**Facts**

Company A, an SEC registrant, files its Form 10-K for the year ended December 31, 20X5, on February 28, 20X6. In June 20X6, A changed its management structure, resulting in a change in its reportable segments. Company A files its Form 10-Q for the quarter ended June 30, 20X6, on July 28, 20X6, and presents the change in reportable segments for the interim periods presented.

Scenario 1

Company A files a new registration statement on September 15, 20X6. Company A must either (1) **include** financial statements and other affected financial information that present the change in reportable segments for all periods presented in A's December 31, 20X5, Form 10-K or (2) **incorporate by reference** a previously filed Form 8-K that contains financial statements and other affected financial information that present the change in reportable segments for all periods presented in A's December 31, 20X5, Form 10-K.

Scenario 2

Company A files a new registration statement on July 10, 20X6, instead of September 15, 20X6, before it files the Form 10-Q reporting the change in reportable segments. Company A is not required (or permitted)⁴ to (1) include in its registration statement restated financial statements that present the change in reportable segments or (2) incorporate by reference a Form 8-K containing restated financial statements and other affected financial information that present the change in reportable segments. However, A should consult with its legal counsel and independent accountants regarding the appropriate disclosure to provide in the new registration statement.

6.5.2.2 Form S-8

The requirements for a Form S-8 are addressed in [Question 126.40](#) of the SEC staff's C&DIs related to Securities Act forms:

SEC Securities Act Forms C&DI Question**Question 126.40**

Question: After its Form 10-K is filed, a registrant has a change in accounting principles (or changes in segment presentation or discontinued operations), which will cause the financial presentation in its subsequent Form 10-Qs to differ from that in its most recent Form 10-K. In this situation, Item 11(b)(ii) of Form S-3 would require the annual audited financial statements filed in the Form 10-K to be restated to reflect the change in accounting principles (or changes in segment presentation or discontinued operations). Would General Instruction G.2 of Form S-8, which requires that "material changes in the registrant's affairs" be disclosed in the registration statement, also require such restatement?

Answer: Not necessarily. Form S-8 does not contain express language similar to Item 11(b)(ii) of Form S-3, requiring the restatement of financial statements to reflect specified events. The fact that financial statements eventually will be retroactively restated does not necessarily mean that there are "material changes in the registrant's affairs," thereby requiring the financial statements to be restated for inclusion, or incorporation by reference, in a Form S-8. In other words, financial statements for which Item 11(b)(ii) of Form S-3 would require restatement may not necessarily need to be restated for incorporation by reference in a Form S-8. The registrant is responsible for determining if there has been a material change and, if so, the related information that is required to be disclosed in a Form S-8. Correspondingly, it is the auditor's responsibility to determine if it will issue a consent to use of its report in a Form S-8 if there has been a change in the financial statements in a subsequent Form 10-Q and the financial statements in the Form 10-K have not been retroactively restated.

⁴ See [footnote 3](#).

Accordingly, a registrant is generally not required to update its previously issued financial statements to reflect a change in reportable segments unless it constitutes a “material change in the registrant’s affairs.”

6.5.2.3 Prospectus Supplements to Registration Statements That Currently Are Effective

For currently effective registration statements (e.g., an existing Form S-3) upon which a registrant wishes to draw down or issue securities, the registrant may use a prospectus supplement. [Paragraph 13110.2](#) of the FRM indicates that “a prospectus supplement used to update a delayed or continuous offering registered on Form S-3 (e.g., a shelf takedown) is not subject to the Item 11(b)(ii) updating requirements.” Rather, the prospectus must be updated “in accordance with S-K 512(a) with respect to any fundamental change.”

The issuance of a prospectus supplement does not constitute a reissuance of the financial statements included or incorporated in the effective registration statement. Management, in consultation with legal counsel, should determine whether the retrospective presentation of a change in reportable segments constitutes a fundamental change. (For more information, see SEC Regulation S-K, Item 512(a).) If the registrant and its legal counsel determine that the change in reportable segments is a fundamental change, restated financial statements and other affected financial information should be filed on Form 8-K or included in the amended registration statement, as described above. If the registrant and its legal counsel determine that the change in reportable segments is not a fundamental change, the financial statements do not need to be restated, but the registrant should consult with its legal counsel and independent accountants regarding the appropriate disclosure to provide in the prospectus supplement. In addition, all post-effective amendments are considered “new filings” and are subject to the guidance discussed above in [Section 6.5.2.1](#).

