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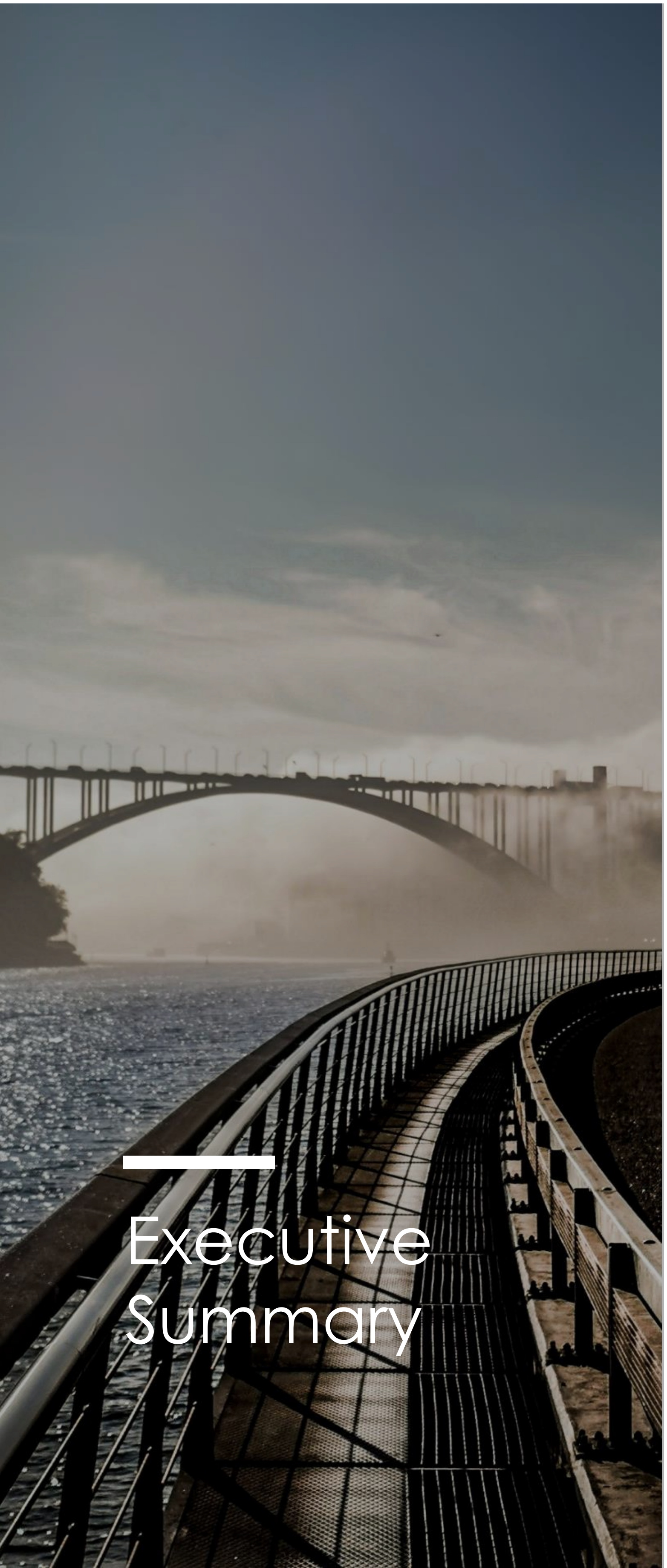
CNM LLP

INDUSTRY INSIGHTS

Q3 2024 // PREPARED BY CNM PROFESSIONAL PRACTICE GROUP



Executive Summary

Q3 2024

Key Insights

Dear Colleagues and Friends,

In this Issue of Industry Insights, we discuss the latest accounting and financial reporting developments for the third quarter of 2024.

Our Accounting and Financial Reporting section covers the upcoming FASB standards that are effective for public calendar year-end companies for 2024. We also highlight key requirements for the new segment reporting disclosures.

We provide an overview of the FASB agenda updates. Three new exposure drafts issued by the Board are now open for public comments: 1) updates on derivatives and hedging, 2) amendments to derivative and revenue scoping, and 3) Share-based consideration payable to a customer.

We spotlight the disaggregation of income statement expenses ("DISE") project, and several other items on the FASB agenda that the Board expects to issue a proposed ASU on before year-end, in our FASB updates section.

In our Regulatory Update, we inform you of several PCAOB proposals approved by the SEC during the quarter. While the PCAOB proposals impact external audit firms, our readers should be aware of the potential impact to the environments of their external audit firms as they get ready to comply with these new rules and regulations.

