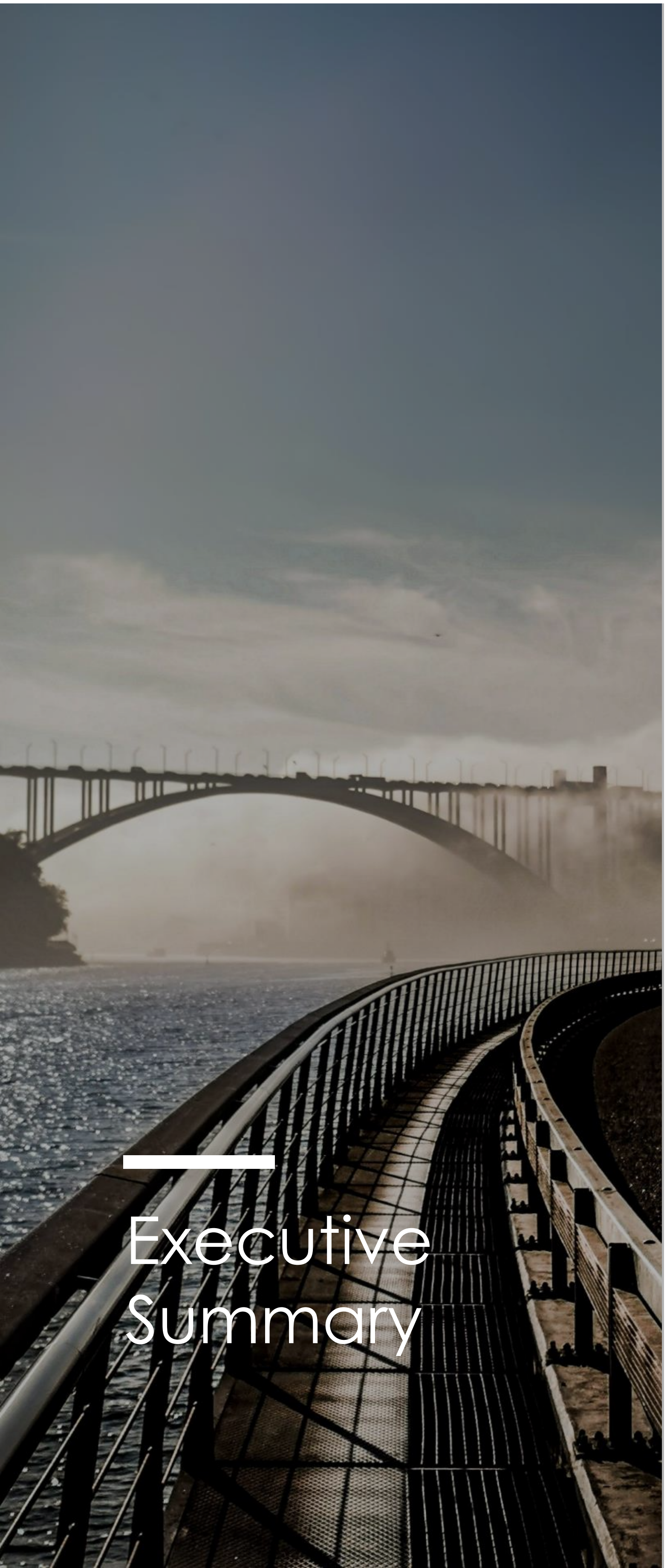
Table of Contents

CNM LLP

INDUSTRY INSIGHTS

Q1 2024 // PREPARED BY CNM PROFESSIONAL PRACTICE GROUP



Q1 2024

Key Insights

Dear Colleagues and Friends,

In this issue of Industry Insights, we discuss the latest accounting, financial reporting, regulatory, and compliance developments for the first quarter of 2024.

In our Accounting and Financial Reporting update section, we discuss developments in SEC rulemaking. The headline for this quarter is that the SEC finalized their long-anticipated climate rule. The final rule has significantly less required disclosures than the initial proposed rule from March 2022, and it lengthens the effective date for public entities. The rule also provides exceptions for smaller reporting entities (SRCs) and emerging growth companies (EGCs) with respect to reporting on Scope 1 and Scope 2 greenhouse gas emissions.

The SEC also issued updates for SPAC and De-SPAC transactions. This rule is expected to enhance disclosures to provide investors with relevant information related to these transactions.

In our FASB update section, we discuss the first ASU issued for 2024, ASU 2024-01. This ASU provides clarification on when profit interest awards should be accounted for similar to a cash bonus or profit-sharing arrangement in accordance with ASC 710 or as a share-based payment arrangement in accordance with ASC 718. The FASB issued this ASU to address diversity in the practice of accounting for profit interest awards.

