plante moran | Audit. Tax. Consulting. Wealth Management.

Accounting, financial reporting, and regulatory developments

FIRST QUARTER 2022

In this update, we highlight some of the more important 2022 first quarter accounting, financial reporting, and regulatory developments that may impact both public and private companies. The content is not meant to be all-inclusive.

Accounting guidance

Accounting guidance issued in first quarter 2022

ASU 2022-02, Financial Instruments — Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures, provides updated guidance for accounting for troubled debt restructurings (TDRs) by creditors and vintage disclosures for entities applying the guidance in ASU 2016-13. The new ASU eliminates the specific accounting guidance for TDRs by creditors while enhancing the disclosure requirements for loan refinancings/restructurings by creditors when the borrower is experiencing financial difficulty. The ASU also updates the vintage disclosure requirements to require disclosure of current period gross write-offs by year of origination. The new ASU is effective for years beginning after Dec. 15, 2022, for entities that have adopted ASU 2016-13. For all other entities, the amendments are effective when the entity adopts ASU 2016-13.

ASU 2022-01, Derivatives and Hedging (Topic 815) — Fair Value Hedging — Portfolio Layer Method, makes it easier for entities to apply the portfolio layer method to qualify for hedge accounting. The amendments include the following main provisions:

- *Allows multiple hedged layers of a single closed portfolio. This expansion resulted in the last-of-layer method being renamed the portfolio layer method.*
- *Expands the types of financial instruments that can be hedged using the portfolio layer method by allowing nonprepayable financial assets to be included within the closed portfolio being hedged. Previously only nonprepayable financial assets or beneficial interests secured by prepayable financial instruments to be included in the closed portfolio being hedged using the portfolio layer method.*
- *Specifies that eligible hedging instruments in a single-layer hedge may include spot-starting or forward-starting constant-notional swaps, or spot or forward-starting amortizing-notional swaps, and that the number of hedged layers (that is, single or multiple) corresponds with the number of hedges designated.*
- *Provides additional guidance on accounting for and disclosure of hedge basis adjustments.*

- *Specifies how hedge basis adjustments should be considered when determining credit losses for the assets included in the closed portfolio.*

This new guidance is effective for public business entities for fiscal years beginning after Dec. 15, 2022. For all other entities the new guidance is effective for fiscal years beginning after Dec. 15, 2023.

Accounting guidance effective first quarter 2022: Public companies

The following standards are effective for public companies beginning with the first quarter of 2022:

ASU 2021-10: Government Assistance (Topic 832) — Disclosures by Business Entities about Government Assistance creates standardized disclosures for business entities that receive government assistance. Prior to the issuance of ASU 2021-10, there were no required disclosures for government assistance in U.S. GAAP, except for not-for-profit entities. This resulted in diversity in practice around what information was disclosed when business entities received government assistance. The new disclosure requirements require business entities to disclose the following information about government assistance:

- *The nature of the transactions, including a general description and form of the transactions*
- *The accounting policies used to account for the transactions*
- *The amounts and line items on the balance sheet and income statement that are affected by the transactions*

ASU 2021-04, Earnings Per Share (Topic 260), Debt — Modifications and Extinguishments (Subtopic 470-50), Compensation — Stock Compensation (Topic 718), and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options, is intended to reduce diversity in accounting for modifications or exchanges of freestanding equity-classified written call options, that remain equity-classified after the modification or exchange. The new ASU provides a framework to measure the impact of the modification or exchange and requires the effect of a modification or an exchange be recognized in the same manner as if cash had been paid as consideration for the transaction.

ASU 2020-06, Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity, was issued to address the complexity associated with the accounting for convertible instruments, including application of the guidance on the derivatives scope exception for contracts in an entity's own equity. The ASU reduces the number of accounting models for convertible debt instruments and convertible preferred stock, which will result in fewer embedded features being separately recognized from the host contract as compared with current practice. The new guidance will also enhance transparency by making improvements to the disclosures for convertible instruments and their effects on earnings-per-share (EPS). The guidance in the ASU is effective for SEC filers (except smaller reporting companies) for fiscal years beginning after Dec. 15, 2021, including interim periods within those years. For smaller reporting companies and all other entities, the new guidance is effective for fiscal years beginning after Dec.15, 2023, including interim periods within those years

Accounting guidance effective for years ending Dec. 31, 2022: Private companies

The following standards are effective for private companies for annual reporting periods ending Dec. 31, 2022; however, private companies that prepare interim financial statements are not required to apply the new guidance until the first interim period in 2023, unless otherwise stated.

