# Auditor Insights: Navigating the Current Accounting and Financial Reporting Landscape

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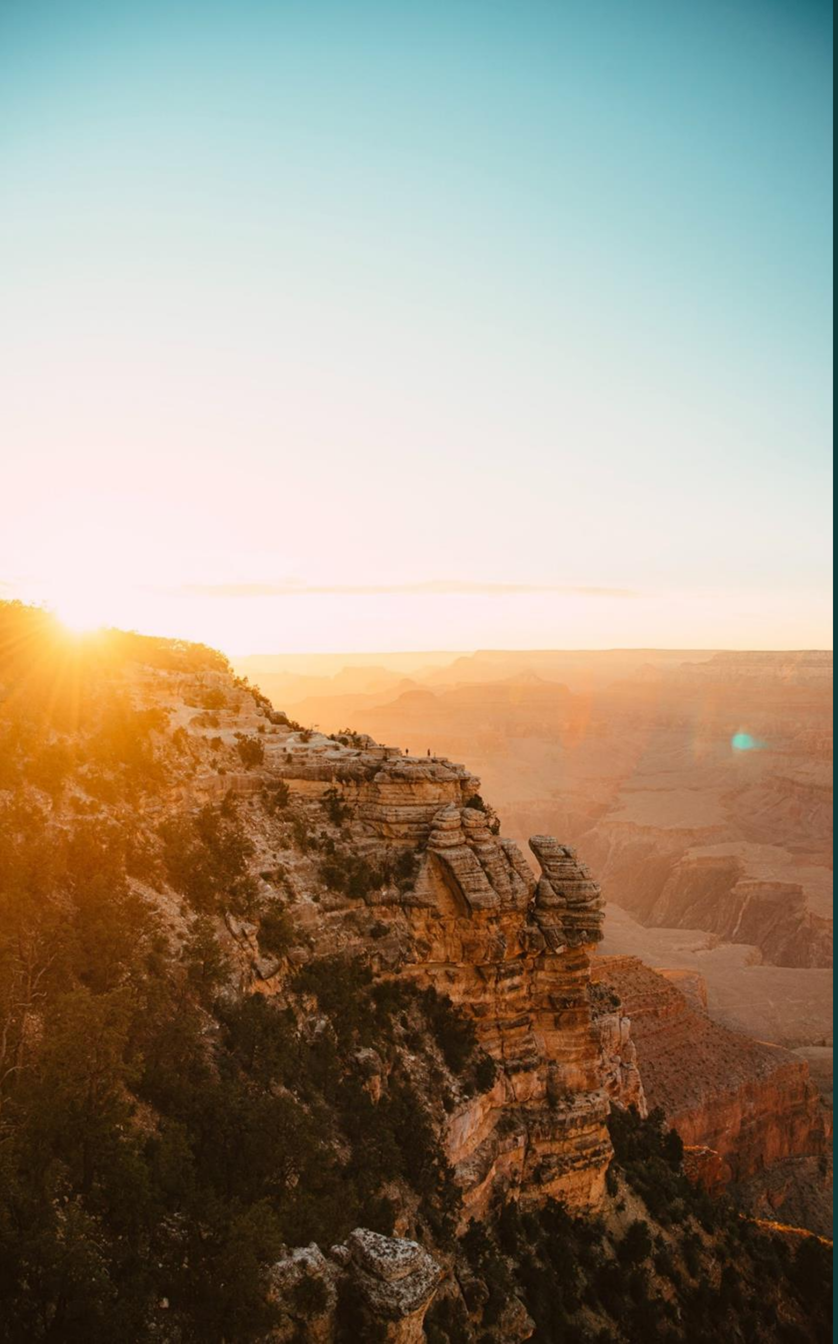