Lastly, as part of our regulatory update, we provide an overview of the PCAOB Staff's priorities for 2024 inspections as published in the December 2023 Spotlight. The Staff has communicated heightened focus on recurring deficiency areas such as revenue and business combinations, as well as controls with a revenue element.

Q1 2024

SEC finalizes climate disclosure rule

On March 6, 2024, the SEC adopted the enhancement and standardization of Climate-Related Disclosures rule. The final rule requires registrants to disclose within their annual reports and registration statements, among other things:

Regulation S-K disclosures:

1. Climate-related risks that have had or are reasonably likely to have a material impact on business strategy, results of operations, or financial condition in the short term (next 12 months) and long term (beyond the next 12 months);
2. Quantitative and qualitative descriptions of material expenditures incurred, and material impacts on financial statement estimates and assumptions from material climate risk mitigation activities;
3. Disclosure regarding activities, if any, to mitigate or adapt to material climate-related risk, include the use, if any, of transition plans, scenario analysis, or internal carbon prices;
4. Any oversight by the board of directors of climate-related risks, and any role by management in assessing and managing material climate-related risks, including processes to manage such risks;
5. Information on climate-related targets or goals that can materially impact business, results of operations, or financial condition;
6. Material Scope 1 and/or Scope 2 greenhouse gas emissions for Large Accelerated Filers (LAF) and Accelerated Filers(AF) that are not otherwise exempted;
7. For those required to disclose Scope 1 and/or Scope 2 GHG emissions, an assurance report at the limited assurance level, which, for an LAF, following an additional transition period, will be at the reasonable assurance level.

Financial statement footnote disclosures (Regulation S-X) :

1. Aggregate amounts of effects of severe weather events and other natural conditions, including:
    a. Capitalized costs, expenses, charges and losses (greater than $500,000) if aggregate amount exceeds 1% of the stockholders' equity or deficit.
    b. Incurred expenses and losses (greater than $100,000) if aggregate amount exceeds 1% of the absolute value of income of loss before income tax expense or benefit.
    c. Aggregate recoveries are recognized for capitalized costs, incurred expenses, or disclosed losses.
2. Financial statement impacts of carbon offsets and renewable energy credits, if used as a material component of the registrant's plans to achieve climate-related targets or goals.
3. Qualitative disclosures on financial estimates and assumptions that are materially impacted by severe weather events and other natural conditions or registrant's disclosed targets and plans.

The rule also requires a phased-in assurance related to GHG emissions disclosures starting with limited assurance for LAFs and AFs fiscal years beginning in 2029, phasing into moving to reasonable assurance for LAFs only.

SEC Compliance Dates Under the Final Rules [1]

Registrant Type	Disclosure and Financial Statement Effects Audit		GHG Emissions/Assurance		
	All Reg. S-K and S-X disclosures, other than as noted in this table	Item 1502(d)(2), Item 1502(e)(2), and Item 1504(c)(2)	Item 1505 (Scope 1 and 2 GHG emissions)	Item 1506 – Limited Assurance	Item 1506 – Reasonable Assurance
LAFs	FYB 2025	FYB 2026	FYB 2026	FYB 2029	FYB 2033
AFs (other than SRCs and EGCs)	FYB 2026	FYB 2027	FYB 2028	FYB 2031	N/A
SRCs, EGCs, and NAFs	FYB 2027	FYB 2028	N/A	N/A	N/A

[1] As used in this chart, "FYB" refers to any fiscal year beginning in the calendar year listed.

On April 4, 2024, the Commission has exercised its discretion to stay the Final Rules pending the completion of judicial review of the consolidated Eighth Circuit petitions. The SEC is not departing from its view that the Final Rules are consistent with applicable law and within the Commission's authority to require disclosure of information important to investors. The Commission has stated that it will vigorously defend the Final Rules' validity but has issued to stay to avoid protentional regulatory uncertainly if registrants become subject to the Final Rues' requirements during the pendency of the challenges to their validity.

SEC Issues final rule for SPAC IPOs, de-SPAC transactions and shell companies

On January 24, 2024, the SEC adopted final rules[2] to enhance disclosures for investors in initial public offerings (IPOs) by special purpose acquisition companies (SPACs) and in subsequent business combination transactions between SPACs and target companies (de-SPAC transactions). Since SPAC IPOs and de-SPAC transactions can be used by private companies to enter the public markets, the SEC is looking to enhance investor protection in these transactions, which are often complex in nature.

The final rule includes the following required disclosures:

- Disclosures about SPAC sponsor compensation, conflicts of interest, dilution, the target company, and other information that is important to investors.
- The rule will require, in certain situations, for the target company in a de-SPAC transaction to be a co-registrant with the SPAC (or another shell company) and, therefore, assume responsibility for the disclosures in the registration statement filed in connection with the de-SPAC transaction.
- Any business combination transaction involving a reporting shell company, including a SPAC, to be deemed a sale of securities to the reporting shell company's shareholders.
- Better align on the regulatory treatment of projections in de-SPAC transactions with that in traditional IPOs under the Private Securities Litigation Reform Act of 1995.

