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Financial Reporting and Accounting Considerations Related to the Current Commercial Real Estate Macroeconomic Environment

Introduction

The current macroeconomic environment, including recent events in the banking industry, has created ongoing challenges and uncertainty. Many commercial real estate entities have encountered increased costs of capital and tightening lending standards while also dealing with higher levels of maturing debt; reductions in the volume of real estate transactions; and evolving real estate demands and preferences related to the way people work, live, and shop.

The commercial real estate industry comprises not only owners and operators of real estate (e.g., in subsectors such as retail, multifamily, office, industrial, senior housing, and homebuilding) but also investors and lenders. The actual impact of the current macroeconomic environment on commercial real estate assets will vary on the basis of asset-specific factors such as subsector, geographic location, asset quality, leverage levels, tenant-specific operations, and in-place lease terms. Accordingly, commercial real estate entities should continually monitor, evaluate, and update their accounting and reporting as necessary.

The sections below summarize some of the challenges faced by commercial real estate entities — as well as by investors and lenders with assets backed by commercial real estate — in the current macroeconomic environment.

Increased Costs of Capital

Recently, mortgage interest rates for commercial real estate financing have risen, nearly doubling since the beginning of 2022.¹ Higher borrowing costs, combined with market uncertainty, have led to a decline in real estate transactions. In February 2023, sale activity associated with commercial real estate property decreased by 51 percent year over year.² Increased costs of capital may also limit a real estate entity's ability to fund redevelopment projects. A prolonged reduction in real estate transaction activity could hinder an entity's ability to execute on its asset acquisition or disposition plans.

Changes in the Lending Environment

In addition to higher costs of capital, commercial real estate companies may also be experiencing tightened lending standards as lenders and investors evaluate and manage their loan and debt investment portfolios, respectively. Nearly \$1.5 trillion in commercial real estate debt matures before the end of 2025, according to [Bloomberg](#).³ A significant amount of commercial real estate loan balances in the United States is held by small and regional banks, many of which are navigating their own challenges associated with the recent banking sector developments.

Higher interest rates and widening bond spreads have led to a decline in issuances of commercial real estate mortgage-backed securities (CMBSs). Issuances of domestic, private CMBSs totaled just \$5.98 billion in the first quarter of 2023, a 12 percent drop from the previous quarter and a 79 percent decline from the \$29.01 billion recorded in the same period one year prior, according to [Trepp](#).⁴

In response, some real estate companies have resorted to shorter-term financing, typically at higher financing costs, to replace maturing long-term debt.

Evolving Real Estate Demands and Preferences

Real estate demands vary by asset class and location; preferences in the way people work, live, and shop are evolving. Demand for real estate may also be affected by recent renovations and redevelopments as well as the incorporation of technology. Economic uncertainty, combined with expectations related to hybrid-work approaches, has led to increased vacancy rates for office properties in certain locales. Similarly, the extent and magnitude of e-commerce competition in the retail real estate sector have been thought to drive down performance in the subsector. While the retail real estate sector's performance has steadied, uncertainties remain. Accordingly, commercial real estate companies should continue to monitor the evolving landscape and consider how such changes may affect their portfolios.

Accounting Considerations

The sections below address accounting considerations that apply to various types of entities involved in the commercial real estate industry — specifically owners, operators, and developers; lenders; and investors. However, certain topics, such as those related to the current expected credit loss (CECL) model, may apply to all entities.

Real Estate Owners, Operators, and Developers

While some challenges in today's macroeconomic environment will have a broad impact on the commercial real estate industry, others may be limited to specific account balances, transactions, or disclosures. These challenges could result in operational and financial

¹ MSCI RCA Debt Metrics Standardized Download; data as of March 22, 2023.

² MSCI Real Capital Analytics US Capital Trends, February 2023.

³ Neil Callanan, "A \$1.5 Trillion Wall of Debt Is Looming for US Commercial Properties" — Bloomberg, April 8, 2023.

⁴ Orest Mandzy, "CMBS Issuance During Q1 2023 Drops to Levels Not Seen Since 2012" — Trepp, April 6, 2023.

uncertainties, often with unique accounting, financial reporting, and internal control implications such as those discussed in the sections below.