# Agenda

01 ACCOUNTING STANDARDS UPDATE

02 PROPOSED ACCOUNTING STANDARDS UPDATE

03 FINAL SEC RULEMAKING

# Accounting Standards Update

# Accounting Standards Update

| ASU No. | Topic | Effective for Periods Beginning After: | Highlights |
|---|---|---|---|
| 2022-02 | Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures | Entities who have not adopted ASC 2016-13: December 15, 2022<br>Entities who have adopted ASC 2016-13: effective dates are the same as those in ASU 2016-13<br><br>Early adoption permitted | The objective of this project is to consider removing Troubled Debt Restructuring (TDR) recognition and measurement guidance for creditors from GAAP for entities that have adopted Accounting Standards Update 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and to consider enhancing certain loan modification disclosures. |

The requirement to present the amortized cost basis within each credit quality indicator by year of origination is not required for an entity that is not a **public business entity**.

| Term Loans by Year of Origination | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving | Total |

# Accounting Standards Update

| ASU No. | Topic |
|---|---|
| 2022-02 | Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures |

An entity shall use the guidance in paragraphs **310-20-35-9 through 35-12** when determining whether a modification, extension, or renewal of a financing receivable should be presented as a current-period origination.

An entity shall use the guidance in paragraphs **842-10-25-8 through 25-9** when determining whether a lease modification should be presented as a current-period origination.

# Accounting Standards Update

| ASU No. | Topic |
|---|---|
| 2022-02 | Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures |

**35-9:** If the terms of the new loan resulting from a loan refinancing or restructuring other than a troubled debt restructuring are at least as favorable to the lender as the terms for comparable loans to other customers with similar collection risks who are not refinancing or restructuring a loan with the lender, the refinanced loan shall be accounted for as a new loan.

# Accounting Standards Update

| ASU No. | Topic | Effective for Periods Beginning After: | Highlights |
|---|---|---|---|
| 2022-06 | Reference Rate Reform (Topic 848)—Deferral of the Sunset Date of Topic 848 | Upon Issuance (December 2022) | Defers the sunset date from December 31, 2022, to December 31, 2024. |
| 2021-01 | Reference Rate Reform (Topic 848): Scope | All: December 15, 2024 (as amended by ASU 2022-06) | In this ASU, the FASB refines the scope of Topic 848 to clarify that certain optional expedients and exceptions therein for contract modifications and hedge accounting apply to contracts that are affected by the discounting transition. Specifically, modifications related to reference rate reform would not be considered an event that requires reassessment of previous accounting conclusions. The ASU also amends the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. |

# Accounting Standards Update

| ASU No. | Topic | Effective for Periods Beginning After: | Highlights |
|---|---|---|---|
| 2023-02 | Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a consensus of the Emerging Issues Task Force) | PBE: December 15, 2023<br>All Others: December 15, 2024<br><br>Early adoption permitted | The amendments in this ASU will allow entities the option to elect whether they account for tax equity investments using the proportional amortization method if certain conditions are met, regardless of the program from which the income tax credits are received. The election would be on a program-by-program basis. The ASU would also require disclosures to be transparent about an entity's investments that generate income tax credits and other income tax benefits. |
| 2022-03 | Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions | PBE: December 15, 2023<br>All Others: December 15, 2024<br><br>Early adoption permitted | Update to (1) clarify the guidance in Topic 820, Fair Value Measurement, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security, (2) to amend a related illustrative example, and (3) introduce new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value in accordance with Topic 820. |

# Accounting Standards Update

| ASU No. | Topic | Effective for Periods Beginning After: | Highlights |
| --- | --- | --- | --- |
| 2022-01 | Derivatives and Hedging (Topic 815): Fair Value Hedging—Portfolio Layer Method | PBE: December 15, 2022<br>All Others: December 15, 2023<br><br>Early adoption permitted | The objective of this project is to expand the existing last-of-layer fair value hedging method from a single-layer model to a multiple layer model and clarify the accounting for and disclosure of basis adjustments. |
| 2020-06 | Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-20): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity | SEC: December 15, 2021<br>All Others: December 15, 2023 | The ASU simplifies accounting for convertible instruments by removing major separation models required under current U.S. GAAP. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for it. The ASU also simplifies the diluted earnings per share (EPS) calculation in certain areas. |

# Proposed Accounting Standards Update

# 2023-ED400: Financial Instruments-Credit Losses (Topic 326): Purchased Financial Assets

If the purchased financial asset has **not** experienced a more-than-insignificant credit deterioration since origination, it is accounted for in a manner consistent with an originated financial asset (referred to as non-PCD accounting). Under non-PCD accounting, a day one credit loss is recorded in addition to any credit discount reflected in the fair value of the acquired assets.