6.5.2.4 Nonpublic Offerings by SEC Registrants

Financial statements subject to retrospective changes may also be included (i.e., reproduced) in or incorporated by reference into a nonpublic offering, such as a private placement in accordance with SEC Regulation D or Rule 144A of the Securities Act:

Financial statements included in a nonpublic offering — We believe that entities are generally required under U.S. GAAP to restate the financial statements to reflect the change in reportable segments for periods before the change occurred. Accordingly, the considerations related to restating the financial statements for a change in reportable segments would generally be the same as those discussed above in [Section 6.5.2.1](#).

Financial statements incorporated by reference into a nonpublic offering — We believe that the considerations related to restating the financial statements for the change in reportable segments would be the same as those discussed above in [Section 6.5.2.3](#).

6.5.2.5 Supplemental Disclosure

We have observed that at times, an entity may also wish to provide unaudited supplemental disclosures about a change in reportable segments before filing financial statements for periods managed on the basis of the new segment structure. For example, an entity may change its reportable segments during the first quarter but may also wish to provide unaudited supplemental disclosure about the new segment structure for each quarter and annual periods on a basis consistent with the new segment structure. While such disclosure would not be required (or permitted)⁵ in its financial statements until

⁵ See [footnote 3](#).

the entity first reports financial statements for periods managed on the basis of the new segment structure, the entity may determine that such supplemental disclosure would inform financial statement users of the change. Accordingly, we have observed that an entity generally furnishes such unaudited supplemental disclosure through a press release filed on Form 8-K or on the entity's Web site, typically in less detail than in the required disclosures under ASC 280 (i.e., the unaudited supplemental disclosure does not have the same "look or feel" as disclosures in a financial statement segment footnote addressing the change).

6.5.3 Restatement of Prior Periods Because of a Change in Reportable Segments in a Spin-Off

As discussed above, the SEC staff has stated that disclosure based on a new segment structure generally should not be presented until financial statements for periods managed on the basis of the new segment structure are presented. This guidance would also typically apply to a change in reportable segments as a result of a spin-off. However, a registrant should consider all facts and circumstances and is encouraged to consult with its legal counsel and independent accountants.

6.5.4 "To-Be-Issued" Accountant's Report in an Initial Public Offering

In anticipation of an initial public offering, an entity may enter into retrospective changes (e.g., a change in reportable segments, a stock split, the reporting of a discontinued operation under ASC 205-20, and certain accounting changes resulting from the adoption of a newly issued standard). In such circumstances, the entity may be able to present the transaction retrospectively in its financial statements earlier than in the typical reporting framework and include a "to-be-issued" accountant's report on those financial statements. A "to-be-issued" accountant's report is a draft report in the form that will be expressed when the registration statement is declared effective by the SEC. An entity is required to comply with very specific accounting, reporting, and audit requirements in this instance given that the early disclosure based on such retrospective changes is not otherwise permitted from an accounting perspective until the event is reported in the financial statements. For a list of such requirements and further details, see Section 3.8 of Deloitte's [A Roadmap to Initial Public Offerings](#).

Appendix A — Differences Between U.S. GAAP and IFRS Standards

While the guidance in U.S. GAAP and IFRS® Standards on segment reporting is substantially converged, some differences remain. The table below summarizes those differences on the basis of a comparison of authoritative literature under U.S. GAAP and IFRS Standards; it does not necessarily include interpretations of such literature.