Impairment of Real Estate Assets and Fair Value Measurement

Test for Recoverability

As economic conditions deteriorate, the likelihood of identifying an impairment indicator increases. Entities should evaluate whether changes in results and conditions lead to a “triggering event” that requires them to evaluate their commercial real estate and other long-lived assets for impairment. When a triggering event has occurred, the entity assesses whether the asset is recoverable on an undiscounted cash flow basis. In performing this assessment, management must use asset-specific cash-flow projections.

Entities will need to make good-faith estimates, challenge the assumptions underlying those estimates for reasonableness, prepare comprehensive documentation supporting the basis for such estimates, and provide appropriate disclosures. In developing cash flow estimates, an entity needs to use reasonable assumptions. Such assumptions may include those related to residual value, revenue growth rate, leasing assumptions, and probability-weighted holding periods. Certain assumptions may depend on market information that is evolving in the current environment or is more difficult to ascertain in times of decreased market activity. Entities should regularly assess the reasonableness of assumptions in the current environment, especially those that are material to recoverability analyses or that may result in a wide range of conclusions. Even when there is a wide range of possible outcomes, the assumptions should be consistent with other relevant internal and external information. For example, probability-weighted holding periods should be aligned with management’s maturing debt and asset disposition plans. Management should challenge the reasonableness of those assumptions and should consider incentives, opportunities, and pressures as well as the risks of fraud associated with determining management’s good-faith estimates.

Determination of Fair Value

If an entity determines that the carrying value of a real estate asset is not recoverable on an undiscounted cash flow basis, an impairment loss is recognized for the difference between the asset’s fair value and carrying value. The fair value of an individual asset or asset group is measured in accordance with ASC 820⁵ on the basis of an orderly transaction between market participants as of the measurement date. Fair value estimates need to reflect the current views of market participants. In the current environment, entities should evaluate whether market information used in determining fair value is timely, incorporates the nature and geography of the asset, is free from bias, and reflects the view of an independent market participant. An entity must consider the highest and best use of the asset, even if that use differs from the entity’s intended use.

While long-lived assets may be subject to nonrecourse debt, the fair value of such assets should be determined without regard to the nonrecourse provisions. If the carrying amount of the asset that is reverted back to the lender is less than the amount of the nonrecourse debt extinguished, a gain would be recognized on extinguishment. Regardless of whether the entity recognizes an impairment loss, it should consider whether (1) early-warning disclosures regarding the asset value are appropriate and (2) there has been a change in the remaining useful life or salvage value because of the nature of the triggering event that occurred.

For additional considerations related to impairment of long-lived assets, see [Chapter 2](#) of Deloitte’s Roadmap *Impairments and Disposals of Long-Lived Assets and Discontinued Operations*.

⁵ For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte’s “[Titles of Topics and Subtopics in the FASB Accounting Standards Codification](#).”

Held-for-Sale Assets

Real estate assets are sometimes classified as held for sale. While the held-for-sale impairment model differs from the held-and-used impairment model, the method for determining fair value under ASC 820 is the same as that described above. When a real estate asset meets the held-for-sale criteria under ASC 360, impairment is evaluated by comparing the carrying amount of the real estate asset with its estimated fair value less cost to sell.

See [Section 3.3](#) of Deloitte's Roadmap *Impairments and Disposals of Long-Lived Assets and Discontinued Operations* for further discussion of the held-for-sale criteria.

Equity Method Investments and Joint Ventures

Real estate companies should consider whether the current macroeconomic environment has negatively affected equity method investments and joint ventures in such a way that the ASC 323 impairment factors are present. An equity method impairment is recognized when the estimated fair value of the investment is below its carrying value and such an impairment loss is concluded to be other than temporary.

See [Section 5.5](#) of Deloitte's Roadmap *Equity Method Investments and Joint Ventures* for further discussion of the assessment of equity method investments for other-than-temporary impairments.

Changes in liquidity and market transactions in the environment may lead to an increase in unique transactions structured as unconsolidated investments and joint ventures. To the extent that an entity enters into any nonstandard or unusual transactions, the entity should consider the nature and purpose of the transaction in determining the appropriate accounting, classification, and disclosure. An entity should also consider consulting with its legal or accounting advisers in such situations.