ASU 2021-10: Government Assistance (Topic 832) — Disclosures by Business Entities about Government Assistance creates standardized disclosures for business entities that receive government assistance. Prior to the issuance of ASU 2021-10, there were no required disclosures for government assistance in U.S. GAAP, except for not-for-profit entities. This resulted in diversity in practice around what information was disclosed when business entities received government assistance. The new disclosure requirements require business entities to disclose the following information about government assistance:

- *The nature of the transactions, including a general description and form of the transactions*
- *The accounting policies used to account for the transactions*
- *The amounts and line items on the balance sheet and income statement that are affected by the transactions*

ASU 2021-07: Compensation — Stock Compensation (Topic 718) — Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards (a consensus of the Private Company Council) allows private companies that issue equity-classified share-based payment awards to elect, as a practical expedient, to determine the current price input in its valuation model by using a "reasonable application of a reasonable valuation method." The ASU identifies the characteristics of the "reasonable application of a reasonable valuation method," which are consistent with those in the Treasury Regulations for valuations made for income tax purposes. Accordingly, a valuation performed in accordance with the requirements of Treasury Regulation Section 409A would be acceptable under ASC Topic 718. The practical expedient is elected on a measurement-date-by-measurement-date basis; therefore, it must be applied to all share-based payment arrangements that have the same underlying share and measurement date.

ASU 2021-04, Earnings Per Share (Topic 260), Debt — Modifications and Extinguishments (Subtopic 470-50), Compensation — Stock Compensation (Topic 718), and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options, is intended to reduce diversity in accounting for modifications or exchanges of freestanding equity-classified written call options, that remain equity-classified after the modification or exchange. The new ASU provides a framework to measure the impact of the modification or exchange and requires the effect of a modification or an exchange be recognized in the same manner as if cash had been paid as consideration for the transaction.

ASU 2020-08, Codification Improvements to Subtopic 310-20 Receivables — Nonrefundable Fees and Other Costs, clarifies that an entity should reevaluate each reporting period whether a callable debt security is within the scope of paragraph 310-20-35-33.

ASU 2020-07, Not-for-Profit Entities (Topic 958) — Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, enhances the transparency about the measurement of contributed nonfinancial assets recognized by not-for-profit entities. This ASU requires entities to present contributed nonfinancial assets as a separate line in the statement of activities, separate from contributions of cash and other financial assets. The guidance also provides a number of enhanced disclosures around contributed nonfinancial assets. The guidance in this update is effective for annual periods beginning after June 15, 2021. Therefore, not-for-profit entities with a June 30 fiscal year-end will need to adopt this guidance for their June 30, 2022 financial statements.

ASU 2020-01, Investments — Equity Securities (Topic 321), Investments — Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815, was issued to clarify the interaction between the measurement alternative in Topic 321 for equity securities without a readily determinable fair value and the guidance in Topic 323 and Topic 815. The primary issue addressed in the ASU is clarification that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in Topic 321 immediately before applying or upon discontinuing the equity method.

ASU 2016-02, Leases (Topic 842), requires lessees to recognize a right-of-use asset and lease liability for all leases on the balance sheet, with a limited exception for short-term leases. Entities will be required to classify leases where they are the lessee as operating or finance depending on the terms of the lease. While both operating leases and finance leases will be recognized on the balance sheet, ASC 842 retained the existing dual income statement approach from previous lease accounting guidance. The new guidance did not significantly change the accounting for lessors. For entities that are still working through adoption of the standard, the following actions should be taken now to avoid a potential rush to the deadline:

- **Forming an implementation team:** *The first step that organizations should make in planning for the implementation of the new lease standard is to form an implementation team. While the implementation team is for a new accounting standard, many organizations have found it necessary to include resources outside of the accounting/finance department on the implementation team. For example, many entities have included members of the operations or legal departments as those departments are often involved in the negotiation of lease contracts. For entities with larger populations of leases, the IT department is often included to assist in determining the appropriate technology solution.*
- **Identification of leases:** *Once the implementation team has been formed, entities should compile an inventory of all lease contracts. In organizations with few lease agreements and centralized processes for approving leases, this exercise may be relatively straightforward. However, in many organizations, multiple locations exist and decision-making over leasing arrangements is decentralized. In these instances, the implementation team may find that identifying the total population of leases is more time-consuming than initially planned. While accounting departments are aware of the most significant leases, there may be leases that are individually insignificant but, in aggregate, become significant. In addition, entities must evaluate other types of contacts (such as supplier contracts) to determine if those contracts include any embedded leases. An example of an embedded lease would be a supplier contract where the supplier provides specialized goods and provides equipment needed to use those goods. Identifying the total population of leases early in the process is critical for successful implementation of ASC 842.*