| Subject | U.S. GAAP | IFRS Standards |
|---|---|--|
| | ASC 280 | IFRS 8 |
| Entity-wide disclosures of long-lived assets by geography | <p>Long-lived assets within the entity-wide disclosures do not include intangible assets.</p> <p>See further discussion in Section 5.5.3.</p> | <p>Under IFRS Standards, noncurrent assets are defined as assets that do not meet the definition of a current asset. Therefore, they would include intangible assets.</p> <p>In addition, paragraphs BC56 and BC57 of IFRS 8 indicate that there is no requirement to include a subtotal for tangible noncurrent assets in the disclosure of segment assets (although an entity may choose to include the subtotal). Paragraph BC60 of IFRS 8 indicates that this is different from the guidance in ASC 280.</p> |
| Segment liabilities | Disclosure of segment liabilities is permitted but not required. | Disclosure of segment liabilities is required if such information is regularly provided to the CODM. |
| Entities with a matrix form of organization | Operating segments are identified on the basis of products and services. | Operating segments are identified on the basis of the “core principle,” regardless of the form of organization used. The core principle, as stated in paragraphs 1 and 20 of IFRS 8, is that operating segments must be identified in a manner that enables users of the financial statements “to evaluate the nature and financial effects of the business activities in which [the entity] engages and the economic environments in which it operates.” Management will therefore be required to exercise judgment in determining which of the bases of segmentation satisfies this objective. |



Changing Lanes

In March 2017, the International Accounting Standards Board (IASB®) issued an exposure draft that would, among other amendments, revise the criteria for aggregating different segments and enhance disclosure about the identity of the CODM. The exposure draft also proposed requiring companies to explain any differences between how they have reported segments in the financial statements and how they have done so in other parts of the annual reporting package. In March 2018, the IASB met to discuss the project's direction and whether the IASB should continue with the proposed amendments. As a result, the IASB decided that the package of amendments included in the exposure draft would not bring sufficient improvements to justify proceeding with them. The IASB determined that if the FASB's project on segment reporting (which was added to the FASB's technical agenda in September 2017) progresses, the IASB will decide whether similar changes should be made to IFRS 8. Accordingly, in February 2019, the IASB determined that it would not proceed with the project. See the [project page](#) on the IASB's Web site for more information.

Appendix B — Identification of Reporting Units

B.1 Overview

ASC 350-20

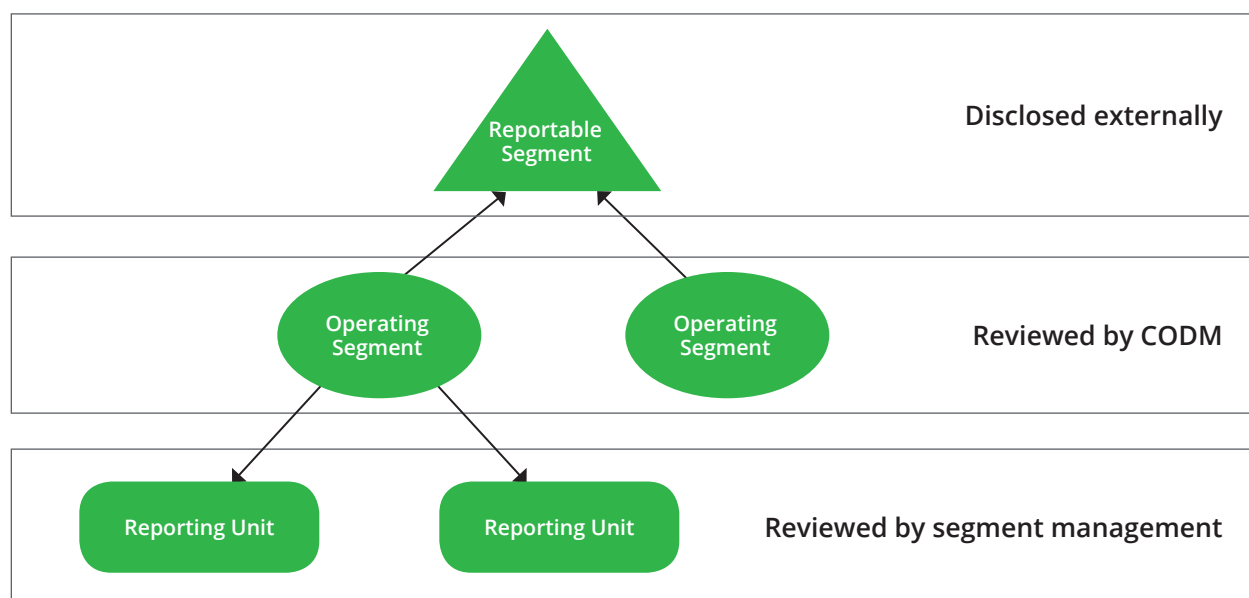
35-33 The provisions of Topic 280 shall be used to determine the reporting units of an entity.

