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Highlights of the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments

Executive Summary

At the annual AICPA & CIMA Conference on Current SEC and PCAOB Developments, held in Washington, D.C., key stakeholders convene to discuss developments, emerging issues, and trends in accounting, financial reporting, and auditing, as well as other related matters. Key topics discussed at this year's conference included:

- *Communication to investors* — Multiple members of the SEC staff emphasized that high-quality financial reporting, which would include providing risk-factor and MD&A disclosures, is an important means of communicating with investors, particularly in light of the current macroeconomic environment. SEC Chief Accountant Paul Munter noted that registrants need to clearly communicate information, including risks and uncertainties to investors, stating that financial reporting is a "communication exercise" and not just a "compliance exercise." Mr. Munter emphasized that the goal of financial reporting is to communicate information to investors comprehensively and clearly. SEC Deputy Chief Accountant Jonathan Wiggins pointed out that this goal can often be achieved by focusing on alignment with the principles of the applicable disclosure requirements rather than on minimizing risk. During a separate session, Gurbir Grewal, director of the SEC's Division of Enforcement, reiterated that the information management provides to investors needs to be correct and complete, regardless of whether it is communicated in the financial statements, MD&A, or an earnings call.
- *New SEC reporting requirements, including clawback checkboxes* — Staff from the SEC's Division of Corporation Finance (CF or the "Division") provided updates on recent rulemaking initiatives and noted that it was important for accounting and financial

reporting personnel to be involved in evaluating the disclosure requirements of the new rules, including clawback provisions. With respect to the new clawback provisions, Division Chief Accountant Lindsay McCord discussed the requirement for entities to "check the box" on the cover page of an annual report when corrections, whether required or voluntary, are made to prior-period financial statements for an accounting error. Ms. McCord indicated that a box would not be checked when adjustments are made for errors that do not result in revisions to prior-period financial statements. Ms. McCord also noted that a second box would need to be checked if a recovery analysis was required for a correction of incentive-based compensation received by any executive officer.

- *New guidance on segment reporting* — During the Office of the Chief Accountant (OCA) session on current accounting issues, SEC Associate Chief Accountant Carlton Tartar discussed considerations related to determining the segment measure of profit or loss for entities with a single reportable segment under ASU 2023-07. Mr. Tartar noted that under the new ASU, an entity is permitted to disclose multiple measures of segment profit or loss but is still required to report the one measure that is most consistent with U.S. GAAP. He further indicated that when an entity has one reportable segment and its chief operating decision maker (CODM) evaluates the business and makes capital allocation decisions on a consolidated basis, the SEC staff would expect the registrant to conclude under the new ASU that the measure that is most consistent with U.S. GAAP is consolidated net income. In addition, Ms. McCord discussed the relationship between the non-GAAP rules and the new guidance permitting disclosure of multiple measures of segment profit or loss. She noted that additional measures provided in the financial statements, when such measures are not determined in accordance with GAAP, would be considered non-GAAP measures and would be subject to the SEC's rules and regulations related to those measures (e.g., such measures must not be misleading and the required disclosures must be included).
- *Statement of cash flows (SoCF)* — During an end-of-day Q&A session, Mr. Munter discussed his recently issued statement regarding the SoCF, in which he highlighted the need for preparers and auditors to apply the same level of scrutiny to the SoCF as they do to the other primary financial statements. Mr. Munter noted that investors, when evaluating an entity's future cash flows, emphasize the SoCF to better understand the cash-generating activities from the entity's operations as well as the entity's financing and investing activities during the period. Further, he emphasized the importance of classification within the SoCF. For instance, he indicated that when correcting errors in classification among the various types of cash flows and determining the materiality of those errors, an entity should evaluate both quantitative and qualitative factors. Mr. Munter noted that the evaluation of a classification error's materiality would be expected to be similar to that for other errors in the financial statements.
- *PCAOB inspection trends and audit quality* — During the PCAOB keynote session and standard-setting update, PCAOB Chair Erica Williams discussed the Board's 2022 inspection cycle. She noted that, along with an increased number of comments and deficiency rates, the highest enforcement-related penalties imposed in PCAOB history were recorded during this cycle. Ms. Williams further stressed the importance of high-quality audit engagements to upholding trust in the auditing profession, highlighting the connection between firm culture and audit quality. Mr. Munter also discussed the importance of accounting firm culture, including a firm's commitment to professionalism and serving the public interest while maintaining a high standard of audit quality throughout its global network.

The above topics and other matters addressed at this year's AICPA & CIMA conference are discussed in further detail below.

Accounting and Financial Reporting

Segment Reporting

On November 27, 2023, the FASB issued ASU 2023-07. The ASU requires public entities to disclose significant segment expenses by reportable segment if they are regularly provided to the CODM and included in each reported measure of segment profit or loss. During the session on the OCA's current projects, Carlton Tartar offered insights into issuers' application of ASU 2023-07, including the following:

- While the ASU permits entities to report multiple measures of segment profit or loss, issuers are still required to report the measure of segment profit or loss that is most consistent with U.S. GAAP.
- When a single reportable segment entity is managed on a consolidated basis, the SEC staff would expect the issuer to conclude under the new guidance in ASC 280-10-55-15D that the measure of segment profit or loss that is most consistent with U.S. GAAP is consolidated net income. Jonathan Wiggins reiterated this point in a Q&A session.

Connecting the Dots

We encourage entities to consider discussing with auditors, advisers, or the SEC staff how the staff's view should be applied if the entity is a single reportable segment entity and management concludes that it does not manage the entity on a consolidated basis and may therefore use a measure of segment profit or loss that is not consistent with U.S. GAAP.

If registrants elect to report multiple measures of segment profit or loss, additional measures that are not determined in accordance with U.S. GAAP would be considered non-GAAP measures. Accordingly, registrants that intend to early adopt the ASU and present such non-GAAP measures should discuss their plans with the SEC staff. For additional discussion of this topic, see the Segment Reporting — Non-GAAP Considerations section.

In the panel discussion on FASB updates, FASB Chairman Richard Jones observed that the expense information that must be disclosed under the ASU is expected to be readily available to entities since it is based on the information regularly provided to the CODM. Further, FASB Technical Director Hillary Salo advised preparers to carefully consider the new guidance and the discussion in the ASU's Background Information and Basis for Conclusions related to using multiple measures of segment profit or loss.

See Deloitte's November 30, 2023, *Heads Up* for additional information about ASU 2023-07.

During the session on Division developments, Deputy Chief Accountant Melissa Rocha provided segment reporting reminders for issuers under current disclosure requirements as well as after the adoption of ASU 2023-07, including the following:

- *Meaning of "regularly reviewed" and "regularly provided"* — Ms. Rocha discussed the terms "regularly reviewed" and "regularly provided" as used in the guidance in ASC 280 on evaluating operating segments and applying certain segment reporting disclosure requirements. She noted that in the SEC staff's view, operating results that are reviewed by a CODM quarterly would generally be considered "regularly reviewed." Similarly, financial information provided to a CODM quarterly would be considered "regularly provided." However, Ms. Rocha cautioned that these examples would not necessarily preclude a frequency of less than quarterly from being considered "regularly reviewed" or "regularly provided."

- *Reportable segment disclosures* — Ms. Rocha also provided insight into the SEC staff's views on the required disclosures for reportable segments under ASC 280-10-50-22, noting that such amounts should not deviate from the recognition and measurement principles in U.S. GAAP. For example, she observed that the SEC staff will object to issuers' disclosures under ASC 280-10-50-22 of amounts they describe as "segment revenues" when such amounts are not consistent with revenues from external customers (e.g., because the amounts are based on measurement and recognition principles that are inconsistent with U.S. GAAP).

Fair Value

During the panel discussion on the OCA's current projects, Senior Associate Chief Accountant Gaurav Hiranandani spoke about fair value measurements under ASC 820 in connection with various topics, including crypto assets and the practical expedient for measuring expected credit losses on collateral-dependent financial assets. He noted that an entity often needs to apply significant judgment when determining such measurements.

Crypto Assets

Mr. Hiranandani mentioned that as a result of the FASB's project on the accounting for and disclosure of crypto assets (in which a final ASU is expected later this month), an entity would be required to subsequently measure crypto assets at fair value in accordance with ASC 820. He noted that ASC 820 already has a robust framework for measuring assets and liabilities in both active and inactive markets. In particular, the guidance in ASC 820 on the following matters may be useful in an entity's determination of the fair value measurement of a crypto asset:

- Identifying the principal or most advantageous market.
- Determining whether and, if so, how fair value may be affected by transactions with related parties.
- How to measure fair value when the volume or level of activity has significantly decreased for an asset.
- Identifying transactions that are not orderly, and using quoted prices provided by third parties.

When determining the principal or most advantageous market, an entity should keep in mind that there is a general presumption in ASC 820 that the principal market is the market in which the entity would normally enter into a transaction to sell the asset unless there is evidence to the contrary. The identification of the principal market is important because it forms the basis for identifying market participants and thereby the set of information and assumptions that a market participant would use to determine the fair value of an asset.

For more traditional markets, such as those for equities and commodities, there may be a relatively limited number of venues in which an entity can transact, and the total volume and level of activity may be concentrated in just one or two of those venues. In addition, market characteristics for those venues, such as pricing, regulatory oversight, and the general availability and reliability of information, may be fairly consistent, thus permitting a market participant to make an informed determination about the total overall transaction volume and about which one of those venues is the principal or most advantageous market. However, such consistency may not exist for crypto asset markets because of their continuing rapid evolution. Further, the facts and circumstances relevant to the identification of the principal or most advantageous market for crypto assets may change over time and may differ from asset to asset as well as from entity to entity, depending on the activities in which the entity engages.

See Deloitte's September 11, 2023, *Heads Up* for additional information about the crypto assets project.

Practical Expedient Related to Measuring Expected Credit Losses

Mr. Hiranandani discussed the use of fair value in the measurement of allowances for credit losses. A loan that is not a debt security and is classified as held for investment is recorded at amortized cost unless the fair value option is elected. Further, the loan must be assessed for an allowance for credit loss in accordance with ASC 326.

Although the initial measurement of the loan and its basis after the allowance is recorded are not fair value measurements, ASC 326 provides a practical expedient that permits an entity to estimate the allowance for a collateral-dependent loan by using the fair value of the underlying collateral. An entity may apply the practical expedient if two conditions are met:

- The borrower must be experiencing financial difficulty.
- The entity expects repayment to be provided substantially through either the sale or operation of the underlying collateral.