[2] https://www.sec.gov/files/33-11265-fact-sheet.pdf

FASB Issues Update on Scope Application of Profit Interest and Similar Awards

The FASB issued ASU 2024-01* to help companies determine whether profit interests and similar awards should be accounted for in accordance with Topic 718, Compensation–Stock Compensation.

Certain companies provide their employees or non-employees with profit interest awards, which provides the holders of these interests the opportunity to participate in future profits and/or equity appreciation of the company. Since these profit interests are only applicable to future profits and/or equity appreciation, diversity in practice was noted where stakeholders indicated that it could be complex to determine whether these should be accounted for as a share-based payment arrangement (in accordance with ASC 718) or similar to a cash bonus or profit-sharing arrangement (in accordance with ASC 710).

The amendments in the ASU include an illustrative example that includes four fact patterns to demonstrate how an entity should apply the scope guidance of ASC 718 to determine whether a profit interest award should be accounted for as a share-based payment arrangement.

The ASU is effective for annual periods beginning after December 15, 2024, and interim periods within those annual periods for public business entities. For all other entities, the amendments are effective for annual periods beginning after December 15, 2025, and interim periods within those annual periods. Early adoption is permitted, and the updates can be applied either retrospectively to all prior periods presented in the financial statements or prospectively to profit interest and similar awards granted or modified on or after the date at which the entity first applies the amendments.

FASB Issues Update to Remove Concepts Statements in ASU 2024-02*

The update contains amendments to the Codification that remove references to various FASB Concepts Statements. In most instances, the references are extraneous and not required to understand or apply the guidance. In other instances, the references were used in prior Statements to provide guidance in certain topical areas.

In the Board's view, removing all references to Concepts Statements in the guidance will simplify the Codification and draw a distinction between authoritative and nonauthoritative literature.

While amendments in the update are not intended to result in significant accounting changes for most entities, the Board has made the update effective for public business entities for fiscal years beginning after December 15, 2024. For all other entities for fiscal years beginning after December 15, 2025. Early adoption in this Update is permitted for all entities.

* https://www.fasb.org/standards/accounting-standard-updates

FASB Technical Agenda[3] as of March 29, 2024

FASB Milestone	Project
RESEARCH PROJECTS	Accounting for and Disclosure of Intangibles Accounting for Commodities Consolidation for Business Entities Definition of a Derivative Financial key performance Indicators for Business Entities Statement of Cash Flows
BOARD DELIBERATION	Accounting for and Disclosure of Software Costs Accounting for Environmental Credit Program Accounting for Government Grants Codification Improvements (next Phase) Topic 815- Derivative Scope Refinements Topic 815- Hedge Accounting Improvements Statement of Cash Flows Targeted Improvements
EXPOSURE DRAFT	Induced Conversions of Convertible Debt Instruments (EITF No. 23-A)
BOARD REDELIBERATION	Financial Instruments- Credit Losses (Topic 326)- Purchased Financial Assets Disaggregation: Income Statement Expenses
EXPECTED FINAL ASU	Interim Reporting- Narrow Scope Improvements- Expected Q2 2024 Conceptual Framework: Measurement- Expected Q2 2024
FINAL ASU	ASU 2024-01- Compensation- Stock Compensation (Topic 718): Scope Application of Profit Interest and Similar Awards ASU 2024-02- Codification Improvements- Amendments to Remove References to the Concepts Statements

[3] https://www.fasb.org/technicalagenda

Q1 2024

PCAOB Issued Spotlight on Staff Priorities for 2024 Inspections

In December 2023, the PCAOB issued their spotlight report summarizing the key enhancements and goals for their 2024 inspections, including ***(1) Increasing the number of engagements reviewed, (2)Expanding inspection procedures, (3)Increasing focus on a firm's culture of integrity and audit quality (4) Performing quality inspections and (5) Improving the timeliness of inspection reports.***

With respect to the selection process, the PCAOB highlighted a few focus areas, such as selecting companies that have engaged in mergers and acquisitions or business combinations, selecting audits of broker-dealers that file compliance reports and others that provide customers with various investment opportunities, and selecting non-traditional audit areas to inspect. A continuing emphasis will be placed on selecting audits of public companies that apply industry-specific or section-specific accounting, such as broker-dealers.

The staff will prioritize inspections on areas with recurring deficiencies: revenue and related accounts, business combinations (including goodwill & intangible assets), inventory, long-lived assets, equity, and equity-related transactions. Controls with review elements are also noted as recurring deficiencies.

Technology considerations: Digital assets pose higher risks, requiring audit firms to conduct thorough risk assessments and understand the controls around the existence of these assets.

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Who is CNM?

Founded in 2003, CNM LLP 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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