CNM™ LLP
Technical Advisory Firm

Summary of Recent Accounting Developments Q2 2023

by

CNM Professional Practice Group

Summary of Recent Accounting Developments Second Quarter 2023

New Accounting Standards

- None

Big Firm Accounting Guides – new or revised

- PwC
  - Business Combinations and Noncontrolling Interests (June 2023)
  - Leases (May 2023)
  - Revenue from Contracts with Customers (May 2023)
  - Financial Statement Presentation (May 2023)
  - IFRS and US GAAP: Similarities and Differences (March 2023)
  - Income Taxes (March 2023)
  - Insurance Contracts (March 2023)

- KPMG
  - Tax Credits (June 2023)
  - Reference Rate Reform (May 2023)
  - Asset Acquisitions (May 2023)
  - Non-GAAP Financial Measures In-Depth Issues (May 2023)
  - Internal audit's role in sustainability/ESG (April 2023)
  - Share-based payment (April 2023)
  - Revenue real estate (April 2023)
  - Revenue for software and SaaS (April 2023)
  - GHG Emissions Reporting (March 2023)

- EY
  - Intangibles – goodwill and other (June 2023)
  - Transfers and servicing financial assets (June 2023)
  - Consolidation: Determination of controlling financial interest and accounting for changes in ownership interests (June 2023)
  - Income Taxes (June 2023)
  - Business Combinations (June 2023)
  - Certain Investments in Debt and Equity Securities (May 2023)
  - Impairment or Disposal of Long-Lived Assets (May 2023)
  - Share-based Payment (May 2023)
  - Credit Impairment (May 2023)
  - Segment Reporting (April 2023)
  - Real Estate Project Costs (April 2023)
  - Bankruptcies, Liquidations, and Quasi-Reorganizations (April 2023)

- Deloitte
  - Financial Reporting and Accounting Considerations Related to the Current Commercial Real Estate Macroeconomic Environment (June 2023)
  - Fair Value Measurements and Disclosures (Including Fair Value Option) (June 2023)
  - Transfers and Servicing of Financial Assets (May 2023)

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- Derivatives (May 2023)
- Health Tech Industry Accounting Guide (April 2023)
- Contingencies, Loss Recoveries, and Guarantees (March 2023)
- Contracts on an Entity's Own Equity (March 2023)
- Convertible Debt (Before Adoption of ASU 2020-06) (March 2023)
- Distinguishing Liabilities from Equity (March 2023)
- Foreign Currency Matters (March 2023)
- Issuer's Accounting for Debt (March 2023)

Relevant SEC Final Rules

Share Repurchase Disclosure rule: Rule adopted May 3, 2023

- The rule requires disclosure of any purchase, aggregated on a monthly basis, made by or on behalf of any affiliated purchaser to be disclosed in an issuer's periodic reports (Form 10-K, 10-Q, 20-F, or N-CSR).
- The tabular disclosure of the issuer's repurchase activity aggregated on a daily basis must include the following for each day:
  - Class of shares
  - Average price paid per share
  - Number of shares purchased, including the number of shares purchased pursuant to a publicly announced plan or on the open market
  - Maximum number of shares (or approximate dollar value) that may yet be purchased under a publicly announced plan
  - Number of shares purchased that are intended to satisfy the affirmative defense conditions of Rule 10b5-1©
- Issuers that file domestic forms (e.g., 10-Q and 10-K) first filing covering the first full quarter beginning on or after October 1, 2023.

Compensation Clawback Rules

- The rules require companies to recover incentive-based compensation paid to five categories of current and former executive officers.
- It applies to previous erroneously awarded compensation during a three-year look-back period.
- It is triggered when it is determined the issuer is required to prepare an accounting restatement that corrects an error in previously issued financial statements.
- The standards will be effective on October 2, 2023, and registrants will be required to adopt by December 1, 2023.

Relevant SEC Proposals

ESG Standards

- SEC expects to release final climate-related risks rule in October 2023.
- Disclosures will be provided in separate section of the annual report or registration statement within the footnotes to the financial statements.
  - Industry-specific disclosures are not required

Other

- Additional proposed rules on cybersecurity, as well as human capital, are expected to be finalized by the end of the year.