Debt Covenants

Certain debt agreements may include financial or operational covenants. Failure to comply with such covenants may give the creditor the right to accelerate the maturity date. Debt that has become payable on demand or that will become payable on demand within one year after the balance sheet date because of a covenant violation must be classified as a current liability (for entities that present a classified balance sheet) unless (1) the settlement will not require the use of current assets or the creation of other current liabilities or (2) a specific exception applies. Entities should also consider the impact of such acceleration clauses on their ability to continue as a going concern and should understand the judgments and estimates used in the calculation of the financial or operational covenants to make sure they are free from bias. See [Going Concern](#) below for further considerations.

Leases

Lease Collectibility

In addition to the impairment considerations described above, lessors should be aware that net investments in leases (arising from sales-type and direct financing leases) are subject to the CECL impairment model, which is based on expected losses rather than historical incurred losses. See [Section 5.3](#) of Deloitte's Roadmap *Current Expected Credit Losses* for further discussion of the application of the CECL model to lease receivables.

Lessors with outstanding operating lease receivables must apply the collectibility model under ASC 842-30. Entities should apply this collectibility model in a timely manner in the period in which amounts under the lease agreement are due. Under the ASC 842-30 collectibility model, an entity continually evaluates whether it is probable that future operating lease payments will be collected on the basis of the individual lessees' credit risk. When collectibility

of lease payments is probable, the lessor will apply an accrual method of accounting. When collectibility is not probable, the lessor will limit lease income to the cash received, as described in ASC 842-30-25-13. Entities should continue to assess the impact of the current environment when determining whether to move tenants either to or from this cash basis of accounting and the accrual method of accounting. For more information about assessing the collectibility of operating lease receivables, see Deloitte's July 1, 2019, [Financial Reporting Alert](#).

Reduction in Lease Term and Partial Termination

In the current environment, tenants may negotiate with lessors to exit early from a leased space, decrease the amount of leased space, or terminate the lease in its entirety. The accounting for these lease transactions differs depending on the facts and circumstances. It is critical to determine whether, for accounting purposes, the changes to the lease represent a lease modification or a lease termination. If the lease termination occurs on a future date, for accounting purposes, the change represents a lease modification rather than a termination and remaining payments will be recognized as income by the lessor (or expense by the tenant) over the remaining lease life.

A contractually agreed-upon reduction in the lease term should be accounted for as a modification in which the lessor (and lessee) must remeasure and reallocate the consideration in the contract and reassess lease classification by using the relevant assumptions as of the modification date. A lease termination agreement that terminates a portion of an asset, such as one of several leased floors in an office building, would be accounted for not as a termination but as a modification since the remaining floors continue to be leased. Lease termination guidance is applicable when the lessee's right of use ceases contemporaneously with the execution of the lease termination agreement (e.g., the space is immediately vacated). When a lease modification is not accounted for as a separate contract, such as a partial lease termination, the termination income must be reallocated and recognized over the lease term of the remaining lease components in the contract. An important difference between the lessee and lessor requirements is that the lessor should not update its lease-term assumptions made at lease commencement unless a contractual modification has occurred.

Evaluation of Lease Options

When determining the lease term at lease commencement, an entity should determine the noncancelable period of a lease, which includes tenant option periods whose exercise is believed to be reasonably certain. The likelihood of whether a tenant will be economically compelled to exercise or not exercise an option to renew or terminate a lease is evaluated at lease commencement. In performing this assessment, an entity would consider contract-based, asset-based, entity-based, and market-based factors (e.g., the market rental rates for comparable assets), which may be affected by changes in the macroeconomic environment. A lessor may only reassess the lease term upon modification of the lease when the modification is not accounted for as a separate contract.

Commercial Real Estate Lenders

As discussed above, lenders of commercial real estate, including banks, insurance companies, and real estate investment trusts (REITs), will also face challenges in the current macroeconomic environment. Commercial real estate lenders may need to consider whether the changes occurring in this environment affect the impairment of these loans.

The impairment model applied under U.S. GAAP to loans and other financial instruments measured at amortized cost depends on whether the entity has adopted ASC 326. In this publication, it is assumed that ASC 326 has been adopted. Companies that have not yet adopted ASC 326 should consider the previous guidance in ASC 310.