Feedback from the PIR emphasized that assessing whether credit has deteriorated since origination is subjective and inconsistently applied, which creates comparability issues and diminishes the decision usefulness of financial information.

# 2023-ED400: Financial Instruments-Credit Losses (Topic 326): Purchased Financial Assets (Cont.)

In addition, they were particularly concerned with the non-PCD accounting model and the requirement to record a day one allowance in addition to any credit discount reflected in the initial fair value.

The Proposed ASU would address these concerns by requiring that all acquired financial assets, with certain limited exceptions, follow the existing gross-up approach.

# 2023-ED500: Subtopic 220-40: Disaggregation of Income Statement Expenses

## COMPREHENSIVE INCOME-EXPENSE DISAGGREGATION DISCLOSURES

Would affect where this information appears in the notes to financial statements because entities would be required to include certain existing disclosures in the same tabular format disclosure as the other disaggregation requirements in the proposed amendments.

# 2023-ED200: Intangibles-Goodwill and Other-Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets

As it currently stands, stakeholders say the accounting for crypto assets as indefinite-lived intangible assets, which is a cost-less-impairment model, does not provide investors with decision-useful information or reflect the underlying economics of those assets.

The Proposed ASU would improve the accounting for certain crypto assets by requiring an entity to measure those crypto assets at fair value each reporting period with changes in fair value recognized in net income. The proposed amendments also would improve the information provided to investors about an entity's crypto asset holdings by requiring disclosure about significant holdings, restrictions, and changes in those holdings.

# 2023-ED100: Income Taxes (Topic 740): Improvements to Income Tax Disclosures

The current system of income tax disclosures doesn't provide enough information to understand the tax provision for an entity that operates in multiple jurisdictions. Investors currently rely on the rate reconciliation table and other disclosures, including total income taxes paid in the statement of cash flows, to evaluate income tax risks and opportunities.

# 2023-ED100: Income Taxes (Topic 740): Improvements to Income Tax Disclosures (Cont.)

The amendments in this Proposed ASU would address investor requests for more transparency about income tax information, including jurisdictional information, by requiring:

- Consistent categories and greater disaggregation of information in the rate reconciliation, and
- Income taxes paid, disaggregated by jurisdiction.
- In connection with the foregoing, the Proposed ASU sets forth 17 questions for stakeholders to consider.

# 2022-004: Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method

ASU No. 2014-01, Topic 323-Accounting for Investments in Qualified Affordable Housing Projects, introduced an option allowing reporting entities to elect to apply the proportional amortization method to account for investments made primarily for the purpose of receiving income tax credits and other income tax benefits.

# 2022-004: Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (Cont.)

The guidance set forth in ASU No. 2014-01 limited the proportional amortization method to investments in low-income housing tax credit (LIHTC) structures. Stakeholders have asked the FASB to allow reporting entities to elect to apply the proportional amortization method to tax equity investments that generate tax credits through other programs, such as the New Markets Tax Credit (NMTC) program, the Historic Rehabilitation Tax Credit (HTC) program, and Renewable Energy Tax Credit (RETC) programs.

# 2022-004: Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (Cont.)

The amendments in this Proposed ASU would allow entities the option to elect whether they account for tax equity investments using the proportional amortization method if certain conditions are met, regardless of the program from which the income tax credits are received.