As discussed in [Chapter 1](#), while ASC 280 addresses segment disclosures, the guidance on identifying operating segments is also referenced in ASC 350-20 with respect to testing goodwill for impairment. Under ASC 350-20, goodwill is generally tested at the reporting unit level; the ASC master glossary defines “reporting unit” as “an operating segment or one level below an operating segment (also known as a component).” Therefore, it is important for an entity to clearly distinguish among operating segments, reportable segments, and reporting units. ASC 280 addresses operating segments and reportable segments, while ASC 350 addresses reporting units.

The determination of reporting units under ASC 350 begins with the definition of an operating segment in ASC 280 and takes into account the disaggregation of that operating segment into economically dissimilar components for goodwill impairment testing purposes. The determination of reportable segments under ASC 280 also begins with an operating segment as defined in the Codification, but it permits operating segments that meet certain criteria to be aggregated into a single operating segment and further establishes thresholds for determining which operating segments represent reportable segments.

The level at which operating performance is reviewed also differs between ASC 280 and ASC 350. The CODM reviews operating segments and the segment manager reviews reporting units (components of operating segments). Therefore, a component of an operating segment would not be considered an operating segment under ASC 280 unless the CODM regularly reviews its operating performance. However, that same component might be a reporting unit under ASC 350 if a segment manager regularly reviews its operating performance (and if the other reporting unit criteria are met).

The diagram below demonstrates the interplay between these concepts.



B.2 Identification of Reporting Units

ASC 350-20

35-34 A component of an operating segment is a reporting unit if the component constitutes a business or a nonprofit activity for which discrete financial information is available and segment management, as that term is defined in paragraph 280-10-50-7, regularly reviews the operating results of that component. Subtopic 805-10 includes guidance on determining whether an asset group constitutes a business. . . .

35-35 However, two or more components of an operating segment shall be aggregated and deemed a single reporting unit if the components have similar economic characteristics. Paragraph 280-10-50-11 shall be considered in determining if the components of an operating segment have similar economic characteristics.

35-36 An operating segment shall be deemed to be a reporting unit if all of its components are similar, if none of its components is a reporting unit, or if it comprises only a single component.

35-37 Reporting units will vary depending on the level at which performance of the segment is reviewed, how many businesses the operating segment includes, and the similarity of those businesses. In other words, a reporting unit could be the same as an operating segment, which could be the same as a reportable segment, which could be the same as the entity as a whole (entity level).

35-38 An entity that is not required to report segment information in accordance with Topic 280 is nonetheless required to test goodwill for impairment at the reporting unit level. That entity shall use the guidance in paragraphs 280-10-50-1 through 50-9 to determine its operating segments for purposes of determining its reporting units.

To identify reporting units, entities may consider the following steps:

- **Step 1 — Identify the operating segments in accordance with ASC 280.**

See further discussion in [Chapter 2](#).

- **Step 2 — Identify the components of each operating segment (the Codification describes a “component” as “one level below an operating segment” in the definition of reporting unit). Determine whether each component meets the definition of a reporting unit in steps 2(a)–2(c).**

- **Step 2(a) — Determine whether the component constitutes a business.**

ASC 350-20-55-3 states:

The determination of whether a component constitutes a business or a nonprofit activity requires judgment based on specific facts and circumstances. The guidance in Section 805-10-55 should be considered in determining whether a group of assets constitutes a business or a nonprofit activity.

- **Step 2(b) — Determine whether “discrete financial information” is available for the component.**

ASC 350-20-55-4 states:

The term *discrete financial information* should be applied in the same manner that it is applied in determining operating segments in accordance with paragraph 280-10-50-1. That guidance indicates that it is not necessary that assets be allocated for a component to be considered an operating segment (that is, no balance sheet is required). Thus, discrete financial information can constitute as little as operating information. Therefore, in order to test goodwill for impairment in accordance with this Subtopic, an entity may be required to assign assets and liabilities to reporting units (consistent with the guidance in paragraphs 350-20-35-39 through 35-40).

See further discussion of discrete financial information in [Section 2.4](#).