He noted that for the collateral-dependent loan, an entity must measure the allowance on the basis of the fair value of the collateral if it is probable that the entity will foreclose on the collateral. In these scenarios, the fair value of the underlying collateral must be determined in accordance with the principles in ASC 820, which include the application of the market-participant perspective. Entities should exercise reasonable and appropriate judgment when valuing collateral, particularly during difficult economic times when collateral assets might be illiquid.

See Section 4.4.9 of Deloitte's Roadmap *Current Expected Credit Losses* for more information about the practical expedient.

Other Considerations

Mr. Hiranandani stressed the importance of identifying and consistently applying appropriate valuation techniques. The technique used could be affected by numerous variables, such as the asset or liability being valued, the availability of relevant inputs, and the reliability of those inputs. He mentioned that inherent in this evaluation is understanding what information market participants have available to them, because valuation techniques that measure fair value should maximize the use of observable inputs.

Mr. Hiranandani also reminded attendees of the requirement in ASC 820 to calibrate a valuation technique to ensure that it reflects current market conditions. Such calibration may help an entity determine whether to adjust its valuation technique when the initial transaction price is fair value and the entity would be required to use significant unobservable inputs (commonly referred to as Level 3 inputs) for subsequent fair value measurements. He further acknowledged the guidance in ASC 820-10-35-24C, which requires an entity to calibrate its valuation technique in such a way that if it applied the technique at initial recognition, the result would equal the transaction price.

See Sections 9.3 and 10.3.3 of Deloitte's Roadmap *Fair Value Measurements and Disclosures (Including the Fair Value Option)* for more information about calibrating valuation techniques.

Finally, Mr. Hiranandani discussed the importance of fair value disclosures. He stated that the objective of such disclosures is to:

- Help users of financial statements assess valuation techniques and inputs that are used in measuring assets and liabilities at fair value on the balance sheet on a recurring and nonrecurring basis.
- Help users assess the financial statement effect of recurring fair value measurements that are determined by using significant unobservable inputs.

He emphasized that disclosures should include the information required by ASC 820 at the appropriate level of detail, particularly related to Level 3 fair value information. In addition, he reminded registrants to consider their disclosure obligations associated with critical accounting estimates (CAEs). See the Critical Accounting Estimates section for a discussion of best practices for these disclosures.

SPAC Backstop Arrangements

During the panel discussion on current OCA projects, Carlton Tartar noted that there are still many complexities related to debt versus equity classification of financial instruments, particularly in special-purpose acquisition company (SPAC) transactions even though the volume of such transactions has declined. Mr. Tartar explained that SPACs usually go public and then must identify an acquisition target within a specified period, typically 18 to 24 months. He further stated that SPACs have historically used various types of financings to ensure that they have the necessary funds to close their proposed business combinations once a target has been identified. He observed that more recently, there has been an uptick in the use of a financing vehicle commonly referred to as a backstop arrangement. In such an arrangement, an issuer would prepay an amount to a counterparty to purchase a stated (or maximum) number of shares that the counterparty holds and vote in favor of the business combination, or merger. The counterparty has the right to (1) deliver the shares to the issuer at a later date for a stated amount per share or (2) retain the shares and return the prepayment.

Mr. Tartar highlighted an example in which a registrant proposed to initially recognize the prepayment as an asset under ASC 480 to reflect the up-front cash payment made to the counterparty. The SEC staff ultimately objected to this approach because it believes that the substance of the prepayment is more akin to a subscription receivable for transactions related to an entity's own shares. Accordingly, the staff determined that it is appropriate to record the prepayment amount in contra equity in the manner described in Regulation S-X, Rule 5-02. The staff did not provide a view on the subsequent accounting for the instrument.

Investment Company Accounting

In a discussion of recent consultations, Mr. Hiranandani addressed the application of ASC 946, which provides industry-specific guidance for entities that meet the definition of an investment company as defined in ASC 946-10-15-6(a)(2).[1] Assets and liabilities of investment companies are generally recorded at fair value. Mr. Hiranandani described a consultation in which the application of ASC 946 was not appropriate because the legal entity in question did not meet the fundamental characteristics of an investment company under ASC 946. The consultation involved an investment adviser that held an investment in a real estate fund; the limited partner interest was held by a third party. The investment adviser had also formed subsidiaries that participated in development, construction, and property management services provided to the investment properties owned by the real estate fund in question.

[1] ASC 946-10-15-6 states, in part:

"An investment company has the following fundamental characteristics:

a. It is an entity that does both of the following:
   1. Obtains funds from one or more investors and provides the investor(s) with investment management services
   2. Commits to its investor(s) that its business purpose and only substantive activities are investing the funds solely for returns from capital appreciation, investment income, or both."

The SEC staff noted that to meet the characteristics of an investment company, an entity must make a commitment to its investors that its business purpose and only substantive activities are investing the funds solely for returns from capital appreciation or investment income (or both). In this consultation, the development, construction, and project management activities provided by subsidiaries of the investment adviser for investment properties held by the real estate fund were indistinguishable from the activities performed by the investment adviser as part of its core activities for the real estate fund. Since these collective activities were indistinguishable from the activities of the real estate fund (the investment advisory services), the investment adviser received returns that were incremental to capital appreciation or investment income. Finally, the investment adviser guaranteed the third-party limited partner's return, shielding the limited partner from development activity risk that would be expected to arise from its respective investment in the fund.

The SEC staff's view was that development, construction, and property management activities are not investment activities and that the real estate fund did not satisfy the requirements of ASC 946-10-15-6(a)(2) since the fund's purpose included activities beyond capital appreciation and investment income. As a result, the investment adviser was not eligible to apply ASC 946 to its investment in the real estate fund. Mr. Hiranandani indicated that no single factor in the analysis was determinative in the staff's conclusion. In addition, the SEC staff reminded registrants that when determining the applicability of ASC 946 to a legal entity, they should perform a robust analysis that takes into account all facts and circumstances.

Statement of Cash Flows

During a Q&A session, Hillary Salo provided additional details on the objective and scope of the SoCF project. This project was added to the FASB's technical agenda in response to feedback indicating that improvements to financial institutions' SoCF are needed to provide investors with more decision-useful information. For example, users of financial institutions' financial statements indicated that the existing framework that outlines operating, investing, and financing cash flows fails to effectively reflect the complexities of such institutions' operations. Other commenters expressed a desire for improved disclosures related to changes in working capital.

Ms. Salo further specified that this project is aimed at reorganizing and disaggregating the information on the SoCF for financial institutions (e.g., a requirement for such entities to separately disclose the amount of cash interest income received).

In addition to the SoCF project for financial institutions on the FASB's technical agenda, the Board is exploring SoCF improvements more broadly in a project on its research agenda.

Other conference speakers discussed SoCF matters as well. For example, in a keynote session, former SEC Commissioner Elad Roisman highlighted the SoCF as a disclosure area of focus for issuers and external auditors. Mr. Munter also addressed this topic in a Q&A session in which he referred to his recent statement on improving the quality of cash flow information provided to investors and emphasized the following points:

- The SoCF is a primary financial statement, and its importance is equal to that of the other statements; however, the SEC staff has anecdotally observed that the processes and internal controls issuers use to prepare the SoCF are not always as rigorous as they are for the other statements. For example, the staff has seen instances in which issuers and their external auditors have presented errors in the SoCF as simply a matter of classification and, therefore, as an immaterial restatement. Mr. Munter noted that classification is the focus of the SoCF and that all errors in the SoCF should be evaluated in the same manner as other accounting errors, both qualitatively and quantitatively.[2]

[2] See ASC 250.

- Issuers could consider using the direct method to report operating cash flows or otherwise supplementing their use of the indirect method with disclosures about specific major classes of gross cash receipts and payments (e.g., cash collected from customers).
- Audit committees may, as part of their oversight role, discuss with management and external auditors the potential use of the direct method or whether to provide additional disclosures about gross cash receipts and payments. Emphasis should be on the needs of investors.

During the same Q&A session, Mr. Munter encouraged issuers to provide the most transparent and complete information they can to investors regarding cash generation and utilization, provided that such presentation is permissible under the standards. Jonathan Wiggins also observed that diversity in practice may not be a sufficient justification for the acceptability of a certain SoCF presentation. However, he acknowledged that there may be limited scenarios in which diversity in practice exists, no classification error is present, and an entity may reasonably conclude that a cash flow belongs in one category or another.

Connecting the Dots

One scenario in which entities should use significant judgment is when the legal terms of the agreement stipulate the allocation of cash flows to a single element in a transaction but the consideration should be allocated to multiple elements for accounting purposes. For example, consider a scenario in which an entity enters into a revenue contract for fixed consideration of $1 million and agrees to give the customer 100 free shares of the entity. In this situation, U.S. GAAP would require the reallocation of part of the contractual consideration received under the revenue contract to the shares issued. In such circumstances, cash receipts would have characteristics of more than one class of cash flows.

In accordance with ASC 230-10-45-22 and 45-22A, the classification of cash receipts and payments that have aspects of more than one class of cash flows should be determined by first applying specific guidance in U.S. GAAP. When such guidance is not available, financial statement preparers should separate each identifiable source or use of cash flows within the cash receipts and cash payments on the basis of the nature of the underlying cash flows. Each separately identified source or use of cash receipts or payments should then be classified on the basis of its nature. Classification based on the activity that is most likely to be the predominant source or use of cash flows is only appropriate when the source or use of cash receipts and payments has multiple characteristics and is not separately identifiable. Entities should continue to use judgment in determining whether the source or use of cash receipts or payments can be separately identifiable.

For further discussion of accounting and reporting considerations related to cash receipts or payments that have aspects of more than one class of cash flows, see Section 6.4 of Deloitte's Roadmap *Statement of Cash Flows*.

Deferred Offering Costs

Questions about accounting for deferred offering costs have been raised by SPACs and other entities. Incremental costs that are directly attributable to a planned offering may be deferred and charged against proceeds of the offering as a reduction of equity rather than as an expense. Note that deferred offering costs should not include management salaries or other general and administrative expenses.

Mr. Tartar highlighted a fact pattern recently addressed by the SEC staff in which a registrant proposed treating costs related to the initial preparation and auditing of its financial statements as deferred offering costs because the financial statements were prepared for the sole purpose of pursuing an IPO. The staff ultimately objected to the registrant's proposed accounting because although the registrant needed to obtain audited financial statements to pursue an IPO, audited financial statements may be obtained for various other reasons. As a result, the staff did not view these costs as being directly attributable to the planned offering.

Risks and Uncertainties

During the session on current OCA projects, Mr. Tartar discussed the importance of disclosures about risks and uncertainties. Specifically, he emphasized the need to provide high-quality and transparent disclosures, especially during times of economic uncertainty. He noted that when registrants discuss information about estimates and uncertainties, they should clearly explain their significant management judgments, key assumptions, and known risks so that investors can better understand the significant risks of adjustment to the financial statements in future periods and make informed investment decisions.

