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Mind the Non-GAAP: SEC Staff Clarifies Considerations Related to Segment Disclosures Under ASU 2023-07

Background

In November 2023, the FASB issued [ASU 2023-07](#),¹ which amends ASC 280² to improve the information that a public entity³ discloses about its reportable segments and to address investor requests for more information about reportable segment expenses by requiring incremental disclosures for segment reporting. The ASU's amendments are effective for all public entities for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. See Deloitte's Roadmap [Segment Reporting](#) for a more comprehensive overview of the ASU.

Questions regarding the implementation of ASU 2023-07 have emerged, in part, because of public comments made by the SEC staff. This publication provides insights into some of these questions based on recent discussions with the SEC staff.

Multiple Measures of a Segment's Profit or Loss — Non-GAAP Considerations

The ASU permits, but does not require, the disclosure of more than one measure of performance used by the chief operating decision maker (CODM) in allocating resources and assessing performance of the entity's reportable segments. These additional measures should

¹ FASB Accounting Standards Update (ASU) No. 2023-07, *Improvements to Reportable Segment Disclosures*.

² For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte's ["Titles of Topics and Subtopics in the FASB Accounting Standards Codification."](#)

³ The ASC master glossary defines the term "public entity," which includes broker-dealers and entities that only have debt securities trading in a public market.

be regularly reviewed and used by the CODM to allocate resources and assess segment performance.

[Regulation S-K, Item 10\(e\)\(5\)](#), states that “non-GAAP financial measures exclude financial measures required to be disclosed by GAAP, Commission rules, or a system of regulation of a government or governmental authority or self-regulatory organization that is applicable to the registrant. However, the financial measure should be presented outside of the financial statements unless the financial measure is required or expressly permitted by the standard-setter that is responsible for establishing the GAAP used in such financial statements.”

At the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments, the SEC staff discussed the relationship between the non-GAAP rules and ASU 2023-07. The staff communicated its view that additional measures are neither required nor expressly permitted by GAAP (i.e., the ASU does not identify specific measures that must be disclosed, such as EBITDA). Accordingly, if additional performance measures are included in the segment footnote and have not been computed in accordance with GAAP, such additional measures would be considered non-GAAP measures.

In recent discussions with the SEC staff, the staff communicated the following:

- It would not object to the inclusion of additional non-GAAP performance measures in the segment footnote that are disclosed in accordance with ASC 280-10-50-28B and 50-28C (added by ASU 2023-07).
- Additional performance measures must comply with SEC rules and regulations. Non-GAAP measures to be included in financial statements should not be misleading, as noted in [Regulation G](#), and therefore should comply with the presentation and disclosure requirements of Regulation G and [Regulation S-K, Item 10\(e\)](#), which are further discussed below.
- The additional disclosures under Regulation G and Regulation S-K, Item 10(e), may be provided within or outside of the financial statements (e.g., in MD&A). Further, the financial statement footnotes should not include a cross-reference to other parts of a filing that contain such disclosures.

Regulation G states that:

- Non-GAAP financial measures must not be misleading.
- The most directly comparable GAAP measure must be presented.
- A quantitative reconciliation of the non-GAAP financial measure to the most comparable GAAP measure must be presented for a non-GAAP measure.

Regulation S-K, Item 10(e), expands on Regulation G to require a registrant to:

- Present the most directly comparable GAAP measure with prominence equal to or greater than that of the non-GAAP measure.
- Include a statement indicating the reasons why the registrant believes that the non-GAAP measure provides useful information to investors about the registrant's financial condition and results of operations.
- Provide, to the extent material, a statement disclosing the additional purposes, if any, for which the registrant uses the non-GAAP measure.

The SEC staff's [Compliance and Disclosure Interpretations](#) (C&DIs) on the use of non-GAAP measures provide further guidance to registrants on how to apply the requirements of Regulation G and Regulation S-K, Item 10(e). Specifically, [Section 100.01](#) of the C&DIs provides guidance on non-GAAP measures that could mislead investors, including those that:

- Exclude normal, recurring cash operating expenses necessary for business operations.
- Are presented inconsistently between periods, such as by adjusting an item in the current reporting period, but not a similar item in the prior period, without appropriate disclosure about the change and an explanation of the reasons for it.
- Exclude certain nonrecurring charges but do not exclude nonrecurring gains (e.g., “cherry picking” non-GAAP adjustments to achieve the most positive measure).
- Are based on individually tailored accounting principles, including certain adjusted revenue measures.
- Are mislabeled or not clearly labeled as non-GAAP measures or otherwise include adjustments that are not clearly or accurately labeled or described.



Connecting the Dots

Over the past several years, SEC comments issued to registrants regarding their compliance with non-GAAP measure requirements, particularly the requirements related to the concept of misleading measures, have consistently been near the top of the list of most frequent SEC comments. See [Section 4.3](#) of Deloitte's Roadmap [Non-GAAP Financial Measures and Metrics](#) for additional information on the SEC's non-GAAP regulations. Registrants will need to expand their internal control processes over financial reporting with respect to non-GAAP measures if such measures are included in the notes to the financial statements.

In addition to the segment reconciliation requirements of ASC 280, Regulation G requires a quantitative reconciliation of the segment non-GAAP measure to the most comparable GAAP measure (e.g., the required segment GAAP measure). However, since specific guidance on the form of the Regulation G reconciliation has not been provided, there may be diversity in practice related to how both types of reconciliation requirements are satisfied.