Unit of Account

Under the CECL impairment model, entities are required to evaluate financial assets within the scope of the model on a collective (i.e., pool) basis if the assets share similar risk characteristics (e.g., collateral type, interest rate, and geographic location). Because of the changes in the macroeconomic environment, a lender should evaluate whether a loan or subset of loans in a pool continues to exhibit risk characteristics similar to those of other loans in the pool. Entities should consider whether real estate loans in the pool need to be further disaggregated on the basis of the property type (e.g., office, retail, industrial, residential) or property class (i.e., Class A, Class B, or Class C) of the underlying asset. Furthermore, changes in expected credit loss patterns or reasonable and supportable forecast periods could mean that the risk characteristics exhibited by certain loans are no longer similar to those demonstrated by the remainder of the pool. As a result, the lender would remove loans from its current pool and either (1) move a subset of loans into a new pool or (2) evaluate loans individually if they no longer share risk characteristics with any other loans.

See [Chapter 3](#) of Deloitte's Roadmap *Current Expected Credit Losses* for further discussion of the unit of account used.

Measurement of Expected Credit Losses

An entity's estimate of expected credit losses should reflect the losses that occur over the contractual life of the financial asset. Although the entity is required to estimate expected credit losses over the contractual life of an asset, it must consider how prepayment expectations will reduce the term of a financial asset. Given the current economic environment and the potential changes in voluntary loan prepayments, lenders may need to consider whether to adjust their prepayment expectations when determining the contractual life of commercial real estate loans.

An entity must consider all available relevant information when estimating expected credit losses, including details about past events, current conditions, and reasonable and supportable forecasts and how they affect expected credit losses. That is, while the entity can use historical charge-off rates as a starting point for determining expected credit losses, the conditions that existed during the historical charge-off period may differ from those that exist in today's environment. As a result, the entity would need to adjust its historical loss information when measuring its estimate of expected credit losses. For example, increasing interest rates in the current economic environment may lead to an increase in the likelihood of customer defaults. As a result, in determining its expected credit losses, a lender may need to upwardly adjust historical loss rates to reflect the difference between the interest rates in the current economic environment and the interest rates related to the period represented by the historical information.

Further, some lenders may need to consider whether to shorten the reasonable and supportable forecast period for certain portfolios because of the forecast uncertainty that results from rising interest rates and other changes in the economic environment. In these situations, when a lender shortens the reasonable and supportable forecast period, it would most likely also increase the reversion period.

Lenders may also execute loan modifications or restructurings to reduce their exposure to credit losses, particularly in an environment in which the likelihood of defaults may increase (e.g., as a result of increasing interest rates). However, if an entity has adopted [ASU 2022-02](#),⁶ the entity's estimate of expected credit losses will no longer be able to take into account expected extensions, renewals, and modifications when the entity reasonably expects, as of the reporting date, that a troubled debt restructuring will be executed with the borrower. As a

⁶ For more information about ASU 2022-02, see Deloitte's April 4, 2022, [Heads Up](#).

result, entities may need to consider whether the inability to include such events that extend the contractual term of a financial asset would affect their estimate of expected credit losses.

See [Chapter 4](#) of Deloitte's Roadmap *Current Expected Credit Losses* for further discussion of the measurement of expected credit losses.

Collateral-Dependent Financial Assets

As economic conditions worsen, there may be additional pressure on a borrower's ability to perform under the terms of the loan, which could cause loans to be more likely to be considered collateral-dependent. Under U.S. GAAP, a financial asset is considered collateral-dependent if repayment is expected to be provided substantially through the operation or sale of the collateral.

In accordance with ASC 326, entities are required to measure the allowance for credit losses on the basis of the fair value of the collateral when they determine that foreclosure is probable. The fair value of the collateral must also be adjusted by the estimated costs to sell if the entity intends to sell rather than operate the collateral once it determines that foreclosure on the loan is probable. In the current environment, lenders should evaluate whether market information used in determining fair value is timely, incorporates the nature and geography of the asset, and is based on the view of an independent market participant. Lenders must consider the highest and best use of the asset, even if that use differs from the reporting entity's intended use.

See [Section 4.4.9.1](#) of Deloitte's Roadmap *Current Expected Credit Losses* for further discussion of collateral-dependent financial assets.