Mr. Wiggins acknowledged that in addition to specific disclosure requirements, there are many principles-based disclosure requirements related to risks and uncertainties. He emphasized that for registrants to accomplish the goal of providing high-quality and transparent disclosures about risks and uncertainties, they should consider whether their disclosures meet both types of requirements (specific and principles-based).

Investor and Stakeholder Feedback

Throughout the conference, several individuals spoke about the importance of stakeholder engagement, including the incorporation of investor and stakeholder input into the standard-setting process. For example, when discussing current OCA projects, Gaurav Hiranandani highlighted the need for stakeholders to provide "specific and constructive feedback during all stages of the standard-setting process [that] can both inform the direction of an ongoing potential project [and] contribute to the FASB's ability to continue to improve accounting standards for the benefit of investors." Mr. Wiggins further discussed the importance of investor feedback in the standard-setting process throughout the development and implementation of a project. This sentiment was echoed in remarks delivered by Richard Jones and Hillary Salo, who both noted the continued engagement between the FASB and the SEC and the significant outreach efforts with stakeholders performed by the FASB on a regular basis.

The importance of stakeholder engagement was also emphasized by the PCAOB, as noted in the PCAOB Developments section.

SEC Reporting

Emerging Macroeconomic Issues

Erik Gerding, Division director, highlighted the need for registrants to consider the effects of current macroeconomic conditions (e.g., higher levels of inflation, interest rate and liquidity risks) on their required disclosures. He also stated that "boilerplate is the investor's enemy" and indicated that disclosures about these macroeconomic effects should be tailored to a registrant's particular facts and circumstances to be meaningful to investors. Melissa Rocha highlighted issues related to increased inventory losses that certain registrants are encountering.

> For further discussion of accounting and reporting considerations related to the current macroeconomic and geopolitical environment, see Deloitte's September 15, 2023, *Financial Reporting Alert*.

Inflation

Inflation can affect registrants in various ways, including increased costs and reduced discretionary spending. To the extent that registrants are materially affected by higher levels of inflation, they should disclose the period-over-period impact in MD&A. In addition, a registrant that previously identified an inflation-related risk factor should reevaluate whether there is a current-period impact and whether the factor still presents future risk. A registrant that has not previously identified a risk factor should consider whether the recent rise in inflation has contributed to a material risk that must be disclosed.

Interest Rate and Liquidity Risk

Mr. Gerding highlighted that the banking industry is one industry in which interest rate and liquidity risks have received particular attention from the SEC staff. With respect to interest rate risk, banks commonly disclose an interest rate sensitivity analysis to provide investors with qualitative and quantitative information about market risk (see discussion below). As for liquidity risks, banks should ensure that they are providing meaningful liquidity disclosures, including information about available sources of liquidity and potential cost and access issues. Banks should also disclose actions they are taking to address liquidity risk (e.g., balance sheet restructuring, accessing new liquidity sources, use of broker deposits).

Market Risk Disclosures

Regulation S-K, Item 305, requires registrants to disclose quantitative and qualitative information about exposures to market risk (e.g., interest rate risk, foreign currency exchange rate risk, commodity price risk, equity price risk) for market-sensitive instruments, such as derivatives, debt, receivables, payables, and investments. During her remarks, Mary Beth Breslin, industry office chief of the SEC's Office of Real Estate & Construction, discussed the SEC staff's focus on these disclosures in light of the current interest rate environment. While the market risk disclosure requirements are especially important for registrants in the banking industry, these disclosures are required for any registrant with market-sensitive instruments. Registrants have three options for presenting the disclosures: (1) tabular presentation of market-sensitive instruments and contract terms relevant to determining future cash flows; (2) sensitivity analysis assessing the potential loss in value, earnings, or cash flows from market-sensitive instruments as a result of hypothetical changes in interest rates or other market rates; or (3) value-at-risk analysis estimating the potential loss from market movements, with a specific likelihood of occurrence over a selected period. The SEC has published a number of Q&As that registrants can consider when preparing their market risk disclosures as part of their periodic reporting requirements.

Given that many registrants elect to use a sensitivity analysis to address the disclosure requirements, Ms. Breslin reminded them that their disclosures should include (1) a description of the model, (2) the assumptions used, and (3) the inputs and parameters. Registrants should also consider disclosing assumptions related to future balance sheet composition, anticipated deposit withdrawals, and prepayments, as applicable. The SEC staff has observed that thoughtful disclosures regarding the inputs to the sensitivity model allow investors to understand the outputs from the models and evaluate changes over time. Registrants should continue to evaluate the inputs and assumptions used in their sensitivity models to reflect the current market conditions, especially when markets are volatile.

Inventory Losses

Ms. Rocha discussed inventory losses encountered by many registrants over the past few years as a result of (1) inventory backlog or obsolescence due to supply-chain disruptions caused by the COVID-19 pandemic and (2) significant amounts of inventory shrink due to theft. Accordingly, the SEC staff has been focusing on disclosures related to inventory losses, noting instances in which registrants reported material inventory losses but provided limited disclosures on this topic. Registrants should provide MD&A disclosure regarding the inventory losses that have a material impact on year-over-year results and consider whether inventory issues represent a known trend or uncertainty that is reasonably likely to affect liquidity or results of operations. Finally, Ms. Rocha reminded registrants that material inventory-related risks should be disclosed in the risk factors section of their annual report.

Non-GAAP Measures and Metrics

During the panel addressing Division developments, Deputy Chief Accountant Sarah Lowe emphasized that non-GAAP measures continue to be one of the topics the SEC staff comments on most frequently. She highlighted the following issues related to this topic:

- *Excluding normal or recurring cash operating expenses* — Ms. Lowe reiterated Lindsay McCord's remarks at last year's conference that (1) "normal" should be evaluated in light of the registrant's operations, revenue-generating activities, business strategy, industry, and regulatory environment and (2) an operating expense is considered "recurring" when it occurs repeatedly or occasionally, including at irregular intervals. Ms. Lowe gave some examples of adjustments that may be considered normal or recurring, such as increases to allowances for accounts receivable, start-up costs, and losses on purchase commitments or inventory; however, she acknowledged that the determination of what is normal or recurring is based on a company's individual facts and circumstances.

  Ms. Lowe also referred to an example addressed at last year's conference, in which a retailer improperly excluded new store preopening costs that were considered part of the registrant's normal operations and growth strategy. She explained that the example was not solely relevant to retailers and indicated that the SEC staff has also issued comments to registrants in other industries, including those operating medical centers, since such registrants have made similar adjustments to their non-GAAP measures to reflect costs incurred before the opening of a new medical center. The registrants that received these comments viewed these as one-time costs for each individual location; however, the SEC staff evaluated such costs in the context of the registrant as a whole, rather than one specific location, and viewed them as part of the registrant's normal operations and its broader strategy to generate additional revenue.

- *Individually tailored accounting principles* — Ms. Lowe pointed out that Compliance and Disclosure Interpretation (C&DI) Question 100.04 was updated last year to clarify that adjustments that represent the application of individually tailored accounting principles are not limited to adjustments that accelerate revenue recognition. For example, if presentation of a non-GAAP performance measure changes the accounting for inventory to an internal basis used by management (i.e., a basis not in accordance with GAAP), such presentation could be misleading. Ms. Lowe further noted that the SEC staff continues to see non-GAAP revenue measures in which transaction costs are deducted as if the company acted as an agent in a transaction for which gross presentation is required in accordance with GAAP.

Ms. Lowe reinforced that when presenting non-GAAP measures, registrants should ensure that they appropriately label each adjustment they make in arriving at a non-GAAP measure and that the accompanying disclosures provide investors with the information they need to clearly understand the nature of the measure or adjustment, including why the adjustments are being made.

In addition, in a panel discussion, Gurbir Grewal and Ryan Wolfe, chief accountant of the SEC's Division of Enforcement, highlighted recent enforcement actions taken against registrants in connection with their non-GAAP measures and other disclosures. Mr. Grewal and Mr. Wolfe emphasized the importance of having the appropriate disclosure controls and procedures in place to ensure that the adjustments and the non-GAAP measures, as a whole, are appropriately prepared and reviewed in accordance with the non-GAAP rules.

See Deloitte's Roadmap *Non-GAAP Financial Measures and Metrics* for more information about such measures and metrics.

Segment Reporting — Non-GAAP Considerations

The SEC's rules and regulations prohibit the disclosure of non-GAAP measures on the face of, or in the footnotes to, the financial statements. However, financial measures that a registrant is required to disclose under GAAP (such as the measure of segment performance that is most consistent with GAAP measurement principles) are not considered non-GAAP measures. ASU 2023-07 permits public entities to disclose more than one measure of segment profit or loss, provided that at least one of the reported measures is the segment profit or loss measure that is most consistent with GAAP measurement principles (the "required measure"). In some cases, measures beyond the required measure may not be determined in accordance with GAAP. Ms. Lowe and Ms. McCord stated that the SEC staff does not believe that such additional measures are required or expressly permitted by GAAP (since the ASU does not identify specific measures that may be disclosed, such as EBITDA). They indicated that such measures therefore would be considered non-GAAP measures. Further, they encouraged registrants that choose to early adopt ASU 2023-07, and that include additional measures that are not determined in accordance with GAAP, to reach out to the SEC to discuss their plans.

Ms. McCord reminded registrants that, to be eligible for disclosure, additional measures need to be regularly reviewed by the CODM and used by the CODM to allocate resources and assess performance. She also observed that if a registrant believes that it is appropriate to include additional measures that are not determined in accordance with GAAP, despite the prohibition on disclosure of non-GAAP measures in the financial statements, those measures would be subject to the SEC's non-GAAP rules and regulations. Specifically, such measures should not be misleading and should be accompanied by required disclosures, including a reconciliation to the comparable GAAP measure and a description of the measure's purpose and usefulness. Such disclosures may be provided outside the financial statements (e.g., in MD&A). The examples below illustrate these concepts for a registrant with more than one reportable segment. Note, however, that this area is subject to change and registrants should continue to watch for announcements or further guidance from the SEC staff.

Example 1

One Measure of Segment Profit and Loss

Assume that a registrant's CODM regularly reviews segment EBITDA to assess segment performance and allocate resources and does not use other measures of segment profit or loss. The registrant would identify segment EBITDA as the required measure of segment profit and loss. Segment EBITDA for each segment would not be considered a non-GAAP measure because it must be disclosed in accordance with ASC 280. However, in a manner consistent with the interpretation in C&DI Question 104.04, presentation of total segment EBITDA or consolidated EBITDA "in any context other than the . . . required [segment footnote] reconciliation . . . would be the presentation of a non-GAAP financial measure."