# Final SEC Rulemaking

# Final SEC Rulemaking

| Release No. | Topic | SEC Compliance Effective for Periods Beginning After: | Highlights |
|---|---|---|---|
| 33-11216 | Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure | Regulation S-K Item 106 and the comparable requirements in Form 20-F: All registrants must provide such disclosures beginning with annual reports for fiscal years ending on or after December 15, 2023.<br><br>Compliance with the incident disclosure requirements in Form 8-K Item 1.05 and in Form 6- K: All registrants other than smaller reporting companies (SRCs) must begin complying on December 18, 2023. SRCs will have an additional 180 days and must begin complying with Form 8-K Item 1.05 on June 15, 2024. | In this Final Release , the rules and amendments enhance and standardize disclosures regarding cybersecurity risk management, strategy, governance and incident reporting by public companies subject to the reporting requirements of the Securities Exchange Act of 1934 (Exchange Act)-a matter that falls squarely within the environmental, social and governance (ESG) space.<br><br>Amending Form 8-K to add new Item 1.05, Material Cybersecurity Incidents, on which registrants will disclose information about a material cybersecurity incident within four business days after the registrant determines that it has experienced the incident.<br><br>Adding new Item 106 to Regulation S-K to require registrants to describe their process for assessing, identifying, and managing material risks from cybersecurity threats, as well as whether any risks from cybersecurity threats have materially affected the registrant. In addition, it will require registrants to describe the board of directors' oversight of risks from cybersecurity threats and management's role and expertise in assessing and managing these risks. |

# Final SEC Rulemaking

| Release No. | Topic | SEC Compliance Effective for Periods Beginning After: | Highlights |
|---|---|---|---|
| 33-11211 | Money Market Fund Reforms; Form PF Reporting Requirements for Large Liquidity Fund Advisers; Technical Amendments to Form N-CSR and Form N-1A | For amendments to Forms N-CR, N-MFP, and PF: June 11, 2024.<br><br>For funds to comply with the minimum portfolio liquidity requirements, the discretionary liquidity fee provision, and certain other amendments: six months after the effective date: April 2, 2024 | The amendments aim to improve the resilience and transparency of money market funds.<br><br>In March 2020, growing economic concerns about the impact of the COVID-19 pandemic led investors to reallocate their assets into cash and short-term government securities. Prime and tax-exempt money market funds, particularly institutional funds, experienced large outflows, which contributed to stress on short-term funding markets. The outflows significantly slowed following intervention from the Federal Reserve, which established the Money Market Mutual Fund Liquidity Facility and other programs to support short-term funding markets.<br><br>These amendments will:<br>- Increase minimum liquidity requirements to provide a more substantial buffer in the event of rapid redemptions.<br>- Remove provisions from the current rule that permit a money market fund to temporarily suspend redemptions and remove the regulatory tie between the imposition of liquidity fees and a fund's liquidity level.<br>- Require certain money market funds to implement a liquidity fee framework that will better allocate the costs of providing liquidity to redeeming investors.<br>- Institutional prime and institutional tax-exempt money market funds must impose mandatory liquidity fees when a fund experiences daily net redemptions that exceed 5% of net assets, unless the fund's liquidity costs are de minimis.<br>- Enhance certain reporting requirements to improve the SEC's ability to monitor and assess money market fund data.<br><br>By modifying certain reporting forms (Forms N-1A, N-CSR, N-CR, N-MFP, and PF) to reflect the amendments to the regulatory framework for money market funds. |

# Final SEC Rulemaking

| Release No. | Topic | SEC Compliance Effective for Periods Beginning After: | Highlights |
|---|---|---|---|
| 34-97656 | Prohibition Against Fraud, Manipulation, or Deception in Connection with Security-Based Swaps; Prohibition against Undue Influence over Chief Compliance Officers | August 29, 2023 | The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank) was enacted in part to improve accountability and transparency in the financial system. Consistent with that goal, as the SEC takes action to finalize its Dodd-Frank regime for SBSs, these rules address misconduct in the SBS market, which has a gross notional amount outstanding of approximately $8.5 trillion as of late 2022, and the particular aspects and characteristics of SBSs provide opportunities and incentives for misconduct. These rules will promote compliance with the Federal securities laws by SBS Entities and increase transparency in the SBS market. |
| 34-95620 | Whistleblower Program Rules | October 3, 2022 | The change to Rule 21F-3 allows the SEC to pay whistleblowers in instances when a whistleblower applies for an award that may otherwise be paid from another, non-SEC whistleblower program, including designated federal agencies. The amendments allow for such awards when the other entity's program is not comparable to the SEC's own program or if the maximum award that the SEC could pay on the related action would not exceed $5 million. Rule 21F-6 affirms the SEC's authority to consider the dollar amount of a potential award for the limited purpose of increasing an award, but not to lower an award. |