- **Assess technology needs:** *The new lease standard will require all leases to be recorded on the balance sheet. Organizations will need to assess how they will track and account for their leases. Options for tracking include use of spreadsheets, standalone lease software, and a lease accounting module for their enterprise resource planning (ERP) system. Each option has its advantages and disadvantages, and entities should evaluate which option best fits their needs based on the complexity of their lease population. Consideration should be given to the number of leases and complexity of the lease arrangements. Entities should consider the technology solution they plan on using early in the process as the implementation process is more efficient when the technology solution has been implemented before an entity starts to review lease contracts.*
- **Debt covenant considerations:** *While the impacts on covenants based on overall assets and liabilities are easily understood, some covenants may be based on debt service ratios or amount of debt outstanding. For these ratios, depending on how the covenant is written, payments on leases that are recorded on the balance sheet or the amount of the lease liability may impact these calculations. Affected entities should discuss covenant calculations with their lender prior to the adoption of the new standard if there is uncertainty as to how the new lease standard will impact the calculation. Entities and lenders may elect to amend covenants prior to the implementation of the lease standard to avoid potential covenant compliance issues.*
- **Sale-leaseback transactions:** *When the new lease standard becomes effective, there will no longer be deferred gains on prior sale-leaseback transactions. Upon transition, the prior deferred gain will be derecognized and recorded as an adjustment to equity in most situations. As a result, the portion of the gain that was deferred will not be recorded through income. Entities with significant deferred gains from sale-leaseback transactions should discuss this issue in advance in order to understand the significant change in the accounting for deferred gains upon adoption as it may impact budgets and projections if projections include future income related to those deferred gains.*

Regulatory update

Materiality assessment of errors

On March 9, 2022, Paul Munter, acting chief accountant, issued a **statement** regarding assessing the materiality of errors in financial statements. Mr. Munter and other SEC staff previously addressed this topic at the 2021 AICPA and CIMA Conference on Current SEC and PCAOB Developments. He noted that whenever a material error is identified in previously issued financial statements, investors must be notified promptly and the error must be corrected. Management's determination of whether an error is material is an objective assessment focused on whether there is a substantial likelihood it is important to the reasonable investor as discussed in Staff Accounting Bulletin (SAB) No. 99, *Materiality* and SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*.

Mr. Munter indicated it is "important for registrants, auditors, and audit committees to carefully assess whether the error is material by applying a well-reasoned, holistic, objective approach from a reasonable investor's perspective based on the total mix of information. To be objective, those involved in the process must eliminate from the analysis their own biases, including those related to potential negative impacts of a restatement, that would be inconsistent with a reasonable investor's view. Additionally, the objective analysis should consider all relevant facts and circumstances including both quantitative and qualitative factors."

Mr. Munter discussed the following topics with key takeaways noted:

CONCEPT OF MATERIALITY AND THE CORRECTION OF MATERIAL ERRORS

- *The Supreme Court has held that a fact is "material" if there is "a substantial likelihood that the ... fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available."*
- *When an error is determined to be material to previously issued financial statements, the error must be corrected by restating the prior-period financial statements, which is sometimes referred to as a "Big R" restatement.*
- *When an error is not material to previously issued financial statements, but either correcting the error or leaving the error uncorrected would be material to the current period financial statements, the error must be corrected, but it can be corrected in the current period comparative financial statements by restating the prior period information and disclosing the error. This type of restatement is sometimes referred to as a "little r" restatement.*

OBJECTIVE ASSESSMENT OF MATERIALITY

- *Companies, auditors, and audit committees need to thoroughly and objectively evaluate the total mix of information considering all relevant facts and circumstances surrounding the error, including both quantitative and qualitative factors, to determine whether an error is material to investors.*
- *There is an increased need for objectivity in the assessment of qualitative factors. Mr. Munter noted that "as the quantitative magnitude of the error increases, it becomes increasingly difficult for qualitative factors to overcome the quantitative significance of the error."*

OBSERVATIONS FROM RECENT INTERACTIONS WITH REGISTRANTS AND AUDITORS ON MATERIALITY

The following arguments were **not** found to be persuasive.