Example 2

Multiple Measures of Segment Profit and Loss That Are Consistent With GAAP

Assume that a registrant's CODM regularly reviews GAAP gross profit and GAAP operating profit to assess segment performance and allocate resources. The registrant determines that GAAP operating profit is the required measure of segment profit and loss since it represents the measure of segment performance that is most consistent with GAAP measurement principles. Further, the registrant concludes that GAAP gross profit is fully burdened and has been determined in a manner consistent with GAAP measurement principles. Therefore, disclosure of segment gross profit and operating profit would be consistent with ASC 280 (as amended by ASU 2023-07), and neither would be subject to the SEC's non-GAAP rules and regulations.

Example 3

Multiple Measures of Segment Profit and Loss, Some of Which Are Not Consistent With GAAP

Assume that a registrant's CODM regularly reviews GAAP operating profit and EBITDA to assess segment performance and allocate resources. The registrant would identify GAAP operating profit as the required measure of segment profit and loss since it would represent the measure of segment performance that is most consistent with GAAP measurement principles. EBITDA would be considered an additional measure that may be disclosed under ASC 280 (as amended by ASU 2023-07); however, such a disclosure is neither required nor expressly permitted. Therefore, disclosure of segment EBITDA, total segment EBITDA, or consolidated EBITDA would be subject to the SEC's non-GAAP rules and regulations.

Connecting the Dots

Evaluating whether a non-GAAP measure is misleading in the context of Regulation G may be complex. Additional measures included in the financial statement footnotes would be subject to management's assessment of internal control over financial reporting and external audit procedures. Registrants are encouraged to consult with their advisers if they intend to early adopt ASU 2023-07 and disclose additional measures that are not consistent with GAAP.

Transition Disclosures

SAB Topic 11.M (SAB 74) requires registrants to provide transition disclosures about the impact that recently issued accounting standards may have on the financial statements when the standards are adopted. Given the FASB's recent issuance of its ASU on segment reporting disclosures and the expected issuance of final ASUs on income tax disclosures and crypto assets, Ms. Rocha reminded registrants to provide transition disclosures informing investors about these changes.

If a standard's impact on the financial statements is not known or cannot be reasonably estimated, a statement to that effect must be made. In addition, the registrant should provide additional qualitative disclosures about the effect of the new accounting policies and how they compare with the current accounting policy as well as about implementation matters the registrant may need to consider or activities it may need to perform.

See Section 2.19 of Deloitte's Roadmap *SEC Comment Letter Considerations, Including Industry Insights* for more information about transition disclosures.

Areas of Focus and Comment Letter Trends

Throughout the conference, the SEC staff outlined areas of focus in its reviews and comment letter trends, as discussed further below. The staff also provided reminders of best practices related to its comments. See Section B.1 of Deloitte's Roadmap *SEC Comment Letter Considerations, Including Industry Insights* for more information about managing the SEC comment letter process.

MD&A

Results of Operations

The SEC staff frequently comments on how a registrant can improve its discussion and analysis of known trends, demands, commitments, events, and uncertainties and their impact on the registrant's results of operations. In addition to discussing historical results of operations, registrants are required to disclose any known trends or uncertainties that have had, or are reasonably likely to have, a material effect on their financial condition, results of operations, or liquidity. Such forward-looking disclosures are especially critical in connection with the current macroeconomic conditions in which inflation and interest rates have been rising.

During a panel discussion on SEC comment letter trends, speakers noted that common pitfalls in the discussion of results of operations in MD&A are (1) a failure to quantify how much of a change in a financial statement line item is attributable to each contributing factor described by the registrant and (2) little to no discussion of the reasons for the changes. When reviewing a filing, the SEC staff frequently looks at other publicly available information prepared by a registrant, such as press releases and analyst and investor presentations. Panelists acknowledged that incorporating such detail and analysis into SEC filings can be a challenge but encouraged registrants to try to include comparable information.

The panel moderator, Deloitte Partner Patrick Gilmore, observed that although the MD&A rules require registrants to discuss the results of operations at a consolidated level and supplementally discuss them on a segment basis if such results are material to an understanding of the company's business, in practice, some registrants will do the opposite and primarily discuss results of operations on a segment basis while only supplementarily discussing them at a consolidated level. Although the results of operations of each segment will contribute to such results at the consolidated level, this inverse approach is a common source of SEC comment.

Critical Accounting Estimates

SEC Branch Chief Kevin Woody reminded registrants that the CAEs discussed in MD&A are intended to provide the quantitative and qualitative information investors need to understand estimation uncertainty and the impact an estimate has had or is reasonably likely to have on a registrant's financial condition or results of operations.

Mr. Woody emphasized the need for registrants to disclose the method and significant assumptions they used to assess a CAE, such as the most significant estimates used in a discounted cash flow analysis and the discount rate assumption used in an impairment analysis. CAEs should also address the degree to which the estimate and the underlying significant assumptions have changed over the current period or since the last assessment was performed, as well as how sensitive the underlying recorded amounts are to changes in the method and the assumptions. Mr. Woody noted that a common reason for SEC comment is missing or incomplete disclosure of the sensitivity of CAEs, including qualitative and quantitative discussion.

Jonathan Wiggins further observed that CAEs can be useful to investors, particularly in times of rapid change, because they can help investors predict future financial results by combining the information included in the historical financial statements with CAE disclosures. This may include information about how management views the business, both currently and in the future, as well as the risks the entity may be facing. He also underscored that when thinking about CAEs, registrants should consider whether changes in estimates in the current period are material and therefore would need to be disclosed under ASC 250.

Mr. Wiggins also suggested that registrants consider the following questions when drafting their CAEs:

- Can the investor understand from the disclosure why that particular estimate is critical?
- Does the CAE include both qualitative and quantitative information?
- Is it likely that an investor would find it difficult to understand the estimation uncertainty in the absence of any quantification?
- Does the disclosure adequately provide information incremental to the registrant's accounting policy disclosures in footnotes?

Both Mr. Woody and Mr. Wiggins also noted that CAEs should not repeat the critical accounting policies disclosed in the audited financial statements. Such policies describe the accounting, whereas CAEs provide information about accounting estimates and how those estimates may change.

Pay Versus Performance

The SEC issued its final rule on pay versus performance on August 25, 2022, and registrants began providing the disclosures required by the rule in their proxy statements in 2023. Under the rule, both prescribed and free-form disclosures regarding the relationship between executive compensation amounts actually paid by a registrant and the performance of the registrant are required for the registrant's principal executive officer as well as other named executive officers.

In a manner similar to the SEC staff's review of registrants' compliance with other new disclosure rules, the staff performed targeted reviews of registrants' disclosures under the pay-versus-performance rule. During the conference, the staff noted that its review of pay-versus-performance disclosures was largely aimed at understanding how registrants were implementing the new rule and detecting difficulties that registrants may have encountered in complying with it. The staff (1) observed that registrants generally made a good-faith effort to include the required disclosures and (2) summarized certain themes from comment letters issued to registrants about their compliance with the new rule. Key observations from the staff on the implementation of pay-versus-performance disclosures included the following:

- *The relationship disclosure* — Registrants may disclose the relationship between company performance and compensation actually paid in graphical form, narrative form, or a combination of both. The staff noted that this disclosure is at the core of the rulemaking and in some instances was omitted entirely. In addition, the staff observed that registrants that provided relationship disclosures in graphical form generally described the relationship more effectively than those that provided the disclosures in narrative form.
- *Non-GAAP company-selected measures* — If a registrant's company-selected measure is a non-GAAP measure, the registrant should clearly describe how the measure is calculated from the financial statements. The staff expects this disclosure to be included either within the proxy statement or in an appendix to the proxy statement. It should not be provided as simply a cross-reference to the registrant's Form 10-K or other SEC filings.

- *Changes in assumptions* — Registrants must clearly disclose any material changes in assumptions related to the valuation for compensation actually paid from those that were disclosed on the grant date of the equity award in the financial statements. The staff noted that some disclosures were unclear about whether they represented material changes in assumptions or were supplemental to the assumptions disclosed on the grant date of the equity award. Registrants should ensure that their disclosures clearly identify whether there have been material changes in assumptions.
- *Tabular list* — The pay-versus-performance disclosure must include tabular disclosure of the three to seven most important performance measures used by a registrant to link executive compensation and company performance. While the registrant's company-selected measure must be included on the list, the registrant should also ensure that the performance measures disclosed are consistent with those described in the compensation discussion and analysis.
- *Inline XBRL tagging* — The staff observed that although Inline XBRL tagging of pay-versus-performance disclosures is required, many registrants did not provide it.

The SEC has released C&DIs on the final rule's requirements. Many of these C&DIs address questions about measuring the fair value of certain awards. While legal counsel often addresses proxy statement and executive compensation requirements, the SEC staff emphasized the importance of including accountants in the preparation of the pay-versus-performance disclosures because their experience with developing assumptions, fair values, and disclosures for share-based compensation awards in the financial statements positions them well for preparing or reviewing the pay-versus-performance disclosures.

For more information about the pay-versus-performance rule, see Deloitte's September 2, 2022, *Heads Up*.

Update on Rulemaking

Erik Gerding discussed final rules issued by the SEC that recently took effect, or will take effect in the coming days, as further discussed below. As noted in the ESG Reporting section, the SEC staff did not discuss the SEC's proposed climate rule. For a summary of SEC rulemaking initiatives and relevant Deloitte resources, see Appendix A.

Cybersecurity

Mr. Gerding provided an overview of some of the key provisions of the SEC's final rule on cybersecurity risk management, strategy, governance, and incidents (the "cybersecurity rule"). He noted that cybersecurity incidents must be disclosed four business days after an issuer determines that they are material rather than four business days after the incident occurred or after law enforcement has been consulted. He also highlighted certain changes from the rule proposal, such as (1) the streamlining of certain disclosure requirements, (2) the clarification that the disclosures apply to material incidents and risks, and (3) the addition of the ability to seek a delay in disclosing an incident that would pose a significant risk to national security or public safety. He commented that as cybersecurity incidents and threats arise and evolve, conversations about an issuer's response should involve professionals throughout an organization, including accountants, lawyers, and information technology specialists. He stated also that information technology practitioners would benefit from the insight of accountants, particularly with respect to materiality. Mr. Gerding highlighted that the definition of materiality used in the cybersecurity rule is the same as that established by the Supreme Court[3] and applied by the SEC for decades. During a separate panel discussion, Gurbir Grewal highlighted

[3] The cybersecurity rule indicates that the definition of "materiality" is consistent with that established by the U.S. Supreme Court in multiple cases, including *TSC Industries, Inc. v. Northway, Inc.* (426 U.S. 438, 449 (1976)); *Basic, Inc. v. Levinson* (485 U.S. 224, 232 (1988)); and *Matrixx Initiatives, Inc. v. Siracusano* (563 U.S. 27 (2011)). Quoting *TSC Industries, Inc. v. Northway, Inc*.

the importance of having appropriate disclosure controls and procedures in place related to escalating, to executives responsible for making public disclosures, cybersecurity incidents and threats.