# Final SEC Rulemaking

| Release No. | Topic | SEC Compliance Effective for Periods Beginning After: | Highlights |
|---|---|---|---|
| 34-97424 | Share Repurchase Disclosure Modernization | FPIs filing on the FPI forms (new Form F-SR): commencing with the first full fiscal quarter that begins on or after April 1, 2024.<br><br>The Form 20-F narrative disclosure relating to the Form F-SR filings will be required starting in the first Forms 20-F filed after the FPI's first Form F-SR has been filed.<br><br>Listed Closed-End Funds filing on Form N-CSR: commencing with the first six-month period that begins on or after January 1, 2024.<br><br>All other issuers filing on Forms 10-K and 10-Q: commencing with the first full fiscal quarter that begins on or after October 1, 2023. | Prior to the adoption of this rule, Regulation S-K required corporate issuers that file on domestic forms to disclose on a quarterly basis any purchase made by or on behalf of the issuer of shares or other units of any class of the issuer's equity securities that are registered under Exchange Act Section 12, aggregated on a monthly basis. Disclosure was required on an annual basis for foreign private issuers (FPIs) and on a semi-annual basis for registered closed-end management investment companies that are exchange traded ("Listed Closed-End Funds").<br><br>The adopted amendments in Final Rulemaking Release No. 34-97424 require:<br>- Daily disclosure of repurchase activity quarterly or semiannually;<br>- Checking a box indicating if certain directors or officers traded in the relevant securities within four business days before or after the public announcement of an issuer's repurchase plan or program;<br>- Narrative disclosure about the issuer's repurchase programs and practices in its periodic reports; and<br>- Quarterly disclosure in an issuer's periodic reports on Form 10-K and 10-Q related to an issuer's adoption and termination of Rule 10b5-1 trading arrangements (new Item 408(d) of Regulation S-K).<br>- The amendments require presentation of repurchase activity aggregated daily in tabular format, showing for each day:<br>- Class of shares;<br>- Average price paid per share;<br>- Total number of shares purchased, including total number of shares purchased as part of a publicly announced plan;<br>- Aggregate maximum number of shares (or approximate dollar value) that may yet be purchased under a publicly announced plan;<br>- Total number of shares purchased on the open market; and<br>- Total number of shares purchased that are intended to qualify for the safe harbor in Exchange Act Rule 10b-18 and separately, the total number of shares purchased pursuant to a plan intended to satisfy the affirmative defense conditions of Rule 10b5-1(c). |

THANK YOU

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# Proposed Accounting Standards Update (ASU) No. 2023-ED400: Financial Instruments-Credit Losses (Topic 326): Purchased Financial Assets

If the purchased financial asset has not experienced a more-than-insignificant credit deterioration since origination, it is accounted for in a manner consistent with an originated financial asset (referred to as non-PCD accounting). Under non-PCD accounting, a day one credit loss is recorded in addition to any credit discount reflected in the fair value of the acquired assets.

Feedback from the PIR emphasized that having two accounting models for purchased financial assets is unnecessarily complex and that it would be preferable to apply a single accounting model to recognize credit losses for all purchased financial assets. These stakeholders noted that assessing whether credit has deteriorated since origination is subjective and inconsistently applied, which creates comparability issues and diminishes the decision usefulness of financial information. In addition, they were particularly concerned with the non-PCD accounting model and the requirement to record a day one allowance in addition to any credit discount reflected in the initial fair value.

The Proposed ASU would address these concerns by requiring that all acquired financial assets, with certain limited exceptions, follow the existing gross-up approach.