Investors in Commercial Mortgage-Backed Securities

Investors in many industries, including banks, insurance companies, investment companies, and REITs, purchase CMBSs, which are backed by mortgages on commercial properties. Some of these companies have been shifting investments away from offices and into multifamily and industrial properties instead. The current macroeconomic environment and this shift in investments has resulted in a less liquid market for certain CMBSs, as well as downward pressure on the value of the securities. The prices of CMBSs have generally declined over the past year, with mezzanine tranches in CMBSs continuing to show a lack of investor confidence in the first quarter of 2023 and increasing valuation uncertainty resulting from reduced liquidity. Further, the estimated volatility in potential future returns on CMBS investments has continued to increase.

Impairment and Valuation Considerations

The impairment model applied under U.S. GAAP to financial assets other than equity investments depends on the investment's classification and whether the entity has adopted ASC 326. In this publication, it is assumed that ASC 326 has been adopted. Companies that have not yet adopted ASC 326 should consider the previous guidance in ASC 320-10-35.

Held-to-Maturity Debt Securities

Because of the rising interest rates and current conditions for CMBSs, the fair value of many held-to-maturity (HTM) debt security portfolios is below their amortized cost basis. This difference between the fair value and amortized cost basis is not recognized in the financial statements. However, an investment in an HTM debt security is accounted for under ASC 326 in a manner similar to other financial assets carried at amortized cost. See the [Commercial Real Estate Lenders](#) section above for guidance on estimated expected credit losses.

In addition, in light of the current macroeconomic conditions, in combination with recent bank failures, companies may have reevaluated their liquidity as well as the potential need to

reclassify debt securities from HTM portfolios to ones that are available for sale (AFS). Under ASC 320-10-35-8, a sale or transfer of a security classified as HTM that occurs for a reason other than certain exceptions calls into question (taints) the entity's intent for all securities that remain in the HTM category.

Available-for-Sale Debt Securities

An investment in an AFS debt security is impaired if the fair value of the investment is less than its amortized cost basis. An entity must assess impairment at the individual security level. Subsequent accounting for an AFS debt security also depends on the investor's intention to sell the security or whether it is more likely than not (MLTN) that it would be required to sell it. If the investor intends to sell the security or it is MLTN that it would be required to sell it, the investor must write down the security's amortized cost basis to its fair value, write off any existing allowance for credit losses, and recognize in earnings any incremental impairment. An entity that does not intend to sell an impaired security, or would not MLTN be required to sell it, must determine whether a decline in fair value below the amortized cost basis resulted from a credit loss or from other factors. Any portion of the impairment attributable to credit losses is recognized through net income, with the remainder recorded through other comprehensive income. See [Chapter 7](#) of Deloitte's Roadmap *Current Expected Credit Losses* for further discussion of AFS debt securities.

Fair Value Measurement and Disclosure

ASC 820 emphasizes that fair value is a market-based measurement based on an exit price notion and is not entity-specific. Therefore, a fair value measurement must be determined on the basis of the assumptions that market participants would use in pricing an asset or liability, regardless of whether those assumptions are observable or unobservable.

Even in times of extreme market volatility for CMBSs, entities cannot ignore observable market prices on the measurement date unless they are able to determine that the transactions underlying those prices are not orderly. In accordance with ASC 820-10-35-54I, in determining whether a transaction is orderly (and thus whether it meets the fair value objective described in ASC 820-10-35-54G), an entity cannot assume that an entire market is "distressed" (i.e., that all transactions in the market are forced or distressed transactions) and place less weight on observable transaction prices in measuring fair value. See [Section 10.7](#) of Deloitte's Roadmap *Fair Value Measurements and Disclosures (Including the Fair Value Option)* for more information about identifying transactions that are not orderly.

In addition to considering whether observable transactions are orderly, entities should take into account the following valuation matters that could be significantly affected by the current commercial real estate market:

- An evaluation of the inputs used in a valuation technique and, in particular, the need to include the current market assessment of credit risk and liquidity risk. This may also involve the need to change valuation techniques or to calibrate valuation techniques to relevant transactions.
- An assessment of whether an entity can rely on data from brokers and independent pricing services when determining fair value.