Connecting the Dots

A cybersecurity incident may include a series of related unauthorized occurrences, and registrants are not exempt from disclosing third-party cyber events, nor is there a safe harbor for information disclosed about third-party systems. In their assessment of the disclosure controls and procedures for the reporting of cybersecurity incidents, registrants should consider whether their current cybersecurity monitoring infrastructure is designed to accommodate all relevant factors.

Mr. Gerding observed that the SEC staff did not intend for the final rule to prescribe what good cybersecurity risk management, strategy, and governance look like since such determinations should be made by registrants. Instead, the staff's goal was to require registrants to disclose sufficient information about their cybersecurity risk management, strategy, and governance to allow investors to reach their own conclusions about whether an entity is practicing good "cyber hygiene."

See Deloitte's, July 30, 2023, *Heads Up* for additional information about the cybersecurity rule.

Clawback

During both the session on Division developments and a Q&A session, Lindsay McCord provided clarity on the two new checkboxes that were added to the cover page of Form 10-K, Form 20-F, and Form 40-F as a result of the SEC's final rule on "clawback" policies (the "clawback rule"). According to the text of these SEC forms as amended by the clawback rule:

- The first checkbox indicates "whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements."
- The second checkbox indicates "whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period."

Ms. McCord noted that registrants would only check the first box when there is a correction of an error, as defined in U.S. GAAP, that results in a change to previously issued annual financial statements (e.g., fiscal years in a previously issued Form 10-K). She further stated that this would include (1) any required restatements, often referred to as "Big R" or "little r" restatements, and (2) any voluntary error corrections that change prior-period financial statements (including footnotes).

Conversely, if an error correction does not result in a change to previously issued annual financial statements or there is a change in previously issued financial statements that does not represent the correction of an error under U.S. GAAP, the registrant is not required to check the first box. For example, the following would not result in a change to previously issued annual financial statements:

- Out-of-period adjustments, which are adjustments made in the current period that are related to prior periods but do not change the amounts presented in the previously issued financial statements (e.g., recognition in the current year of an expense related to the prior year without changing the prior year amounts presented in the current annual report).

- Corrections of current-year quarterly information (e.g., in preparing the Form 10-K for the current year, a registrant corrects errors identified in quarterly information within the same fiscal year), since there is no change to previously issued financial statements in the Form 10-K (i.e., the annual periods included in the prior-year Form 10-K).

In addition, the following changes to previously issued annual financial statements would not be considered the "correction of an error":

- Changes made as the result of implementation of a new accounting standard.
- Disaggregation of a financial statement line item even though it may be a change to what was provided in the previously issued financial statements (under the presumption that the disaggregation does not reflect the correction of an error).

The second checkbox would only be checked if a clawback analysis is required for a Big R or little r restatement.

See Deloitte's November 14, 2022, *Heads Up* for additional information about the clawback rule.

Share Repurchases

In May 2023, the SEC issued a final rule to modernize the share repurchase disclosure requirements. Although the final rule was scheduled to go into effect for fiscal quarters beginning on or after October 1, 2023, the SEC has announced that the rule has been stayed pending judicial review and further action by the SEC.

Waiver Requests Related to Significant Acquisitions

Regulation S-X, Rule 3-13, gives the SEC staff the authority to permit the omission or substitution of certain financial statements otherwise required under Regulation S-X "where consistent with the protection of investors." Craig Olinger, senior advisor to the Division chief accountant, indicated that the overall volume of waiver requests has been down since the SEC's 2020 amendments to Regulation S-X, Rule 1-02(w), which eliminated the need for many of these waivers. Subsequent requests have generally involved more complex fact patterns. Mr. Olinger offered the following recommendations to registrants that submit a waiver request:

- State the purpose and structure of the transaction, the expected impact on the registrant, and whether the acquisition is a common-control transaction.
- Describe the operations, assets, and liabilities of the business acquired, including the composition of the assets (e.g., primarily tangible or intangible assets); whether part or all of an entity is being acquired; how the assets and liabilities are being valued; how the assets and liabilities are related to the acquiree's historical financial statements; and how the assets and liabilities will be recognized in the registrant's financial statements.
- Provide the results of all significance tests, including the inputs used if the calculations are not straightforward.
- Explain why the required tests do not reflect the significance or importance of the acquisition.
- Outline any other compensating disclosures that will provide investors with information about the acquisition.

He noted that when the SEC staff evaluates such requests, it will consider all available information about the size of an acquisition compared with the size of the registrant, including all significance tests and relevant financial statement and operating metrics. Mr. Olinger noted that although the above recommendations are related to waivers for significant acquisitions (Regulation S-X, Rule 3-05), the SEC staff may also grant waivers for significant acquisitions of real estate operations (Regulation S-X, Rule 3-14) and significant equity method investments (Regulation S-X, Rule 3-09). Some of the recommendations above may also apply in those circumstances.

See Section B.2.1 of Deloitte's Roadmap *SEC Comment Letter Considerations, Including Industry Insights*, for more information about requests to waive financial statements.

Measuring Significance — Investment Test

Registrants must calculate significance under the investment test by comparing the consideration transferred or received for an acquisition or disposition with the aggregate worldwide market value (AWMV) of the registrant's voting and nonvoting common equity, computed as of the last five trading days of the calendar month ending before the earlier of the acquisition's announcement date or agreement date. Mr. Olinger shared the following considerations regarding the application of the investment test to significant acquisitions:

- *Contingent consideration* — Consideration transferred should include the acquisition-date fair value of all contingent consideration when such contingent consideration must be recognized at fair value on the acquisition date under U.S. GAAP or IFRS® Accounting Standards, as applicable. However, if recognition of the contingent consideration at fair value is not required under U.S. GAAP or IFRS Accounting Standards, as applicable, the consideration transferred must include the maximum amount of contingent consideration, except amounts for which the likelihood of payment is remote.
- *Acquisition-related costs* — Acquisition-related costs should be included if they are capitalized under U.S. GAAP or IFRS Accounting Standards, as applicable (e.g., for an asset acquisition); however, the registrant should not include them if they are expensed under U.S. GAAP or IFRS Accounting Standards, as applicable (e.g., for a business combination).
- *Aggregate worldwide market value* — The share price used to determine the AWMV must be obtained from a public market, which may be a foreign market if that is the principal market in which the equity is traded. AWMV should exclude equity that is not traded, such as preferred stock or nontraded common stock, even if it can be converted into a class of common stock that is traded.

Loss of Foreign Private Issuer Status

Melissa Rocha discussed considerations for a registrant that no longer qualifies as a foreign private issuer (FPI). A registrant must evaluate whether it meets the definition of an FPI at the end of its second fiscal quarter. If a registrant ceases to qualify as an FPI, it should transition to domestic reporting at the end of its fiscal year and begin filing domestic forms (e.g., Form 10-K, Form 10-Q, and Form 8-K) effective the first day of the next fiscal year. As a result, it is required to file a Form 10-K for the year in which its FPI status was lost. While FPIs are permitted to use IFRS Accounting Standards as adopted by the International Accounting Standards Board (IASB), domestic registrants must report in accordance with U.S. GAAP and report on domestic forms.

In addition, under Regulation S-K, Item 302(a), if a registrant reports a material retrospective change (or changes) for any quarter in the two most recent fiscal years, the registrant must disclose (1) an explanation for the material change(s) and (2) summarized financial information reflecting such change(s) for the affected quarterly periods, including the fourth quarter. Ms. Rocha confirmed that a registrant's change from reporting in accordance with IFRS Accounting Standards to reporting under U.S. GAAP, as a result of the loss of FPI status, would represent a material retrospective change that requires disclosure in accordance with Item 302. However, the SEC staff would not object to a registrant's limiting this disclosure to only the most recent four quarters (rather than eight) in the first Form 10-K the registrant files as a domestic registrant.

An FPI may continue to qualify as an emerging growth company (EGC) even if its FPI status is lost. One accommodation available to EGCs is to defer the adoption of new accounting standards to the dates required for nonpublic entities. Since IFRS Accounting Standards do not provide different adoption dates for public and private companies, this accommodation is generally not applicable to FPIs. Ms. Rocha confirmed that a registrant that previously reported under IFRS Accounting Standards but begins reporting in accordance with U.S. GAAP as a result of a loss of FPI status may elect to use the extended transition provisions under U.S. GAAP provided that the registrant (1) continues to qualify as an EGC and (2) did not previously disclose that it had revoked such extended transition provisions. The registrant is still required to notify the SEC that it has elected to use the extended transition provisions by selecting the appropriate box on the cover page of its SEC filings (e.g., Form 10-K).

Accounting Standard Setting

FASB

Disaggregation of Income Statement Expenses

Several speakers discussed the FASB's recent proposed ASU on the disaggregation of income statement expenses, or DISE. Paul Munter said he believes that the proposed ASU has the potential to bring about important improvements in how issuers communicate with investors.

Richard Jones further highlighted the DISE project during the panel discussion on FASB accounting standard-setting updates. On the basis of feedback received on the proposed ASU, he observed that it can be challenging to understand the expenses in the income statement, such as selling, general, and administrative (SG&A) expenses; cost of sales; or other presentations of expenses, and noted that there is room for improvement. Mr. Jones noted that from an overall income statement perspective, the common elements are revenue, expenses, and income taxes. Progress has been made regarding revenue and income taxes; for example, ASC 606 disclosures require entities to provide enhanced information for investors. In addition, the objectives of the FASB's income tax disclosure project are to expand the current level of detail in income tax disclosures, to improve their usefulness, and to provide additional transparency. At present, a similar level of information does not exist for income statement expenses, particularly for items presented on a functional basis, such as SG&A expenses.

Mr. Jones also observed that when investors dissect expenses, terms like recurring, nonrecurring, fixed, variable, cash, and noncash expenses often emerge. However, rather than focusing on the definitions of these terms, which may vary, the DISE project delves into how expenses contribute to the total expenses in the income statement while recognizing that disaggregation may not always align with how expenses were assembled.

See Deloitte's August 8, 2023, *Heads Up* for further discussion of accounting and reporting considerations related to DISE.