- **Step 2(c) — Determine whether segment management regularly reviews the operating results of that component.**

ASC 350-20-55-5 further notes:

Segment management, as defined in paragraphs 280-10-50-7 through 50-8, is either a level below or the same level as the chief operating decision maker. According to Topic 280, a segment manager is directly accountable to and maintains regular contact with the chief operating decision maker to discuss operating activities, financial results, forecasts, or plans for the segment. The approach used in this Subtopic to determine reporting units is similar to the one used to determine operating segments; however, this Subtopic focuses on how operating segments are managed rather than how the entity as a whole is managed; that is, reporting units should reflect the way an entity manages its operations.

See further discussion of segment management in [Section 2.3.2.3.1](#).

- **Step 3 — Aggregate components that have similar economic characteristics.**

Components of an operating segment, which steps 2(a)–2(c) established as a business for which discrete financial information is available and segment management regularly reviews the operating results of that component, are aggregated and deemed a single reporting unit if the components have similar economic characteristics.

ASC 350-20-55-6 through 55-8 indicate:

55-6 Evaluating whether two components have similar economic characteristics is a matter of judgment that depends on specific facts and circumstances. That assessment should be more qualitative than quantitative.

55-7 In determining whether the components of an operating segment have similar economic characteristics, all of the factors in paragraph 280-10-50-11 should be considered. However, every factor need not be met in order for two components to be considered economically similar. In addition, the determination of whether two components are economically similar need not be limited to consideration of the factors described in that paragraph. In determining whether components should be combined into one reporting unit based on their economic similarities, factors that should be considered in addition to those in that paragraph include but are not limited to, the following:

- a. The manner in which an entity operates its business or nonprofit activity and the nature of those operations
- b. Whether goodwill is recoverable from the separate operations of each component business (or nonprofit activity) or from two or more component businesses (or nonprofit activities) working in concert (which might be the case if the components are economically interdependent)
- c. The extent to which the component businesses (or nonprofit activities) share assets and other resources, as might be evidenced by extensive transfer pricing mechanisms
- d. Whether the components support and benefit from common research and development projects.

The fact that a component extensively shares assets and other resources with other components of the operating segment may be an indication that the component either is not a business or nonprofit activity or it may be economically similar to those other components.

55-8 Components that share similar economic characteristics but relate to different operating segments may not be combined into a single reporting unit. For example, an entity might have organized its operating segments on a geographic basis. If its three operating segments (Americas, Europe, and Asia) each have two components (A and B) that are dissimilar to each other but similar to the corresponding components in the other operating segments, the entity would not be permitted to combine component A from each of the operating segments to make reporting unit A.

In aggregating reporting units, an entity considers the same criteria as it does when aggregating operating segments (see [Section 3.2](#)). However, unlike with the aggregation of operating segments, two or more reporting units do not have to meet all the factors in ASC 280-10-50-11 to be aggregated. Further, ASC 350 outlines additional factors for an entity to consider when evaluating whether reporting units have similar economic characteristics and notes that the “assessment should be more qualitative than quantitative.”

This analysis will require judgment and effective ICFR to support the judgments reached.

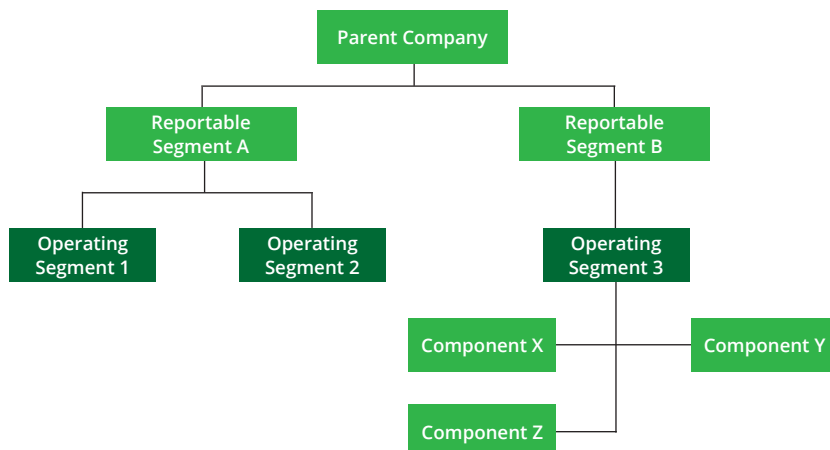
B.3 Identification of Reporting Units — Examples

The examples below illustrate the reporting unit structure when the process for identifying reporting units is applied to a hypothetical and limited set of facts. Reporting unit structures will vary among entities on the basis of their facts and circumstances.

