



On the Radar Segment Reporting

Investors place a high value on segment reporting because it allows them to understand the performance of different parts of a company's operations. ASC 280 gives public companies a framework for providing segment disclosures and prescribes a "management approach" for identifying operating segments. Such approach focuses on how management has organized the entity to make operating decisions and assess performance. Its objective is to allow financial statement users to (1) see the entity's performance through the eyes of management, (2) assess the entity's prospects for future cash flows, and (3) make more informed judgments about the entity's performance.

Adoption of Recent Updates to Segment Reporting

In November 2023, the FASB issued [ASU 2023-07](#) to improve the information that a public entity discloses about its reportable segments and to address investor requests for additional disclosures about segment expenses. The ASU does not change existing guidance on the identification of operating segments, the manner of determining reportable segments, or the aggregation criteria. Rather, it adds disclosure requirements that also apply to entities with a single reportable segment, not just those with multiple reportable segments.

ASU 2023-07 introduces the significant expense principle, which requires an entity to provide additional disclosure of segment expenses. It also enhances interim disclosure requirements, clarifies the circumstances in which an entity can disclose multiple segment measures of profit or loss, and adds certain other new disclosure requirements.

The ASU became effective for all public entities for fiscal years beginning after December 15, 2023 (e.g., for calendar-year-end public entities, annual periods beginning on January 1, 2024 [December 31, 2024, for Form 10-K]), and interim periods within fiscal years beginning after December 15, 2024 (e.g., for calendar-year-end

public entities, interim periods beginning on January 1, 2025 [the first quarter of 2025 for Form 10-Q]). The enhanced segment disclosure requirements apply retrospectively to all prior periods presented in the financial statements.

Calendar-year-end public companies were required to adopt the ASU's changes in their 2024 Form 10-K filings. We examined the ASU's adoption by Fortune 500 companies that filed their financial statements as of March 3, 2025, and whose fiscal years began on or after December 15, 2023 (approximately 70 percent of the Fortune 500). As noted above, segment disclosures, including those related to significant segment expenses, reflect how management views the business. In the ASU's Background Information and Basis for Conclusions, the FASB indicates that "the significant expense principle should be based on the substance of the segment information that is regularly provided to the CODM rather than on its form." Companies have had to apply judgment and consider both quantitative and qualitative factors when assessing their significant segment expenses. Such disclosures are therefore based on a company's unique facts and circumstances and vary widely among registrants, even those in similar industries. Not surprisingly, companies' disclosures have differed in both the number of significant segment expenses identified and the nature of those expenses.

The ASU requires an entity to disclose the title and position of the chief operating decision maker (CODM) along with an explanation of how the CODM uses the reported segment measure(s). About 86 percent of Fortune 500 filers indicated that the CODM is the chief executive officer. Companies most frequently cited "budget to actual variance analyses" when describing how the CODM uses the measure of performance to allocate resources and make decisions. Disclosures also noted the CODM's use of the measure of performance in forecasting, developing the annual plan, and determining management's compensation and incentives.

ASU 2023-07 also permits, but does not require, companies to disclose more than one measure of segment profit or loss used by the CODM provided that at least one of the reported measures includes the segment profit or loss measure that is most consistent with GAAP measurement principles. About 7 percent of Fortune 500 filers disclosed a voluntary additional measure of segment performance that was also consistent with GAAP (e.g., segment operating income and segment net income), with 1 percent disclosing a voluntary additional measure of performance that was a non-GAAP measure (e.g., segment-adjusted operating income and segment earnings before interest, taxes, depreciation, and amortization [EBITDA]).

The SEC staff has indicated that it would not object if a registrant voluntarily included, in the segment footnote, additional non-GAAP performance measures that it discloses in accordance with the ASU. However, any additional non-GAAP measures of segment profit or loss must meet the presentation and disclosure requirements of Regulation G and Regulation S-K, Item 10(e) (collectively, the "SEC's non-GAAP rules"). Such non-GAAP disclosures may be provided outside the financial statements (e.g., in MD&A). The SEC has observed that adjustments that render a non-GAAP measure of segment profitability misleading are inconsistent with Regulation G. A registrant would use the same SEC guidance it applies to other non-GAAP measures that are used outside the financial statements (e.g., MD&A, press releases), including the [Compliance and Disclosure Interpretations](#) (C&DIs) on misleading measures, to evaluate voluntary additional non-GAAP measures of segment profit or loss (see [Chapter 4](#) of Deloitte's Roadmap *Non-GAAP Financial Measures and Metrics* for more information).

The SEC staff has also emphasized its expectation that an entity with one reportable segment whose CODM evaluates the business and makes capital allocation decisions on a consolidated basis would conclude that consolidated net income is the measure most consistent with GAAP and is therefore the required measure (of segment profit or loss).