The ASC 820 disclosure requirements are extensive, particularly those related to fair value measurements involving significant unobservable inputs (i.e., Level 3). An entity may need to consider whether the current CMBS market would affect a financial instrument's level in the fair value hierarchy. ASC 820 also requires an entity to (1) describe the valuation techniques and inputs used to determine fair values (by class of financial assets and liabilities) and (2) disclose a change in valuation technique and the reason for that change.

Financial Reporting Considerations

The financial reporting considerations discussed in the sections below primarily apply to commercial real estate entities, regardless of their sector or nature of investment. Other entities should also consider the concepts below on the basis of their particular association with commercial real estate.

Going Concern

In the current environment, some entities may need to consider whether, in their specific circumstances, they are able to continue as a going concern within one year after the date on which the interim or annual financial statements are issued or available to be issued, when applicable. In performing this assessment, the entity would need to consider, among other things, contractual obligations due within one year (including the impact of debt covenant compliance on those obligations) and access to existing sources of capital. In the current lending environment, it may be difficult to determine compliance with debt covenants within one year of the financial statements and future access to capital may be difficult. This area is subject to management bias given the significance of an entity's receiving a going-concern opinion from its auditors. An entity can only base this assessment on information that is available as of the issuance date of the financial statements.

If there is substantial doubt about an entity's ability to continue as a going concern, this substantial doubt may be alleviated if it is probable that (1) the entity's plan will be effectively implemented and (2) when implemented, the entity's plan will mitigate the conditions that are creating such doubt within one year after the issuance of the financial statements. Irrespective of whether the entity's plan alleviates the substantial doubt raised, the entity must provide comprehensive disclosures in its annual and interim financial statements. Registrants are encouraged to provide company-specific disclosures that allow investors to evaluate the current and expected impact of the macroeconomic environment through the eyes of management; registrants should also proactively revise and update these disclosures as facts and circumstances change.

Disclosure Considerations

The SEC expects registrants to clearly disclose material risks, trends, and uncertainties related to the current environment. As a result, most entities should consider the need to disclose the impact of the current environment in various sections of their SEC filings, including the risk factors section, Management's Discussion and Analysis (MD&A), the business section, legal proceedings, disclosure controls and procedures, internal control over financial reporting, and financial statements. For risk factors, while many registrants may already disclose their general macroeconomic risks, they should consider whether to update the disclosure to clarify that the risk is no longer hypothetical and to elaborate on the actual and potential impact of recent macroeconomic events (e.g., the banking failures) on the company.

In SEC guidance related to COVID-19 (e.g., [CF Disclosure Guidance \(DG\) Topic 9](#) issued on March 25, 2020, and [DG Topic 9A](#) issued on June 23, 2020), the SEC staff provided a series of illustrative questions for registrants to consider when developing disclosures related to the then current and expected future impact of COVID-19. The questions cover a broad range of topics but highlight a consistent theme: improving disclosures related to liquidity, capital resources, and going-concern considerations. Such principle-based considerations are also applicable in the current environment.

Non-GAAP Measures and Metrics

Registrants should consider the impact of the current environment on non-GAAP measures and metrics, specifically the impact of adjustments related to the current economic conditions. Non-GAAP measures should not be more prominently presented than GAAP

measures, should be reconciled to a GAAP measure, should be clearly labeled, and should be accompanied by appropriate purpose and use disclosures. Registrants should (1) clearly define the metrics used and how they are calculated, (2) describe the reasons why the metrics provide useful information to investors, and (3) describe how management uses the metrics in managing or monitoring the performance of the business.

When evaluating whether an adjustment to a non-GAAP measure is appropriate, the registrant should consider several factors, including whether the adjustment is:

- Directly related to such conditions or to the associated economic uncertainty.
- Incremental to normal operations and nonrecurring.
- Objectively quantifiable rather than an estimate or projection.
- Not interpreted as misleading or involving the use of tailored accounting principles.

For instance, an entity should evaluate adjustments for impairment of real estate assets, impairment of equity method investments, and changes in the CECL model to determine whether they are consistent with the above factors.

