Summary of Recent Accounting Developments Q3 2023

by

CNM Professional Practice Group

Summary of Recent Accounting Developments Third Quarter 2023

New Accounting Standards

- ASU 2023-03- Presentation of Financial Statements (Topic 205) Income Statement—Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation—Stock Compensation (Topic 718)
  - Amends and supersedes various SEC paragraphs within the Codification to conform to past SEC announcements and guidance issued by the SEC.
- ASU 2023-04- Liabilities (Topic 405): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121 (SEC Update)
  - Adds various SEC paragraphs to the Codification to reflect guidance included in SEC Staff Accounting Bulletin 121 on safeguarding crypto assets.
- ASU 2023-05- Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement
  - Requires a joint venture to initially measure all contributions received upon its formation at fair value.
  - The new guidance should be applied prospectively and is effective for all newly-formed joint ventures with a formation date on or after January 1, 2025.
- Statement of Financial Accounting Concepts No. 8, Conceptual Framework for Financial Reporting—Chapter 5, Recognition and Derecognition (August 2023)
  - Provides criteria and guidance on when an item should be incorporated into (recognized) and removed from (derecognized) financial statements.

Big Firm Accounting Guides – New or Revised

- PwC
  - Stock-Based Compensation (September 2023)
  - SEC Volume (August 2023)
  - Bankruptcies and Liquidations (June 2023)
  - IFRS and US GAAP: Similarities and Differences (June 2023)
  - Equity Method Investments and Joint Ventures (June 2023)
  - Financial Statement Presentation (June 2023)
  - Income Taxes (June 2023)

- KPMG
  - Earnings per share (September 2023)
  - Employee benefits (September 2023)
  - Impairment of nonfinancial assets (August 2023)
  - Research and Development (August 2023)
  - Internal Control over financial reporting (August 2023)
  - Debt and equity financing (August 2023)

- EY
  - Derivatives and Hedging (September 2023)
  - Revenue from contracts with customers (ASC 606) (September 2023)
  - Lease Accounting (August 2023)
  - Issuer's Accounting for Debt and equity financing (after the adoption of ASU 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity) (August 2023)
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  - Earnings per share (August 2023)
  - Statement of Cash Flows (August 2023)
  - Discontinued Operations- Accounting Standards Codification 205-20 (July 2023)
  - Equity Method Investments and Joint Ventures (July 2023)
  - Guide to preparing Carve-out financial statements (July 2023)
  - Accounting for certain life insurance and annuity products (July 2023)

- Deloitte
  - Carve Out Transactions (September 2023)
  - SEC Reporting Considerations for Business Acquisitions (August 2023)
  - Current Expected Credit Losses (August 2023)
  - SEC Reporting Considerations for Guarantees and Collateralizations (August 2023)
  - SEC Reporting Considerations for Equity Method Investees (August 2023)
  - Initial Public Offering (August 2023)
  - Comparing IFRS Accounting Standards and U.S. GAAP: Bridging the Differences (August 2023)
  - Earnings Per Share (July 2023)
  - Statement of Cash Flows (July 2023)
  - Global ESG Disclosure Standards Coverage: ISSB Finalizes IFRS S1 and IFRS S2 (July 2023)
  - Fair Value Measurements and Disclosures (Including the Fair Value Option) (June 2023)

Relevant SEC Final Rules

Share Repurchase Disclosure Rule: Rule Adopted May 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
  - Aggregate maximum number of shares (or approximate dollar value) that are expected to be purchased under a publicly announced plan
  - Total number of shares purchased on the open market
  - Total number of shares purchased that are intended to qualify for the safe harbor from liability for market manipulation in Exchange Act Rule 10b-10, when certain criteria are met
  - Total number of shares purchased pursuant to a plan that is intended to satisfy the affirmative defense conditions of Exchange Act Rule 10b5-1(c) with respect to insider trading
- 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: Adopted October 2023

- 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.
- For calendar year-end entities, new disclosures are required for December 31, 2023 Form 10-Ks and 20-Fs.

Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure: Rule Adopted July 2023

- Incident disclosure highlights
  - Disclosure information in new Item 1.05 in Form 8-k about a material cybersecurity incident, which includes a series of related incidents, within four business days after the cyber incident is determined to be material.
  - The 8-K is required to describe the material aspects of the nature, scope, and timing of the incident, and the material impact or reasonably likely impact on the registrant, including its financial condition and results of operations.
- Annual disclosure highlights
  - Disclosure of risk management and strategy
    1. Describe processes, if any, for assessing, identifying, and managing material risks from cybersecurity threats.
    2. Describe whether and how any risks from cyber threats, including as a result of any previous cyber incidents, have materially affected or are reasonably likely to materially affect the registrant including business strategy, results of operations or financial condition.
  - Disclosure of governance
    1. Disclose information about the board of directors' oversight of cybersecurity risks, including description of the board's oversight of risks from cyber threats.
    2. Disclose information about management's oversight of cyber risks including whether and which management positions or committees are responsible for assessing and managing risks, the processes by which such persons or committee are informed about and monitor the prevention, detection, mitigation and remediation of cyber incidents, whether such persons or committees report information about such risks to the board of directors or a committee of board of directors.

SEC, Updated Compliance and Disclosure Interpretations (C&DIs) (September 2023)

- The updates pertain to disclosures of certain compensation amounts, including new pay for performance disclosures. The updates address determining amounts under the new rule in various scenarios (e.g., awards granted prior to an IPO or as part of an equity restructuring, awards with market conditions or with unmet performance or market conditions).

Relevant SEC Proposals

The Enhancement and Standardization of Climate-Related Disclosures for Investors

- The proposed rule will require information about a registrant's climate-related risks that are reasonably likely to have a material impact on its business, results of operations, or financial condition.
- The required information about climate-related risks would also include disclosure of a registrant's greenhouse gas emissions.

Special Purpose Acquisition Companies (SPACs)

- The proposed rule would require specialized disclosure requires with respect to compensation paid to sponsors, conflicts of interest, dilution, and the fairness of these business combination transactions.

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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 were due July 10, 2023.*
- A final ASU is expected to be issued in Q1 2024.

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
- A final ASU is expected to be issued in Q4 2023.

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.
- A final ASU is expected to be issued in Q4 2023.

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.
- 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)
- A final ASU is expected to be issued in Q1 2024.

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:
  - Disaggregation of each expense line item presented in the income statement based on the following categories:
    1. Employee compensation
    2. Inventory and manufacturing expense
    3. Depreciation
    4. Amortization of intangibles

  With a qualitative description of the remaining costs.
  - Further disaggregation of inventory and manufacturing expense incurred during the period:
    1. Purchases of inventory
    2. Employee compensation
    3. Depreciation
    4. Amortization of intangibles

  With a qualitative description of the remaining costs.

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.
- A final ASU is expected to be issued in Q4 2023.

Other

- AICPA, Accounting for and Auditing of Digital Assets (July 2023)
- Office of the Comptroller of the Currency, Bank Accounting Advisory Series (August 2023)

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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 200 global professionals in our Los Angeles, Orange County, San Diego, New York City, and Kuala Lumpur offices. 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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