Registrants are encouraged to consult with their auditors and SEC counsel if they (1) intend to disclose voluntary additional measures that are not consistent with GAAP or (2) have a single reportable segment and management concludes that it does not manage the entity on the basis of a consolidated GAAP measure of segment profit or loss (e.g., consolidated net income).

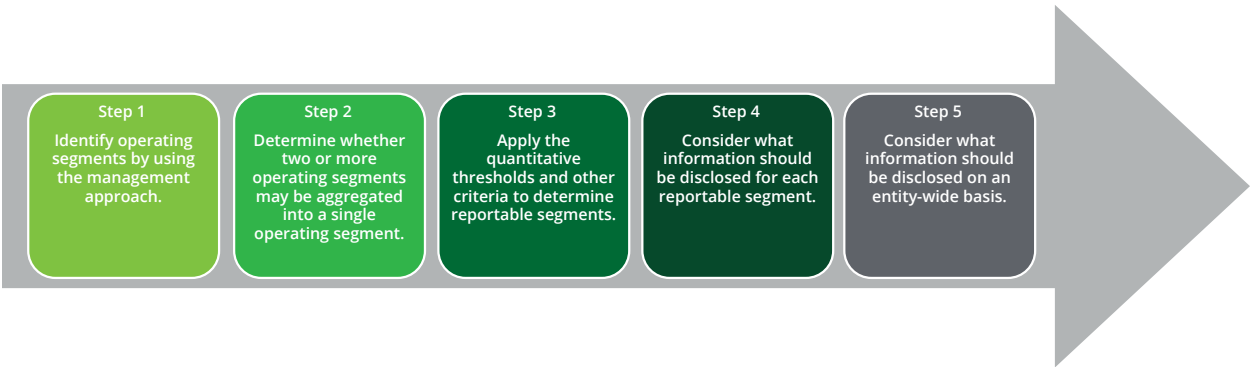
Segment reporting remains a significant source of SEC comments, and the SEC staff has indicated that it is focusing on registrants' compliance with the ASU's disclosure requirements. In addition, recent SEC staff comments have specifically addressed (1) the identification and aggregation of operating segments, (2) changes in reportable segments, (3) reporting considerations for entities with a single reportable segment, (4) entity-wide disclosures, and (5) the use of multiple measures of segment performance.

Overview of Segment Reporting Framework and Objectives

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

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

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



Step 1 Identification of Operating Segments

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

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

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

Step 2 Aggregation Into a Single Operating Segment

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

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

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

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

Step 3

Identification of Reportable Segments

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

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

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

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

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

Step 4

Segment Disclosures

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

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

Step 5

Entity-Wide Disclosures

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

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

SEC Reporting Considerations

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

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

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

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

Contacts



Christine Mazor
Audit & Assurance
Partner
Deloitte & Touche LLP
+1 212 436 6462
cmazor@deloitte.com

For information about Deloitte's service offerings related to segment reporting, please contact:



Will Braeutigam
Audit & Assurance
Partner
Deloitte & Touche LLP
+1 713 982 3436
wbraeutigam@deloitte.com



Jonathan Tambourine
Audit & Assurance
Partner
Deloitte & Touche LLP
+1 203 423 4663
jtambourine@deloitte.com

Dbriefs for Financial Executives

We invite you to participate in [Dbriefs](#), Deloitte's live webcasts that give you valuable insights into important developments affecting your business. Topics covered in the [Dbriefs for Financial Executives](#) series include financial reporting, tax accounting, business strategy, governance, and risk. Dbriefs also provide a convenient and flexible way to earn CPE credit — right at your desk.

Subscriptions

To subscribe to Dbriefs, or to receive accounting publications issued by Deloitte's Accounting and Reporting Services Department, please visit [My.Deloitte.com](https://my.deloitte.com).

The Deloitte Accounting Research Tool

The [Deloitte Accounting Research Tool](#) (DART) is a comprehensive online library of accounting and financial disclosure literature. It contains material from the FASB, EITF, AICPA, PCAOB, and SEC, in addition to Deloitte's own accounting manuals and other interpretive guidance and publications.

Updated every business day, DART has an intuitive design and powerful search features that enable users to quickly locate information anytime, from any device and any browser. Users can also work seamlessly between their desktop and mobile device by downloading the DART by Deloitte [mobile app](#) from the App Store or Google Play. While much of the content on DART is available at no cost, subscribers have access to premium content, such as Deloitte's *FASB Accounting Standards Codification Manual*. DART subscribers and others can also [subscribe](#) to *Weekly Accounting Roundup*, which provides links to recent news articles, publications, and other additions to DART. For more information, or to sign up for a free 30-day trial of premium DART content, visit dart.deloitte.com.



On the Radar is prepared by members of Deloitte's National Office. This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

The services described herein are illustrative in nature and are intended to demonstrate our experience and capabilities in these areas; however, due to independence restrictions that may apply to audit clients (including affiliates) of Deloitte & Touche LLP, we may be unable to provide certain services based on individual facts and circumstances.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/us/about to learn more about our global network of member firms.