

## FASB and the future of segment reporting

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At its Board Meeting last week FASB was presented with a staff Memorandum which included a [discussion](#) (starting on page 5) on the future of segment reporting.

This is a vital issue at this moment. The European Commission is about to start an [impact assessment of IFRS 8](#), adopted by the IASB last year. IFRS 8 is the current US standard (FAS 131) on segment reporting bar literally one or two words. The reason given for adopting IFRS 8 in this form was to keep FASB happy. If FASB is to give up FAS 131 before IFRS 8 has even got into use then quite clearly IFRS 8 is holed below the waterline before it gets into use and the logic for adopting it has gone.

It's important therefore to see exactly what the FASB staff seem to be recommending on the future of segment reporting Firstly, on reporting how a diversified entity should classify its assets and liabilities they said:

*The classification criteria would be set at the reportable segment level*

This would allow for different approaches in different segments, but the more important point is that they recognise that a segment should report on such issues. IFRS 8 makes no such requirement. This proposal fundamentally differed from the requirement of IFRS 8, and is much closer to that I have argued for.

Second, they asked if their first option were agreed how should the financial information be presented? Should segment reporting be on the face of the main accounts, or in notes? The FASB staff suggest:

*Only consolidated information would be presented, as it is today, on the face of the financial statements. A new primary statement would be introduced that would present operating category information by segment for the statements of financial position, comprehensive income, and cash flows.*

The last jargon means that a separate balance sheet, profit and loss account and cash flow be shown for each segment. That's more than I've been arguing for, but from now on I'll settle for nothing less than the FASB recommendation. What is clear is that this is

fundamentally different from the IFRS 8 / FAS 131 approach where cash flow is ignored, balance sheet information is limited and profit and loss data is incomplete.

Then they suggest there are two further issues on which FASB should consult, without offering guidance. These are:

- 1) Should the amounts presented in segment disclosures be measured on a basis consistent with amounts presented in the consolidated financial statements? Should the reportable segment financial information presented in the financial statements include more information about assets, liabilities, cash flows, revenues, expenses, gains, and losses [ ]? If so, to what degree?

The staff may not be offering comment on these issues right now but by simply raising these questions it is clear where their concern lies. The fact that IFRS 8 does not require the segment accounts to be on the same basis as the rest of the published information is, to put it mildly, absurd and an opportunity for management abuse. And there is clear recognition that not enough information is being given by this standard.

I stress, there are many issues I would have liked FASB to address that are not mentioned. Geography is ignored, but (this comment is made respectfully) that is a typical US stance and the IASB has a broader duty than that, not least because it has been proven that failure to report on this basis harms shareholders. And, second there is no clear guidance here on how segments are to be chosen. That is a problem.

But what is clear is that to adopt IFRS 8 now would be wholly illogical. The EU has to kick this into touch, now.