When a company elects to show additional non-GAAP performance measures in the segment footnote, possible alternatives for presenting the ASC 280 and Regulation G reconciliations may include one of the following:

- Presentation of the ASC 280 reconciliation in the segment footnote with the Regulation G reconciliation presented in MD&A.
- Separate presentation of the reconciliations required by ASC 280 and Regulation G in the segment footnote.
- A combined presentation of the reconciliations required by ASC 280 and Regulation G in the segment footnote.

Q&As Based on Recent Discussions With the SEC Staff

The Q&As below, which are based on recent discussions with the SEC staff, reflect our understanding of the staff's views on five accounting issues that stakeholders have raised regarding the adoption of ASU 2023-07.

Q&A 1

Question

Would entities managed on a consolidated basis be permitted to disclose a segment's measure of profit or loss in addition to consolidated net income?

Answer

Yes. The SEC staff would continue to expect that the required measure for these entities would be consolidated net income, since ASC 280 requires disclosure of the measure closest to GAAP (i.e., the measure most consistent with how amounts are measured in the financial statements).

As discussed above, an entity may voluntarily disclose additional measures of segment profit or loss. However, such additional measures, if not computed on a basis consistent with GAAP, would be considered non-GAAP performance measures and would be subject to the requirements discussed above.

Q&A 2

Question

Would the SEC staff's views on whether a consolidated GAAP measure, such as net income, is the required segment performance measure to be disclosed under ASC 280 be different if the CODM were not the CEO or CFO who certifies the Form 10-Q or Form 10-K for an entity that has a single reportable segment and is managed on a consolidated basis?

Answer

While certification of the Form 10-Q or Form 10-K is one of several data points indicating that the certifying officer receives and reviews information about consolidated net income, it is not determinative. The SEC staff informally indicated that it is unaware of instances in which a CODM has managed an entity with a single reportable segment on a consolidated basis but has not regularly reviewed a consolidated GAAP measure of profit and loss, such as consolidated net income.

Q&A 3

Question

Could there be circumstances in which an entity is organized as a single operating segment but is not managed on a consolidated basis?

Answer

It depends. ASC 280-10-55-15D (added by ASU 2023-07) explicitly addresses this question. In a manner consistent with that guidance, an entity should first look to ASC 280-10-50-4 to determine whether the entity is managed on a consolidated basis. The analysis under ASC 280-10-50-4 should take into consideration how the entity distinguishes the business activities of the single operating segment from other activities of the entity and whether there is evidence, beyond just the existence and use of a certain measure of profit or loss, that

the entity is managed on a consolidated basis. For example, the entity might consider how budgets are prepared, resources are allocated, and performance is assessed.

In the SEC staff's view, the mere exclusion of a corporate headquarters or a certain functional department from a measure of profit or loss reviewed by the CODM is not determinative of whether an entity is managed on a consolidated basis. Entities should carefully consider all relevant facts and circumstances when reaching their conclusions and may consider discussing their specific facts and circumstances with the staff.



Connecting the Dots

The SEC staff cautioned that entities with a single reportable segment should work through the GAAP framework to determine the required measure of segment profit or loss and that the staff would expect such measure to be consolidated net income in most cases. These entities could voluntarily disclose non-GAAP performance measures in addition to consolidated net income as long as they comply with the non-GAAP SEC rules and regulations.

The evaluation of whether an entity is managed on a consolidated basis may also be necessary in circumstances in which the entity is aggregating multiple operating segments into a single reportable segment. Although our discussions with the SEC staff did not address a fact pattern in which an entity has multiple operating segments that are aggregated into a single reportable segment, we believe that it may be acceptable for an entity that aggregates multiple operating segments into a single reportable segment to use a performance measure other than consolidated net income. This is because ASC 280-10-50-11 permits, but does not require, an entity to aggregate operating segments into a reportable segment if their economic and qualitative characteristics are similar. In other words, if an entity elected not to aggregate operating segments, it would have multiple operating and reporting segments and could apply the multiple-segment reporting concepts discussed herein.

Q&A 4

Question

Is it acceptable for an entity to disclose a segment expense that is not calculated in accordance with GAAP as a significant segment expense category?

Answer

Yes. There is no requirement in ASC 280 for significant segment expenses to be calculated in accordance with GAAP. However, the SEC staff noted that other requirements may be applicable. For example, [Regulation S-X, Rule 4-01\(a\)](#), states, in part, that “[t]he information required with respect to any statement shall be furnished as a minimum requirement to which shall be added such further material information as is necessary to make the required statements, in the light of the circumstances under which they are made, not misleading.” Accordingly, if the significant segment expense is not determined in accordance with GAAP, it should be accompanied by narrative disclosure to ensure that it is not misleading. The narrative disclosure could include wording on how the significant segment expense is computed, the purpose of applicable adjustments, and how the significant segment expense is used.

Q&A 5

Question

Would the SEC staff object to the use of a different measure of segment profit or loss for different reportable segments?

Answer

No. In a manner consistent with ASC 280, if the entity can provide evidence that it allocates resources and assesses performance by using different measures of segment profit or loss for different reportable segments, disclosure of different measures of segment profit or loss for different reportable segments would be acceptable.



Connecting the Dots

Public entities would need to comply with the reconciliation requirements of ASC 280-10-50-30, as amended by ASU 2023-07, for each segment measure of profit or loss disclosed for each reportable segment.

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