Income Tax Disclosures

In the panel discussion on FASB updates, Hillary Salo noted that the Board's project on improvements to income tax disclosures is expected to be finalized by the end of the year. Improving these disclosures has been a high priority for the FASB to address what investors have historically viewed as a "blind spot" given the lack of information about an entity's tax provision under GAAP. Mr. Jones observed that the FASB undertook the project after performing extensive outreach with investors. The goal of the project is to provide transparency about an entity's operations and its tax risks and tax planning opportunities, focusing on an entity's tax rate and its prospects for future cash flows. To accomplish this goal, the FASB is expected to include in its forthcoming ASU provisions that will primarily require (1) disclosure of an expanded tax rate reconciliation between an entity's statutory and effective tax rate and (2) further disaggregation of income taxes paid.

For more information about income tax disclosures, see Deloitte's *On the Radar: Income Taxes* and Appendix B of Deloitte's Roadmap *Income Taxes*.

Environmental Credit Programs

During the panel discussion on FASB updates, Deputy Technical Director Helen Debbeler elaborated on the tentative board decisions made related to the scope of the environmental credits project. In October 2023, the Board tentatively determined that to be within the scope of the project, a credit (asset) must be "an enforceable right that is acquired, internally generated, or granted by a regulatory agency or its designees" that lacks physical substance and is not a financial asset; is represented to prevent, control, reduce, or remove emissions or other pollution; is separately transferable in an exchange transaction; and is not an income tax credit. Ms. Debbeler noted that renewable energy certificates, renewable identification numbers, and carbon offsets are examples of the types of credits that would be within the project's scope. Tax credits, including renewable and transferable tax credits, would not qualify. She also highlighted that payments made for carbon reductions would not be within the scope of the project if a credit is not transferred as part of the transaction. For example, arrangements in which an entity pays more for a flight to offset the carbon emissions but does not receive a credit would be outside the project's scope.

See Deloitte's October 25, 2023, *Heads Up* for a summary of the tentative decisions made related to this project.

Revenue Recognition Postimplementation Reviews

During their respective panel sessions, FASB and IASB® staff members discussed the postimplementation reviews (PIRs) of the boards' respective revenue recognition standards. The staff members noted that although stakeholders have indicated that there are challenges associated with applying aspects of the standards that require the exercise of judgment, such as the guidance on principal-versus-agent determinations, overall feedback on the standards has been that no significant changes are needed.

During the session on current OCA projects, Gaurav Hiranandani noted that the SEC has been closely monitoring the FASB's and IASB's PIRs of their respective revenue recognition standards. He emphasized that in his view, it would be critical for both boards, at a minimum, to retain the current level of convergence between ASC 606 and IFRS 15. He further noted that he sees opportunities for the FASB and IASB to work together to increase convergence between the standards. For example, he observed that certain differences between the standards that resulted from amendments that the FASB made to its standard after both standards were first issued could be reduced if the IASB makes similar amendments to its own standard.

Changes in EITF Structure

During the panel discussion on FASB updates, members of the FASB staff provided details about the EITF and EITF Issue 23-A. In addition, Mr. Jones noted that the FASB will be introducing a new process that the EITF will use to address emerging issues. He explained that the EITF will control its own agenda and deliberate issues, but the output of the EITF's consensus will be a recommendation to the FASB in the form of an agenda request accompanied by a proposed solution. This new process is expected to allow the EITF to identify and discuss issues more promptly and then make recommendations to the FASB. The new process is expected to be implemented in 2024.

IASB Update

IASB Vice Chair Linda Mezon-Hutter gave an update on the IASB's forthcoming IFRS Accounting Standard on primary financial statements. The new standard is expected to be issued in the first half of 2024 and take effect on January 1, 2027. The IASB is issuing the guidance in response to investors' desire for greater consistency and comparability in financial reporting. Accordingly, the standard will establish new requirements related to the following:

- The addition of two new subtotals to an entity's statement of profit and loss: (1) operating profit and (2) profit before financing and income tax. The income statement will be disaggregated into three required categories: operating, investing, and financing. Guidance will be provided on the classification of expenses within the investing and financing categories; all other expenses will be classified within the operating category.
- The disclosure of management-defined performance measures. These measures, which are subtotals of income and expenses, are a subset of what would also be considered non-GAAP measures. Entities will therefore be required to reconcile them to the closest IFRS measure in a single financial statement footnote, which will be subject to audit.
- Enhanced guidance on the aggregation and disaggregation of information, which would include the consideration of materiality in the determination of the required level of disaggregation of expenses as well as the identification of similar characteristics of expenses for which aggregation would be allowed.

Ms. Mezon-Hutter also discussed the interrelated nature of the work of the IASB and its sister board, the ISSB, and their shared commitment to providing high-quality information that benefits capital markets. For example, the assumptions used to disclose sustainability risks under the IFRS Sustainability Disclosure Standards issued by the ISSB should be consistent with those used for key estimates and judgments applied in the reporting of financial results under IFRS Accounting Standards issued by the IASB. She observed that as entities develop sustainability-related financial disclosures, such disclosures may influence and help improve compliance with IFRS Accounting Standards.

> For more information about the IFRS Sustainability Disclosure Standards, see Deloitte's June 30, 2023, *Heads Up*.

In addition, Ms. Mezon-Hutter discussed the importance of the IFRS Interpretations Committee, whose purpose is to help ensure the consistent application of IFRS Accounting Standards. Its members provide diverse perspectives on the standards' application as well as interpretive issues that arise. The committee also makes recommendations to the IASB when it believes that amendments to the standards should be considered.

Finally, Ms. Mezon-Hutter gave an update on the IASB's PIR of its standard on revenue recognition, IFRS 15. See the Revenue Recognition Postimplementation Reviews section for further discussion.

PCAOB Developments and Other Auditing Matters

PCAOB Developments

In her keynote remarks, Erica Williams highlighted some recent actions taken by the Board and their connection to the PCAOB's key mission to protect investors. Ms. Williams underscored the PCAOB's four-year strategic plan, which was revised in late 2022 and consists of four key goals: modernizing standards, enhancing inspections, strengthening enforcement, and improving the PCAOB's organizational effectiveness. Throughout the various PCAOB sessions at the conference, PCAOB Board members and staff provided updates on the goals of the strategic plan.

A key topic discussed throughout the conference was the importance of engagement across all stakeholders in the financial reporting ecosystem. Board member Christina Ho noted the progress made through discussions with the Investor Advisory Group and Standards and Emerging Issues Advisory Group on a variety of topics that informed the Board on its standard-setting agenda. She mentioned that the Board also receives input from other avenues, such as meetings with different stakeholders and the public comment process. Ms. Ho further emphasized the importance of the public comment process, encouraged stakeholders to participate, and reiterated the Board's commitment to "get it right" with the help of input from all stakeholders.

PCAOB Standard-Setting, Research, and Rulemaking Projects

The PCAOB updated its standard-setting, research, and rulemaking agendas in November 2023. Ms. Williams emphasized the need for auditing standards to evolve with the changing world to protect investors and maintain their confidence in the capital markets. She remarked, "To keep investors protected, we must keep up. And that's exactly what we are working to do." Ms. Williams highlighted the Board's adoption of amendments to its auditing standards as a result of its projects on other auditors and confirmations and cited the current proposed standard-setting projects for 2024. Ms. Williams also noted that the PCAOB will issue a proposal on follow-on disciplinary proceedings for public comment by the end of 2023.

PCAOB Chief Auditor Barbara Vanich summarized key provisions of the Board's adopted standards and proposed standard-setting projects expected to be adopted in 2024, including:

- Quality Control.
- General Responsibilities of the Auditor in Conducting an Audit (AS 1000).
- Noncompliance With Laws and Regulations.
- Amendments Related to Aspects of Designing and Performing Audit Procedures That Involve Technology-Assisted Analysis of Information in Electronic Form.

Ms. Vanich also mentioned other short-term standards expected to be proposed in 2024, including the Firm and Engagement Performance Metrics project, and noted that investors, especially in PCAOB advisory groups, have voiced support for receiving more information about the audit, the audit firm, the engagement, and the PCAOB itself.

As part of the November 2023 updates to its standard-setting agenda, the PCAOB added a new research project on critical audit matters (CAMs). Ms. Vanich explained that this project seeks to explore whether the PCAOB's standards are resulting in fewer CAMs and how to increase the usefulness of CAMs.

See Deloitte's November 10, 2023, *Heads Up*, which discusses the current statuses of the PCAOB's standard-setting, research, and rulemaking projects and provides Deloitte's perspectives on a number of the Board's proposals.

Ms. Vanich concluded her remarks with year-end reminders for auditors. She highlighted the PCAOB's Spotlight on 2022 inspection observations and underscored the importance of an iterative risk assessment and setting the right tone at the top.

PCAOB Inspections

During the session on PCAOB inspection updates, Christine Gunia, acting director of the PCAOB's Division of Registration and Inspections (the "Inspections Division"), commented on the current state of audit quality, specifically remarking that if PCAOB inspection results are used as an indicator, "audit quality appears to be going in the wrong direction." Likewise, in her keynote remarks, Ms. Williams expressed dissatisfaction with the current trend of deficiency rates. However, she acknowledged the commitment that many firms have made to improve audit quality and noted that it will take time and consistent focus to reverse the current trend. She also stressed the importance of not becoming complacent given that investors and capital markets rely on high-quality audits.

Ms. Gunia highlighted inspection findings from the 2022 inspection cycle related to topics such as revenue, inventory, long-lived assets, accounts affected by business combinations, allowance for credit losses, and equity. She noted that many of the deficiencies in these areas were associated with internal controls over financial reporting or estimates.

In addition, Ms. Gunia explained that the Board's 2023 inspection cycle priorities focused on:

- Fraud-related procedures.
- Risks related to material digital assets and the financial services sector.
- Risk assessment.
- Independence, including the sale and delivery of nonaudit services and private equity investments.

Regarding the 2024 inspection cycle, Ms. Gunia remarked that the PCAOB staff will focus on areas affected by overall business risks present during 2023, including (1) persistent high interest rates, the tightening of credit availability, and inflation; (2) financial statement areas in which there is a higher risk of fraud, estimates involving complex models or processes, and disclosures that may be affected by complex activities within a company; (3) rapidly changing technology; and (4) personnel and staffing issues at audit firms.

Ms. Gunia concluded her remarks with a "call to action," encouraging audit firms to take the following key steps to reverse the negative trend in inspection findings and improve audit quality:

- Perform a thorough root-cause analysis of identified deficiencies.
- Understand the company being audited, especially when performing risk assessment procedures.
- Take a hard look at audit firm culture and prioritize audit quality.
- Consider the need for dedicated mentoring and training for individuals that joined the firm between 2020 and 2022 to fill any potential knowledge gaps created by remote-only work.
- Communicate with audit committees.