Example B-1

Identification of Reporting Units — All Components Have Similar Economic Characteristics

Assume that a parent company has three operating segments and two reportable segments determined in accordance with the provisions of ASC 280.



The reporting units would be determined as follows:

- *Step 1 — Identify the operating segments in accordance with ASC 280.*
Operating Segments 1, 2, and 3 are identified.
- *Step 2 — Identify the components of each operating segment. Determine whether each component meets the definition of a reporting unit in steps 2(a)–2(c).*
 - *Step 2(a) — Determine whether the component constitutes a business.*
 - *Step 2(b) — Determine whether “discrete financial information” is available for the component.*
 - *Step 2(c) — Determine whether segment management regularly reviews the operating results of the component.*

Assume that it is determined that Operating Segments 1 and 2 have no components that meet the conditions in steps 2(a)–2(c), while it is determined that Operating Segment 3 has three components (X, Y, and Z) that meet the conditions in steps 2(a)–2(c).

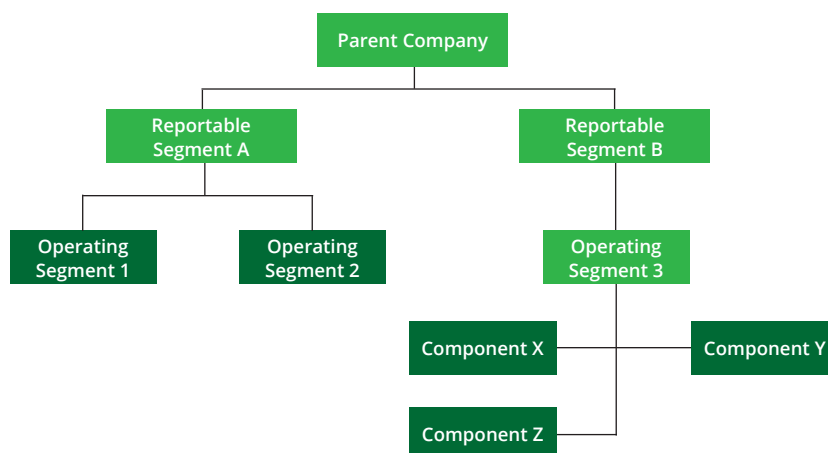
- *Step 3 — Aggregate components that have similar economic characteristics.*

Assume that Components X, Y, and Z have been determined to have similar economic characteristics.

In this example, Operating Segments 1, 2, and 3 are reporting units.

Example B-2**Identification of Reporting Units — All Components Do Not Have Similar Economic Characteristics**

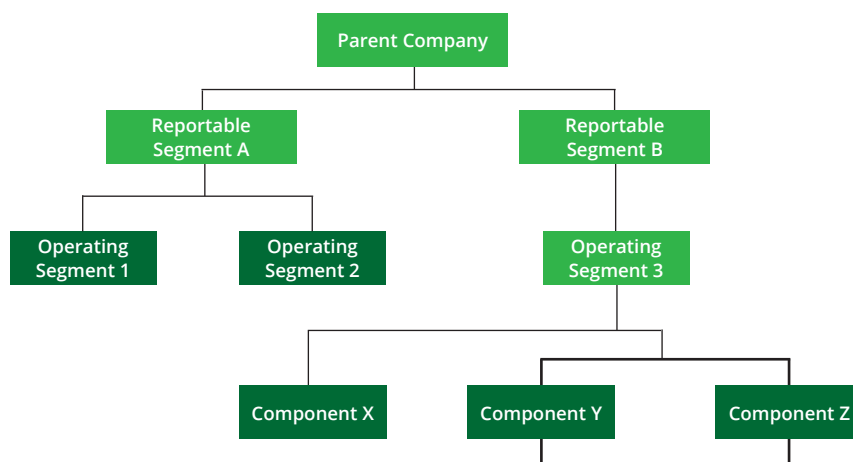
Assume the same facts as those in Example B-1, except that it has been determined that Components X, Y, and Z do not possess similar economic characteristics.