To the extent that new adjustments or changes to non-GAAP measures and metrics are made as a result of the current economic environment, they should be clearly labeled and transparently disclosed. When making such changes, registrants should disclose clearly (1) the nature of the changes (e.g., specific details regarding the components that have changed and the way the measure or metric is calculated or presented), (2) the reasons for such changes, (3) the effects of any changes on other information being disclosed or previously reported, (4) information recasted to conform prior periods to the current presentation in accordance with [C&DI Question 100.02](#), and (5) any other information about the changes that would be relevant to the company's trends or results. For non-GAAP measures, in addition to the above items, registrants should update their discussion of how the new measure is used by management and why it is useful to investors. In addition, management, the audit committee, and others, as applicable, should evaluate the appropriateness of any changes to non-GAAP measures and metrics. See Deloitte's Roadmap [SEC Comment Letter Considerations, Including Industry Insights](#) for current trends in SEC comment letters and Deloitte's Roadmap [Non-GAAP Financial Measures and Metrics](#) for more information about SEC requirements and interpretations related to such measures and metrics.

Management's Discussion and Analysis

In a manner similar to how entities updated their disclosures to discuss the impact of the COVID-19 pandemic and other macroeconomic and geopolitical events, entities should provide timely disclosures about the impact of the current environment, as applicable, throughout all their SEC filings (including Form 10-K, Form 10-Q, Form 8-K, and registration statements). To the extent that there are multiple relevant macroeconomic conditions (e.g., lending environment, inflationary environment, other real estate environment factors), entities should discuss the potential impact of each condition separately so that an investor can understand the magnitude of each of these impacts.

Financial statement disclosures about the risks and uncertainties associated with an entity's operations should discuss how uncertainties may affect its accounting estimates. Entities may need to use greater judgment in estimating future results and the potential range of reasonably likely outcomes, especially in areas such as impairment of real estate assets, assessment of the collectibility of future lease payments, and CECL reserves. To the extent applicable, registrants should consider expanding their disclosures about key assumptions used within these significant estimates and the sensitivity of such assumptions.

The MD&A should address any effects on operational metrics (including changes in occupancy levels), liquidity, and lease collectibility, as well as any early-warning disclosures related to

upcoming impairments, including any impairment triggers. In addition to discussing the impact on historical results, registrants are expected to disclose, in accordance with SEC Regulation S-K, Item 303, “any known trends or uncertainties that have had or that are reasonably likely to have a material favorable or unfavorable impact” on their financial condition, results of operations, or liquidity. Forward-looking disclosures are especially critical in times of economic uncertainty. Early-warning disclosures regarding impairment may be appropriate as management considers changes to (1) holding periods associated with real estate assets, (2) geographic market conditions, and (3) strategy and use of the real estate asset. The SEC could use hindsight after a material impairment is announced to question why no early-warning disclosures about upcoming impairments were provided in the periods leading up to such an impairment.

The challenges in the current macroeconomic and interest-rate environment, along with limited access to cash through debt or equity markets, may significantly affect liquidity. Within their MD&A disclosures about liquidity, registrants should consider discussing their working capital or other cash flow needs, anticipated changes in the amount and timing of cash generated from operations, the availability of other sources of cash along with potential limitations associated with accessing such sources, debt covenant issues, related regulatory risks, and the possible ramifications of their inability to meet their short- or long-term liquidity needs.

In summary, a registrant should discuss in its MD&A all relevant material quantitative and qualitative impacts of the current environment on its business. Although MD&A disclosures are typically included in a Form 10-K or Form 10-Q, because of the rapidly evolving impact of the current environment, registrants sometimes may also file current reports on Form 8-K to update investors on the current and potential future impact of such events on their business.

Internal Controls and Fraud Risk Assessment

Entities should consider whether they need to identify new controls or modify existing controls in response to new or modified risks that have emerged within impairment of real estate assets, going concern, or other financial reporting risks associated with the items discussed above. Given the changing market for real estate assets and the significance of real estate assets for many entities, a company's internal control evaluation should include the consideration of new or emerging fraud risks as part of management's fraud risk assessment. SEC registrants must disclose in their quarterly or annual filings any changes in internal controls that have materially affected, or are reasonable likely to materially affect, their internal control over financial reporting in Item 4 of Form 10-Q or in Item 9A of Form 10-K (or in Item 15 of Form 20-F for foreign private issuers).

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