PCAOB Enforcement

Robert Rice, director of the PCAOB's Division of Enforcement and Investigations, gave an update on the PCAOB's strategic focus on strengthening enforcement. He shared highlights of enforcement activity from 2023 and the key areas that resulted in sanctions in 2023, including audit firms' lack of sufficient quality control processes, failures in audits, the modification of work papers after issuance of the audit report, cheating on training exams, and failure to cooperate with investigations. In addition to adding more public enforcement orders in 2023, as of November 30, 2023, the PCAOB increased civil penalties by $9 million, from $11 million in 2022 to $20 million in 2023. This represents two successive years of record penalties imposed by the PCAOB and another year in which the penalties imposed exceeded the combined total of the prior five years' penalties.

Auditor Independence and Ethical Behavior

Auditor independence and ethical behavior, a recurring theme of the SEC remarks during the conference, was first discussed by Paul Munter during a keynote session and then by the SEC staff during the OCA's current projects panel. Erica Williams also indicated that the PCAOB's inspection reports will continue to provide information on independence matters going forward.

Mr. Munter noted that auditor independence is the responsibility of the entire public accounting firm and not only of the audit practice. Therefore, the consideration of auditor independence should start at the top and "cascade out throughout the firm." Nigel James, senior associate chief accountant in the OCA, further discussed firm culture during the OCA's current projects panel and stressed the importance of consistently maintaining appropriate ethical mindsets and behaviors, including auditor independence, in both fact and appearance. He noted that it is important to consider any known instances of unethical behavior that can be indicative of systemic issues within a firm. Any systemic issues that exist should be appropriately addressed to ensure that the firm can continue to carry out its gatekeeping responsibilities. Ms. Williams further echoed these sentiments, stating that "those who are dishonest or failed to put the proper guardrails in place to prevent dishonesty will face consequences."

The SEC staff also provided reminders related to business relationships, nonaudit services, and the definition of "office." OCA Senior Associate Chief Accountant Anita Doutt noted that the application of the business relationship rule, Regulation S-X, Rule 2-01(c)(3), requires auditors to perform a complex analysis when evaluating whether the professional services exception under this rule would be met. She mentioned one example in which an accounting firm owns a building and leases it to an audit client; in this case, a business relationship is created because the lease arrangement is not considered a professional service. Ms. Doutt also noted that nonaudit services may place an accountant in a position of auditing its own work, and it is important for accounting firms to consider all potential scenarios, such as future challenges that might bring the nonaudit work into the scope of the audit. Mr. Munter further clarified that accounting firms would need to perform an objective evaluation on the basis of the specific facts and circumstances of the services provided and monitor for "scope creep." Finally, Shehzad Niazi, SEC deputy chief counsel, highlighted that Regulation S-X, Rule 2-01(f)(15), defines an office as "a distinct sub-group within an accounting firm, whether distinguished along geographic or practice lines." He noted that it is important to remember that with the increased use of virtual teams in the current hybrid environment, an "office" analysis and determination should not be solely based on a physical location.

Risk Assessment and Professional Skepticism

The importance of an auditor's exercising professional skepticism and performing robust iterative risk assessments were two of the themes that underpinned several speakers' comments during the conference. Ms. Doutt emphasized that risk assessment and professional skepticism go hand in hand and remarked that a lack of professional skepticism is likely to result in an auditor's failure to identify all relevant risks. Ms. Doutt also noted that Mr. Munter's August 2023 statement underscored the importance of a comprehensive risk assessment by auditors and management.

During the conference, Mr. Munter emphasized the iterative nature of risk assessment and said that auditors must continue to revisit such assessments as they glean information throughout the audit. Ms. Doutt reiterated that view, noting that auditors need to remain alert to a variety of changes that may affect the company's objectives, strategies, and business risks. She stressed that it is incumbent upon auditors to consider such changes in their iterative risk assessment process. During the PCAOB standard-setting update, Ms. Vanich also highlighted the importance of reassessing initial risk assessments and noted that planned audit responses may need to be changed as a result of new or different risks of material misstatement.

In her remarks at the OCA staff panel, Ms. Doutt said that one way to enhance the auditor's execution of professional skepticism is for audit committees to have direct conversations with the auditor without the presence of management. Ms. Doutt noted that some of the best practices for exercising professional skepticism, especially related to fair value measurements and estimates, include the involvement of a specialist and other experts, robust bias training, and an audit firm culture that empowers all auditors to exercise professional skepticism.

In addition, during a panel discussion on current auditing issues, various panelists discussed both risk assessment and professional skepticism. Panelists emphasized that, as part of the iterative risk assessment process, auditors should be open-minded to changes in the economic environment that could affect the company being audited. They reminded auditors to consider the impacts on a company's operations and control environment and remain vigilant when assessing the effect of changes to estimates.

Regarding management estimates, panelists further noted that professional skepticism is critical to the ability to ask the right questions in a fluid environment and when performing a fraud risk assessment. Panelists emphasized that, in conjunction with the appropriate level of professional skepticism, auditors can use tools and technologies to help them identify where fraud may occur. They also highlighted some best practices for enhancing the fraud risk assessment process, which included performing fraud inquiry behavioral red flag training; conducting inquiries live to the extent possible; asking open-ended questions during inquiries; involving the entire engagement team, including specialists, during fraud brainstorming meetings; and having an additional brainstorming meeting toward the end of an audit as part of an iterative risk assessment process.

Profession-Wide Matters

State of Audit Quality

The importance of audit quality was emphasized by many speakers throughout the conference. For instance, in a keynote session, Paul Munter noted regulators' robust commitment to maintaining audit quality to protect the capital markets. Erica Williams echoed these sentiments, stating that "the PCAOB is using every tool in our toolbox to protect investors and drive audit quality improvements, including remediation." In addition, Anita Doutt shared her view that audit committees should be choosing auditors on the basis of audit quality and not audit fees, which will encourage the audit profession to further compete for audit engagements on this basis. PCAOB board member Kara Stein declared that the "North Star" for auditors is public trust and their uncompromising judgment in maintaining this trust.

Audit Firm Culture

The need for audit firms to maintain a culture of professionalism and a commitment to the public interest was highlighted during the conference. In his opening remarks, Mr. Munter stressed the importance of "tone at the top" and that this tone should "cascade" throughout the audit firm and its global networks. Ms. Doutt echoed Mr. Munter's sentiments in a panel discussion addressing the OCA's current projects. Specifically, she emphasized that the audit partner is responsible for establishing a culture that empowers staff to exercise professional skepticism. In addition, Nigel James highlighted that the IAASB is planning to introduce a strategic area focusing on the effectiveness of the international code of ethics and on matters related to firm governance and culture.

PCAOB board member George Botic reiterated the importance of firm culture and how the written and unwritten rules of a firm's culture can affect audit quality and inspection findings. During the session on PCAOB inspection updates, Christine Gunia stated that "many folks believe audit firm culture and audit quality are inseparable. Audit firms need the right culture to drive the right behaviors, which in turn drive audit quality." Ms. Gunia indicated that the Inspections Division recently launched an audit firm culture review initiative as part of its inspections of the six global network firms and the impact an audit firm's culture may have on its ability to perform high-quality audits.

Talent

The need to foster talent in the audit profession was discussed throughout the conference. In a keynote session, Kelly Monahan, managing director of the Future of Work Research Institute, Upwork, noted that there has been a 17 percent decline in employed accountants and auditors over the past two years. AICPA Chair Okorie Ramsey pointed out the AICPA's initiatives to increase interest in the profession pipeline, including its apprenticeship program and its advocation for accounting to be recognized as a STEM career to drive nonprofit funding. Mr. Munter emphasized the importance for the profession's advocates to use consistent messaging. During the session on PCAOB inspection updates, Ms. Gunia mentioned that the decline in audit quality could be a result of the lack of training for new auditors hired during 2020 and 2021 and the technical knowledge gap due to the hiring of new auditors in a remote work environment.

Generative Artificial Intelligence

Recent advancements in generative AI, including use of large-language models, were addressed throughout the conference. During a panel on current auditing issues, panelists discussed the opportunities and risks related to both companies' and auditors' use of this evolving technology. Panelist Jennifer Haskell pointed out that "generative AI will enable, not replace, human expertise" and highlighted that use of generative AI will enhance audit quality by enabling auditors to focus on the areas of greatest complexity and judgment. This sentiment was further echoed during the technology panel discussion. The panel discussion related to current auditing issues also emphasized, given the nascence of the technology, the need to continue to gain experience, upskill professionals through learning, and consider the impacts on audit tools as well as audit processes (e.g., risk assessments and internal controls). During the panel discussion related to considerations for investors regarding the impact of generative AI, panelists expressed concerns about the potential for adoption of this technology to outpace the development of controls and regulations associated with its use.

ESG Reporting

Several speakers at the conference noted that many companies are preparing to report under various climate-related disclosure frameworks. As a result of new climate and sustainability standards and regulations across the globe, such frameworks are continuing to evolve.

Currently, companies may be within the scope of:

- The E.U. Corporate Sustainability Reporting Directive (CSRD), which requires reporting in accordance with the European Sustainability Reporting Standards or equivalent standards to be determined.
- IFRS S1 and IFRS S2 issued by the International Sustainability Standards Board (ISSB).
- California's climate-related bills SB-253, SB-261, and AB-1305.

The SEC has also proposed a rule on climate-related disclosures for registrants. At the conference, the SEC staff did not provide an update on the proposal; however, federal agencies (including the SEC) must disclose any actions they intend to take related to their regulatory agenda within the next 12 months. The Office of Management and Budget's Fall 2023 Unified Regulatory Agenda (published December 6, 2023) notes that the SEC intends to take final action on the proposed rule (i.e., issue a final rule) by April 2024; however, such agenda is not binding.

Companies may also be required to report under numerous other climate and sustainability standards and regulations. Given the quantity of these requirements, speakers encouraged companies to perform a comprehensive assessment to identify which ones they may be required to comply with. Several speakers suggested that companies act quickly if they are subject to any of the reporting requirements listed above.

For more information about:

- The CSRD, see Deloitte's January 9, 2023, and August 17, 2023, *Heads Up* newsletters.
- IFRS S1 and IFRS S2, see Deloitte's June 30, 2023, *Heads Up*.
- California's SB-253, SB-261, and AB-1305, see Deloitte's October 10, 2023 (updated December 5, 2023), *Heads Up*.
- The SEC's proposed rule on climate-related disclosures, see Deloitte's March 21, 2022 (updated March 29, 2022), and March 29, 2022, *Heads Up* newsletters.