We hope you find this publication useful and insightful.

Best regards,
CNM LLP

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Public Business Entities (PBEs) getting ready for the new segment reporting requirements

The new segment reporting requirements in ASU 2023-07 are effective for PBEs for fiscal years beginning after December 15, 2023. For a calendar year-end entity, the new disclosures should be included in their 2024 Form 10-K. The updated requirements include the following:

1. Disclose "significant segment expenses" that are "regularly provided" to the chief operating decision maker (CODM) and are included within each reported measure of segment profit or loss.
2. Disclose an amount for "other segment items" by reportable segment and a description of its composition. The other segment items category is the difference between segment revenue less the segment expenses.
3. Provide all annual disclosures about a reportable segment's profit or loss and assets currently required by Topic 280 in interim periods.
4. Clarify that if the CODM uses more than one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, a public entity may report one or more of those additional segment profit measures. However, at least one of the reported segment profit or loss measures (or the single reported measure, if only one is disclosed) should be the measure most consistent with the measurement principles used in measuring the corresponding amounts in the public entity's consolidated financial statements.
5. Disclose the title and the position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources.
6. A company with a single reportable segment must provide all the disclosures required by the amendments in ASU 2023-07 as well as existing requirements by Topic 280.

Refer to ASU 2023-07 for complete requirements.

Upcoming FASB Standard Effective Dates

ASU	Topic	Effective Date
2022-03	Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions	Fiscal years beginning after December 15, 2023, including interim periods within those fiscal years
2023-01	Leases (Topic 842): Common Control Arrangements	Fiscal years beginning after December 15, 2023, including interim periods within those fiscal years
2023-02	Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method	Fiscal years beginning after December 15, 2023, including interim periods within those fiscal years
2023-07	Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures	Effective for annual periods beginning after December 15, 2023, And for interim periods beginning after December 15, 2024

FASB to issue a final ASU on the Disaggregation of Income Statement Expenses before year-end

As a reminder to our readers, the disaggregation of income statement (DISE) project was put on the agenda because feedback from investors, lenders, and other users of financial statements indicated that more detailed information about expenses is critically important in understanding an entity's performance.

We have covered how this proposed ASU will change the presentation and disclosures of income statement expenses in Industry Insights Q2 2024.

As of September 2024, the Board is still expecting to have a final ASU issued before the end of the year. The new standard, if adopted in its current form, applies to public business entities and will be effective for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027.

FASB to Issue a Final ASU on Induced Conversion of Convertible Debt Instruments

During its July 17, 2024, meeting, the Board redeliberated the comments received on the proposed accounting standard issued in December 2023 for Debt with Conversion and other options. We covered this proposed ASU's changes in our Industry Insights Q2 2024. As of September 2024, the Board still expects to have a final ASU issued before year-end.

If adopted in its current form, the amendments in this ASU can be applied either retrospectively or prospectively. The effective date will be determined after the Board considers stakeholder feedback on the proposed updates.

FASB Issued Proposed Accounting Standards Update on Derivatives and Hedging

On September 25, 2024, the FASB issued a Proposed Accounting Standard Update (ASU) on hedge accounting improvements, public comments to be submitted by October 21, 2024.

There are five main issues that the proposed ASU aims to address as follows:

1. Permit hedge risks to be aggregated in a group of individual forecasted transactions, where entities can apply hedge accounting to a broader portfolio of forecasted transactions.
2. Establish an operable model to address a pervasive hedging strategy to reduce the risk of hedge redesignation events.
3. Expend hedge accounting for forecasted purchases and sales of nonfinancial assets.
4. Permit compound derivatives composed of a written option and a non-option derivative to qualify for designation as a hedging instrument in a cash flow hedge
5. Eliminate the reconciliation of a dual hedge strategy's recognition and presentation mismatch; the amendment would require entities to exclude the debt instrument's fair value hedge basis adjustment from the net investment hedge effectiveness assessment.

FASB proposes amendments on derivatives and share-based payments received from customers in a revenue arrangement

On July 23, 2024, the FASB issued a proposed new ASU to clarify exception criteria so specific contracts are not accounted for as derivates and clarify the accounting for share-based payments received from customers in a revenue arrangement. Feedback on the proposal is due on October 21.

The amendments in the derivative accounting proposed ASU would exclude from derivative accounting contracts with underlyings based on operations or activities specific to one of the parties to the contract. The scope exception would include variables based on financial statement metrics of one of the parties to the contract (for example, earnings before interest, taxes, depreciation, and amortization; net income; expenses; or total equity) as well as the occurrence or nonoccurrence of an event related to the operations or activities specific to one of the parties to the contract.