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Relevant FASB Proposals

When ASC 718 applies to Profits Interest Awards

- To determine whether profits interest awards are share-based payment arrangements or other compensation in accordance with ASC 718. The proposed illustrative example would clarify whether ASC 718 should be applied to profits interest awards. *Comments are due July 10, 2023.*

Accounting for and Disclosure of Software Costs

- The Board has discussed whether the single or dual model of accounting and disclosure for software costs is most appropriate. The Board directed the staff to continue its research on the single model and provide direction for elements of that model.
  - The single model in which an entity will capitalize all direct software costs from the point at which it is probable that the software project will be completed and the software will be used to perform the function intended
  - The dual model, which would require an entity to account for certain software costs as an expense as incurred model and other software costs under the initial development cost model

Segment Reporting

- The Board has proposed the following new disclosures on each reporting segment:
  - Significant segment expenses
  - Title and position of the CODM
  - In addition, requiring single reporting entities to disclose segment information

Fair Value Accounting for Certain Crypto Assets

- The Board has proposed requiring entities to measure certain cryptocurrency assets at fair value at each reporting period and reflect the changes in fair value in net income. The crypto assets measured at fair value will be presented separately from other intangible assets on the balance sheet.
- Entities will also disclose during interim and annual reporting the types of crypto assets they hold and the changes to those assets at each reporting period.

Joint Venture Formation

- The Board has proposed the following under the new ASU for a Join Venture:
  - The formation of a joint venture will result in the creation of a new reporting entity and no accounting acquirer would be identified under ASC 805. Accordingly, a new basis of accounting would be required upon the formation of the joint venture.
  - The new reporting entity would measure the net assets on the formation date. The excess of the fair value of the joint venture as a whole over the net assets of the joint venture would be recognized as goodwill.
  - On the formation date, the joint venture's measurement of its net assets would be equal to the fair value of 100% of outstanding equity interests.

Purchased Financial Assets

- Under the current U.S. GAAP, since the issuance of ASU No. 2016-13, financial assets acquired through a business combination, an asset acquisition, and the consolidation of a variable interest entity that is not a business combination are initially recorded at fair value, and an allowance for expected credit losses is separately recognized. Any purchase discount or premium is accreted or amortized to interest income.
- If a purchased financial asset has experienced more-than-insignificant deterioration in credit quality since origination, it is accounted for under the purchased credit deteriorated (PCD) model, requiring the entity to record an allowance with offset to the amortized cost basis of the asset.

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- If the purchased financial asset has not experienced a more-than-insignificant credit deterioration since origination, it is accounted for consistent with an originated financial asset, where the initial amortized cost is equal to the purchase price. An allowance is separately recorded through a charge to credit loss expense equal to the total amount of expected credit losses in the period of acquisition.
- The Board has proposed the following changes:
  - The elimination of the credit deterioration criterion
  - Require that all financial assets with certain exceptions, such as available-for-sale debt securities to be applied the gross-up approach (Where the initial amortized cost basis for the financial asset is an amount equal to the sum of the purchase price and the allowance for the expected credit losses)

Disaggregation of Expenses in the Footnotes to Public Business Entities' Income Statement

- The Board has proposed for public business entities to quantitatively disaggregate the following expenses in a tabular format in the footnote disclosure:
  - Costs expensed as incurred: Including employee compensation, depreciation of property, plant and equipment, amortization of intangible assets, inventory expense, and other manufacturing expenses such as cost of goods sold and selling, general, and administrative expenses.
  - Costs capitalized to inventory and other manufacturing expenses: Including purchases of inventory, employee compensation, depreciation of property, plant and equipment, and intangible asset amortization.
  - Existing disclosure of natural expenses: Including any "natural expenses" such as impairments of fixed assets and amortization of film costs for which the entity must disclose the amount and caption of the expense in the income statement.

Improvements to Income Tax Disclosures

- The Board has proposed improvements to income tax disclosures, including more enhanced disclosures around the rate reconciliation and cash taxes paid.
  - With respect to rate reconciliation, public entities would be required to:
    1. Disclose eight specific categories in the effective tax rate reconciliation
    2. Provide additional information for the reconciling items that meet or exceed a 5% quantitative threshold
  - With respect to cash taxes paid, all entities, including public and non-public entities, would be required to:
    1. Disclose the year-to-date amount of income taxes paid disaggregated by federal, state, and foreign taxes for both interim and annual periods.
    2. Disclose income taxes paid disaggregated by individual jurisdiction in which income taxes paid is equal to or greater than 5% of total income taxes paid. This is an annual disclosure requirement.

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Who is CNM?

Founded in 2003, CNM is recognized as one of the premier technical advisory firms in Southern California with Big 4 experience that provides the responsive customer service of a boutique firm. And we're a dynamic team that enlists all our energy to help transform the way your company does business – carefully evaluating your needs, simplifying your financial processes, and passionately solving problems in the most cost-effective way.

Our extensive knowledge of US GAAP, ICFR, and SEC reporting skills has given us the ability to assist our clients with transactions that are not only multifaceted but the capability to implement new or complex accounting standards. We have over 175 partners and employees in our Los Angeles, Orange County, San Diego, New York City, and Kuala Lumpur. Many of our clients are developed from direct referrals from the Big 4 accounting firms, speaking to the level of quality services we provide.

To learn more about how we can help, visit our website at www.cnmllp.com.

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