# Proposed Accounting Standards Update (ASU) No. 2023-ED500: Income Statement-Reporting Comprehensive Income-Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses

Feedback from investors on the Invitation to Comment No. 2021-004, Agenda Consultation, indicated that they would like disclosure of disaggregated financial reporting information to be a top priority for the FASB

The Proposed ASU would apply to all public business entities and would require them to disclose additional information about specific expense categories on an annual and interim basis in the notes to financial statements which is not currently required. The amendments in the Proposed ASU do not change or remove existing expense disclosure requirements and do not change requirements for presentation of expenses on the face of the income statement. However, they would affect where this information appears in the notes to financial statements because entities would be required to include certain existing disclosures in the same tabular format disclosure as the other disaggregation requirements in the proposed amendments.

# Proposed Accounting Standards Update (ASU) No. 2023-ED200: Intangibles-Goodwill and Other-Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets

The FASB received feedback from its Invitation to Comment No. 2021-004, Agenda Consultation, that improving the accounting for, and disclosure of, crypto assets is a top priority. As it currently stands, stakeholders say the accounting for crypto assets as indefinite-lived intangible assets, which is a cost-less-impairment model, does not provide investors with decision-useful information or reflect the underlying economics of those assets.

The Proposed ASU would improve the accounting for certain crypto assets by requiring an entity to measure those crypto assets at fair value each reporting period with changes in fair value recognized in net income. The proposed amendments also would improve the information provided to investors about an entity's crypto asset holdings by requiring disclosure about significant holdings, restrictions, and changes in those holdings.

# Proposed Accounting Standards Update (ASU) No. 2023-ED100: Income Taxes (Topic 740): Improvements to Income Tax Disclosures

During the FASB's 2021 agenda consultation process and other stakeholder outreach, investors highlighted that the current system of income tax disclosures doesn’t provide enough information to understand the tax provision for an entity that operates in multiple jurisdictions. Investors currently rely on the rate reconciliation table and other disclosures, including total income taxes paid in the statement of cash flows, to evaluate income tax risks and opportunities.

The amendments in this Proposed ASU would address investor requests for more transparency about income tax information, including jurisdictional information, by requiring:

- Consistent categories and greater disaggregation of information in the rate reconciliation, and
- Income taxes paid, disaggregated by jurisdiction.
- In connection with the foregoing, the Proposed ASU sets forth 17 questions for stakeholders to consider.

# Proposed Accounting Standards Update (ASU) No. 2022-004: Investments-Equity Method and Joint Ventures (Topic 323): Accounting for <u>Investments in Tax Credit Structures Using the Proportional Amortization Method</u> (a consensus of the Emerging Issues Task Force)

In 2014, the FASB issued ASU No. 2014-01, Investments-Equity Method and Joint Ventures (Topic 323)-Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force), in which it introduced an option <u>allowing reporting entities to elect to apply the proportional amortization method to account for investments made primarily for the purpose of receiving income tax credits and other income tax benefits.</u> The guidance set forth in ASU No. 2014-01 limited the proportional amortization method to investments in low-income housing tax credit (LIHTC) structures. More recently, stakeholders have asked the FASB <u>to allow reporting entities to elect to apply the proportional amortization method to tax equity investments that generate tax credits through other programs</u>, such as the New Markets Tax Credit (NMTC) program, the Historic Rehabilitation Tax Credit (HTC) program, and Renewable Energy Tax Credit (RETC) programs. Stakeholders emphasized that the proportional amortization method provides users with a better understanding of the returns from investments that are made primarily for the purpose of receiving income tax credits and other income tax benefits than the equity or cost methods.

# Proposed Accounting Standards Update (ASU) No. 2022-004: Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a consensus of the Emerging Issues Task Force) (Cont.)

The amendments in this Proposed ASU would allow entities the option to elect whether they account for tax equity investments using the proportional amortization method if certain conditions are met, regardless of the program from which the income tax credits are received. The election would be on a program-by-program basis. The Proposed ASU would also require disclosures to be transparent about an entity's investments that generate income tax credits and other income tax benefits.