In this example, Operating Segment 1, Operating Segment 2, Component X, Component Y, and Component Z are reporting units.

Example B-3**Identification of Reporting Units — Some but Not All Components Have Similar Economic Characteristics**

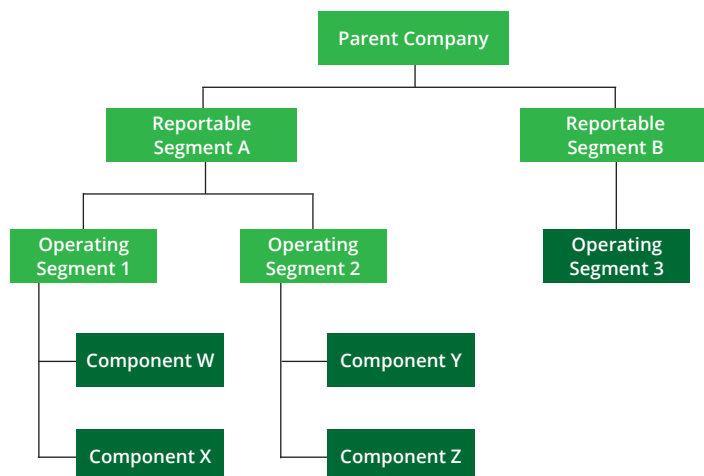
Assume the same facts as those in Example B-1, except that the economic characteristics of Component Y and Component Z are determined to be similar to each other but not to those of Component X.



In this example, Operating Segment 1, Operating Segment 2, Component X, and the combination of Component Y and Component Z are reporting units.

Example B-4**Identification of Reporting Units — Economic Characteristics of Components Within Segments Are Dissimilar**

Assume that a parent company has three operating segments and two reportable segments determined in accordance with the provisions of ASC 280.



The reporting units would be determined as follows:

- *Step 1 — Identify the operating segments in accordance with ASC 280.*
Operating Segments 1, 2, and 3 are identified.
- *Step 2 — Identify the components of the operating segment. Determine whether each component meets the definition of a reporting unit in steps 2(a)–2(c).*
 - *Step 2(a) — Determine whether the component constitutes a business.*
 - *Step 2(b) — Determine whether “discrete financial information” is available for the component.*
 - *Step 2(c) — Determine whether segment management regularly reviews the operating results of the component.*

Assume that Operating Segment 1 has two components (Component W and Component X) that meet the conditions in steps 2(a)–2(c); Operating Segment 2 has two components (Component Y and Component Z) that meet the conditions in steps 2(a)–2(c); and Operating Segment 3 has no components that meet the conditions in steps 2(a)–2(c).

- *Step 3 — Aggregate components that have similar economic characteristics.*

Assume that the economic characteristics of Component W of Operating Segment 1 are similar to those of Component Y of Operating Segment 2, but not to those of Component X of Operating Segment 1. Further assume that the economic characteristics of Component Z of Operating Segment 2 are similar to those of Component X of Operating Segment 1 but not to those of Component Y of Operating Segment 2. Because the components with similar economic characteristics (i.e., W/Y and X/Z) are not in the same operating segment, the components are not aggregated or deemed to represent a single reporting unit.

Because the economic characteristics of the components within each operating segment are not similar, Component W, Component X, Component Y, Component Z, and Operating Segment 3 are reporting units.

Appendix C — Titles of Standards and Other Literature

FASB Literature

ASC Topics

ASC 205, *Presentation of Financial Statements*

ASC 220, *Income Statement — Reporting Comprehensive Income*

ASC 270, *Interim Reporting*

ASC 275, *Risks and Uncertainties*

ASC 280, *Segment Reporting*

ASC 323, *Investments — Equity Method and Joint Ventures*

ASC 350, *Intangibles — Goodwill and Other*

ASC 606, *Revenue From Contracts With Customers*

ASC 805, *Business Combinations*

ASC 855, *Subsequent Events*

ASU

2015-01, *Income Statement — Extraordinary and Unusual Items (Subtopic 225-20)*

IFRS Literature

IFRS 8, *Operating Segments*

SEC Literature

Final Rule

No. 33-10618, *FAST Act Modernization and Simplification of Regulation S-K*

FRM

Topic 9, “Management’s Discussion and Analysis of Financial Position and Results of Operations (MD&A)”