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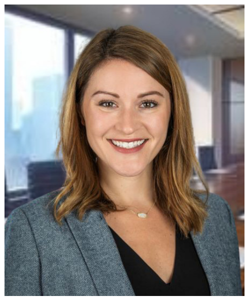

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Appendix A — Summary of SEC Rulemaking Initiatives and Related Deloitte Resources

The tables below summarize selected recent SEC final and proposed rules related to financial reporting and provide links to relevant Deloitte resources that contain additional information about them.

Final Rules	Summaries and Deloitte Resources
Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure The rule became effective September 5, 2023. Cybersecurity disclosures will be required in annual reports beginning with fiscal years ending on or after December 15, 2023. Material cybersecurity incidents must be reported on Form 8-K or Form 6-K starting December 18, 2023, for entities that are not smaller reporting companies (SRCs) and June 15, 2024, for SRCs.	**Summary:** The final rule establishes new requirements related to reporting the following: • *Annual cybersecurity disclosures* — Registrants must provide annual disclosures on Form 10-K, Item 1C (or Form 20-F, Item 16K), about how they assess, identify, and manage material risks from cybersecurity threats and their board of directors' role in the oversight of such risks. • *Material cybersecurity incidents* — Within four business days after determining that a cybersecurity incident is material, registrants must file a Form 8-K or Form 6-K to describe the incident's nature, scope, timing, and impacts. **Additional Information:** July 30, 2023, *Heads Up*.
Share Repurchase Disclosure Modernization The rule became effective July 31, 2023, and was intended to apply to fiscal periods beginning on or after October 1, 2023. However, the SEC has stayed the rule's effective date pending litigation in the U.S. Court of Appeals for the Fifth Circuit.	**Summary:** The final rule requires a registrant to provide "additional detail regarding the structure of [its] repurchase program and its share repurchases" and "require[s] the filing of daily quantitative repurchase data either quarterly or semi-annually." **Additional Information:** May 3, 2023, news item.
Insider Trading Arrangements and Related Disclosures The rule became effective February 27, 2023, and applies to quarterly or annual reports for fiscal periods that began on or after April 1, 2023, for non-SRCs and October 1, 2023, for SRCs.	**Summary:** The final rule amends certain requirements, including cooling-off periods for directors and officers, related to the implementation of trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934. It also requires expanded disclosure regarding insider trading policies and procedures, including disclosure of policies related to the timing of option grants and the release of material nonpublic information. **Additional Information:** December 14, 2022, news item.
Listing Standards for Recovery of Erroneously Awarded Compensation The rule became effective January 27, 2023, and the NYSE and Nasdaq listing requirements became effective October 2, 2023. Issuers were required to adopt a written "claw back" policy no later than December 2, 2023, and provide related disclosures after adopting such policy.	**Summary:** The final rule requires issuers to adopt a written policy to "claw back" excess executive compensation for the three fiscal years before the determination of a restatement regardless of whether an executive officer had any involvement in the restatement. An issuer is also required to (1) disclose its recovery policy in an exhibit to its annual report, (2) include new checkboxes on the cover of Form 10-K, Form 20-F, and Form 40-F that disclose the correction of an error in previously issued financial statements and the performance of a compensation recovery analysis, and (3) disclose other information about the restatement and amounts of compensation clawed back. **Additional Information:** November 14, 2022, *Heads Up*.
Pay Versus Performance The rule became effective October 11, 2022, and applies to proxy and information statements that must include Regulation S-K, Item 402, disclosures for fiscal years ending on or after December 16, 2022.	**Summary:** The final rule requires certain registrants to provide disclosures about executive pay and company performance within any proxy statement or information statement for which executive compensation disclosures are required. **Additional Information:** September 2, 2022, *Heads Up*.

Proposed Rules	Summaries and Deloitte Resources
Enhanced Disclosures by Certain Investment Advisers and Investment Companies About Environmental, Social, and Governance Investment Practices The latest comment period closed November 1, 2022.	**Summary:** The proposed rule would require investment advisers to provide additional information regarding their ESG investment practices. The proposal is "designed to create a consistent, comparable, and decision-useful regulatory framework for ESG advisory services and investment companies to inform and protect investors while facilitating further innovation in this evolving area of the asset management industry." **Additional Information:** May 26, 2022, news item.
Special Purpose Acquisition Companies, Shell Companies, and Projections The latest comment period closed November 1, 2022.	**Summary:** The proposed rule would "more closely align the financial statement reporting requirements in business combinations involving a shell company and a private operating company [also known as a de-SPAC transaction] with those in traditional [IPOs]." The proposal would include changes in various filing requirements, enhanced disclosure requirements, and rule amendments that are intended to provide additional investor protections in SPAC IPOs and de-SPAC transactions. **Additional Information:** October 2, 2020 (updated April 11, 2022), *Financial Reporting Alert*.
The Enhancement and Standardization of Climate-Related Disclosures for Investors The latest comment period closed November 1, 2022.	**Summary:** The proposed rule would enhance and standardize the required climate-related disclosures for public companies. Such disclosures would include climate-related financial impact and expenditure metrics as well as a discussion of climate-related impacts on financial estimates and assumptions, all of which would be presented in a footnote to the audited financial statements. Outside of the financial statements, a registrant would need to provide quantitative and qualitative disclosures in a separately captioned "Climate-Related Disclosure" section that would immediately precede MD&A and include information related to Scope 1, Scope 2, and Scope 3 greenhouse gas emissions and climate policies, goals, and governance. **Additional Information:** March 29, 2022, *Heads Up*.
Cybersecurity Risk Management for Investment Advisers, Registered Investment Companies, and Business Development Companies The latest comment period closed November 1, 2022.	**Summary:** The proposed rule would require registered investment advisers and investment companies "to adopt and implement written cybersecurity policies and procedures reasonably designed to address cybersecurity risks." Under the proposed rule, advisers would also be required "to report significant cybersecurity incidents affecting the adviser, or its fund or private fund clients, to the Commission on a confidential basis." **Additional Information:** February 10, 2022, news item.

Appendix B — Titles of Standards and Other Literature

AICPA Literature

Practice Aid, *Accounting for and Auditing of Digital Assets*

FASB Literature

2023 FASB Investor Outreach Report

EITF Issue No. 23-A, "Induced Conversions of Convertible Debt Instruments"

For titles of *FASB Accounting Standards Codification* references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

See the FASB's Web site for the titles of citations to:

- Accounting Standards Updates.
- Proposed Accounting Standards Updates (exposure drafts and public comment documents).
- Superseded Standards (including FASB Interpretations, Staff Positions, and EITF Abstracts).

PCAOB Literature

Release No. 2022-006, *A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms*

Proposed Rule AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*

Proposed Auditing Standard Release No. 2023-001, *General Responsibilities of the Auditor in Conducting an Audit and Proposed Amendments to PCAOB Standards*

Proposing Release No. 2023-004, *Proposed Amendments Related to Aspects of Designing and Performing Audit Procedures That Involve Technology-Assisted Analysis of Information in Electronic Form*

SEC Literature

Final Rules

No. 33-11126, *Listing Standards for Recovery of Erroneously Awarded Compensation*

No. 33-11138, *Insider Trading Arrangements and Related Disclosures*

No. 33-11216, *Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure*

No. 34-95607, *Pay Versus Performance*

No. 34-97424, *Share Repurchase Disclosure Modernization*

Proposed Rules

No. 33-11028, *Cybersecurity Risk Management for Investment Advisers, Registered Investment Companies, and Business Development Companies*

No. 33-11042, *The Enhancement and Standardization of Climate-Related Disclosures for Investors*

No. 33-11048, *Special Purpose Acquisition Companies, Shell Companies, and Projections*

No. IA-6034, *Enhanced Disclosures by Certain Investment Advisers and Investment Companies About Environmental, Social, and Governance Investment Practices*

Regulation S-K

Item 302, "Supplementary Financial Information"

- Item 302(a), "Disclosure of Material Quarterly Changes"

Item 305, "Quantitative and Qualitative Disclosures About Market Risk"

Item 402, "Executive Compensation"

Regulation S-X

Rule 1-02(w), "Definitions of Terms Used in Regulation S-X (17 CFR part 210); Significant Subsidiary"

Rule 2-01, "Qualifications of Accountants"

Rule 3-05, "Financial Statements of Businesses Acquired or to Be Acquired"

Rule 3-09, "Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons"

Rule 3-13, "Filing of Other Financial Statements in Certain Cases"

Rule 3-14, "Special Instructions for Real Estate Operations to Be Acquired"

SAB Topic

No. 11, "Miscellaneous Disclosure" (SAB 74)

Securities Exchange Act of 1934

Rule 10b5-1, "Trading 'On the Basis of' Material Nonpublic Information in Insider Trading Cases"

IFRS Literature

IFRS 15, *Revenue From Contracts With Customers*

ISSB™ Literature

IFRS S1, *General Requirements for Disclosure of Sustainability-Related Financial Information*

IFRS S2, *Climate-Related Disclosures*

Appendix C — Abbreviations

Abbreviation	Description
AB	assembly bill
AI	artificial intelligence
AICPA	American Institute of Certified Public Accountants
AS	Auditing Standard
ASC	FASB Accounting Standards Codification
ASU	FASB Accounting Standards Update
AWMV	aggregate worldwide market value
CAE	critical accounting estimate
CAM	critical audit matters
C&DI	SEC Compliance and Disclosure Interpretation
CF	SEC Division of Corporation Finance
CIMA	Chartered Institute of Management Accountants
CODM	chief operating decision maker
COVID-19	coronavirus disease 2019
CSRD	Corporate Sustainability Reporting Directive
DISE	disaggregation of income statement expenses
EBITDA	earnings before interest, taxes, depreciation, and amortization
EGC	emerging growth company
EITF	FASB Emerging Issues Task Force
ESG	environmental, social, and governance
E.U.	European Union
FASB	Financial Accounting Standards Board
FPI	foreign private issuer

Abbreviation	Description
GAAP	generally accepted accounting principles
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
IPO	initial public offering
ISSB	International Sustainability Standards Board
MD&A	Management's Discussion & Analysis
Nasdaq	National Association of Securities Dealers Automated Quotations
NYSE	New York Stock Exchange
OCA	SEC Office of the Chief Accountant
PCAOB	Public Company Accounting Oversight Board
PIR	postimplementation review
Q&A	question and answer
SAB	SEC Staff Accounting Bulletin
SB	senate bill
SEC	U.S. Securities and Exchange Commission
SG&A	selling, general, and administrative [expenses]
SoCF	statement of cash flows
SPAC	special-purpose acquisition company
SRC	smaller reporting company
STEM	science, technology, engineering, and mathematics

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