The amendments related to clarify the accounting for share-based payments received from customers in a revenue arrangement would clarify that an entity should apply the guidance in ASC 606, including guidance on noncash consideration to a contract with a share-based payment (for example, shares, share options, or other equity instruments) from a customer that is a consideration for the transfer of goods or services. In such circumstances, the share-based payment should be recognized as an asset measured at the estimated fair value at contract inception under ASC 606 when the entity's right to receive or retain the share-based payment from a customer is no longer contingent on the satisfaction of a performance obligation.

FASB proposes amendments to share-based consideration payable to a customer

On September 30th, the Board issued a proposed ASU intended to reduce diversity in practice and improve decision usefulness for share-based consideration payable to a customer in conjunction with selling goods or services.

The amendments in this proposed ASU will revise the definition of the term performance condition for share-based consideration payable to a customer. The revised definition will incorporate vesting conditions based on the volume, monetary amount, or timing of the customer's purchases of goods or services from the grantor. The revised definition will also incorporate performance targets based on the volume of purchases made by other parties that purchase the grantor's goods or services from the grantor's customers.

The amendments in this proposed ASU would eliminate the policy election permitting a grantor to account for forfeitures as they occur. This means that when measuring share-based consideration payable to a customer with a service condition, the grantor must estimate the expected forfeitures.

Lastly, the amendments in this proposed ASU would clarify that, under the Topic 718 approach, a grantor should refrain from applying the guidance in Topic 606 on constraining estimates of variable consideration to share-based consideration payable to a customer. This means a grantor must assess the probability that an award will vest using only the guidance in Topic 718.

The effective date and whether early adoption should be permitted will be determined after the Board considers stakeholders' feedback on this proposed ASU.

Other FASB Updates

As depicted in the table on the next page, the FASB has several projects for which they expect to issue either an exposure draft or a final ASU before year-end. Some of these projects include:

- Accounting for and disclosure of software costs: Project Summary
- Accounting for environmental credit programs: Project Summary
- Accounting for government grants: Project Summary
- Determining the acquirer in the acquisition of a VIE: Project Summary

FASB Technical Agenda* as of September 30, 2024

FASB Next Milestone	Project
RESEARCH PROJECTS	Accounting for and Disclosure of Intangibles Accounting for Commodities Agenda Consultation Consolidation for Business Entities Definition of a Derivative Financial key performance Indicators for Business Entities Statement of Cash Flows
BOARD DELIBERATION	Statement of Cash Flows Targeted Improvements
EXPOSURE DRAFT	Accounting for Disclosure of Software Costs Accounting for Environmental Credit Programs Accounting for Government Grants Codification Improvements (Evergreen) Determining the Acquirer in the Acquisition of a VIE Share-Based Consideration Payable to a Customer Topic 815 - Derivatives Scope Refinements Topics 815 - Hedge Accounting Improvements Interim Reporting - Narrow-Scope Improvements
BOARD REDELIBERATION	Financial Instruments - Credit Losses (Topic 326) - Purchased Financial Assets
EXPECTED FINAL ASU	Induced Conversions of Convertible Debt Instruments (EITF No. 23-A) - Expected Q4 2024 Disaggregation - Income Statement Expenses – Expected Q4 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

* https://www.fasb.org/technicalagenda

Q3 2024

SEC approved specific PCAOB proposed standards

During this quarter, the SEC approved several of the proposals, which were either amendments to previously existing rules or new regulations that the PCAOB proposed:

- New Quality Control Standard, QC 1000, QC Standard Final Rule
- General Responsibilities of the Auditor in Conducting an Audit, AS 1000, AS 1000 Final Rule
- Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form, the amendments in this rule will revise AS 1105, Audit Evidence, AS 230, the Auditor's Responses to the Risks of Material Misstatement, and Conform AS 2501, Auditing Accounting Estimates, including Fair Value measurement, Final Rule

QC 1000, is designed to emphasize accountability, firm culture, the "tone at the top" and strike the right balance between a risk-based approach to QC and a set of mandates, including required risk assessments and other QC-related processes, quality objectives and quality responses.

SEC clarifies guidance on disclosure of cybersecurity incidents

In our Industry Insights Q2 2024, we discussed the SEC's statement clarifying when and where to report a cybersecurity incident. SEC clarified that materiality assessment is critical in determining which cyber incidents should be reported in Form 8-K.

Material cyber incidents should be reported in Item 1.05 (Material Cybersecurity Incidents), while other voluntary disclosure of non-material incidents is encouraged to be reported under Item 8.01 (Other Events).

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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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