Topic 13, “Effects of Subsequent Events on Financial Statements Required in Filings”

Topic 14, “Tender Offer”

Codified Financial Reporting Release Section

Section 501.06.a, “Management’s Discussion and Analysis; Other Observations; Segment Analysis”

Regulation S-K

Item 101, “Description of Business”

- Item 101(c), “Narrative Description of Business”

Item 303, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”

Item 512, “Undertakings”

- Item 512(a), “Rule 415 Offering”

Regulation S-X

Rule 3-05, “Financial Statements of Businesses Acquired or to Be Acquired”

Rule 3-09, “Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons”

Superseded Literature

FASB Statements

No. 14, *Financial Reporting for Segments of a Business Enterprise*

No. 131, *Disclosures About Segments of an Enterprise and Related Information*

Appendix D — Abbreviations

| Abbreviation | Description |
|---------------------|---|
| AICPA | American Institute of Certified Public Accountants |
| ASC | FASB Accounting Standards Codification |
| ASU | FASB Accounting Standards Update |
| C&DI | SEC Compliance and Disclosure Interpretation |
| CAQ | Center for Audit Quality |
| CEO | chief executive officer |
| CODM | chief operating decision maker |
| COO | chief operating officer |
| EBITDA | earnings before interest, taxes, depreciation, and amortization |
| EDGAR | SEC's Electronic Data Gathering, Analysis, and Retrieval system |
| Exchange Act | Securities Exchange Act of 1934 |
| FAF | Financial Accounting Foundation |
| FASB | Financial Accounting Standards Board |
| FIFO | first in, first out |

| Abbreviation | Description |
|-----------------------|---|
| FRM | SEC Financial Reporting Manual |
| GAAP | generally accepted accounting principles |
| IASB | International Accounting Standards Board |
| ICFR | internal control over financial reporting |
| IFRS | International Financial Reporting Standard |
| LIFO | last in, first out |
| MD&A | Management's Discussion and Analysis |
| OCA | SEC's Office of the Chief Accountant |
| P&L | profit and loss |
| PCAOB | Public Company Accounting Oversight Board |
| SEC | Securities and Exchange Commission |
| Securities Act | Securities Act of 1933 |
| SFAS | Statement of Financial Accounting Standards |

Appendix E — Changes Made in the 2020 Edition of This Publication

The tables below summarize the substantive changes made to this Roadmap since the issuance of last year's edition as a result of FASB and SEC activity and practice developments.

New Content

| Section | Title | Description |
|-----------|--|---|
| 1.8 | SEC Considerations | Added an overview of the SEC considerations on segment reporting that are further discussed throughout the Roadmap. |
| 2.3.2.2.1 | Other Financial Reporting | Added a discussion of the consideration of stand-alone financial statements for individual subsidiaries prepared for regulatory purposes when received by the CODM. |
| 3.3.3 | Combined Assets of All Operating Segments | Added guidance stating that the asset test need not be performed if asset information is not reviewed by the CODM. |
| 5.5.3 | What to Include in Long-Lived Asset Disclosures | Added relevant Codification guidance. |
| 6.3 | MD&A of Financial Condition and Results of Operations (SEC Regulation S-K, Item 303) | Added a discussion of the final rule issued in March 2019 intended to eliminate repetitive disclosures and add flexibility when an entity is determining how to present MD&A. |
| 6.5.4 | "To-Be-Issued" Accountant's Report in an Initial Public Offering | Added a discussion of "to-be-issued" accountant reports that may be issued in an initial public offering. See Section 3.8 of Deloitte's A Roadmap to Initial Public Offerings for more information on this topic. |

Deleted Content

| Section | Title | Description |
|---------|---|---|
| 6.2 | Disclosures Within the Business Section | Deleted the Changing Lanes on the August 2018 rule issued by the SEC that addresses redundant or outdated disclosure requirements because that rule is now effective. |

(Table continued)

| Section | Title | Description |
|---------|---|--|
| 6.5.2 | Registration Statements and Other Nonpublic Offerings | Deleted the Changing Lanes that discussed the final rule issued by the SEC in March 2019 on MD&A disclosure requirements because that rule is now effective and discussed in Section 6.3 . |