- *Financial statements or specific line items in financial statements are irrelevant to investors' investment decisions. For example, some have argued that certain elements of financial statements prepared in accordance with U.S. GAAP or International Financial Reporting Standards (IFRS) do not provide useful information to investors, so an error in those elements can't be material or that historical financial statements, or specific line items in those financial statements, are irrelevant to investors' current investment decisions. It was noted that the effects of errors on certain key non-GAAP measures that are important to users of the registrant's financial statements should be performed in addition to, but not as a substitute for, the analysis of materiality to the financial statements.*
- *An error is not material to previously issued financial statements because the error was also made by other registrants, and therefore reflects a widely held view rather than an intention to misstate. This type of argument has been raised by registrants in various industries and with various structures, including special purpose acquisition companies.*
- *An error is not material because its effect is offset by other errors. SAB 99 provides direction that, each misstatement must be assessed to determine if it is material, without consideration of its effect when combined with other misstatements.*

Identification of an accounting error also impacts management's assessment of the effectiveness of ICFR, and the statement provides considerations for this assessment.

Compliance and disclosure interpretations updated for business combinations

Division of Corporation Finance (Corp Fin) updated the following Compliance and Disclosure Interpretations (C&DIs):

- *Exchange Act Form 8-K (Question 102.04-102.05)*
- *Proxy Rules and Schedules 14A/14C (101.02, 132.01-132.02)*
- *Tender Offers and Schedules (166.01)*

These updated C&DIs provide additional guidance on disclosures associated with entering into a business combination agreement. This updated guidance includes discussion of when a company must disclose material terms and conditions when entering into a business combination agreement that is reportable under Item 1.01 of Form 8-K. The updated guidance also discusses certain proxy disclosure rules related to whether public communications represent solicitations subject to such rules. Finally, the updated guidance discusses Corp Fin's views on whether SEC Rule 14e-5 on the prohibition of purchases outside of a tender offer applies to transactions involving special purpose acquisition companies.

SAB 121

On March 31, 2022, the SEC issued **Staff Accounting Bulletin (SAB) No. 121,** which updates SAB Codification Topic 15, *Miscellaneous Accounting,* adding interpretive guidance for companies to consider when they have obligations to safeguard crypto-assets held for their platform users. The SAB notes that, "In recent years, the staff has observed an increase in the number of entities that provide platform users with the ability to transact in crypto-assets. In connection with these services, these entities and/or their agents may safeguard the platform user's crypto-asset(s) and also maintain the cryptographic key information necessary to access the crypto-asset. The obligations associated with these arrangements involve unique risks and uncertainties not present in arrangements to safeguard assets that are not crypto-assets, including technological, legal, and regulatory risks and uncertainties."

The SAB provides recognition, measurement, and disclosure guidance for obligations to safeguard crypto-assets that an entity holds for platform users. It also addresses how and when a company should initially apply the guidance in its financial statements.

Cybersecurity-related proposals

SEC PROPOSES RULES ON CYBERSECURITY DISCLOSURES FOR PUBLIC COMPANIES

On March 9, 2022, the SEC **proposed amendments** to its rules to enhance and standardize disclosures regarding cybersecurity risk management, strategy, governance, and incident reporting by public companies. The proposed amendments are intended to better inform investors about a registrant's risk management, strategy, and governance and to provide timely notification to investors of material cybersecurity incidents.

The proposed amendments would require current reporting about material cybersecurity incidents and periodic reporting of, among other things:

- *Registrant's policies and procedures to identify and manage cybersecurity risks*
- *Registrant's board of directors' oversight of cybersecurity risk*
- *Management's role and expertise in assessing and managing cybersecurity risk and implementing cybersecurity policies and procedures*

The proposal would also require annual reporting or certain proxy disclosure about the board of directors' cybersecurity expertise, if any.

SEC PROPOSES CYBERSECURITY RISK MANAGEMENT RULES AND AMENDMENTS FOR REGISTERED INVESTMENT ADVISERS AND FUNDS

On Feb. 9, 2022, the SEC proposed rules related to cybersecurity risk management for registered investment advisers, and registered investment companies and business development companies (funds), as well as amendments to certain rules that govern investment adviser and fund disclosures. SEC Chair Gary Gensler stated: "The proposed rules and amendments are designed to enhance cybersecurity preparedness and could improve investor confidence in the resiliency of advisers and funds against cybersecurity threats and attacks."

The proposal would require advisers and funds to:

- *Adopt and implement written cybersecurity policies and procedures designed to address cybersecurity risks that could harm advisory clients and fund investors.*

- *Publicly disclose cybersecurity risks and significant cybersecurity incidents that occurred in the last two fiscal years in their brochures and registration statements.*
- *Meet new recordkeeping requirements that are designed to improve the availability of cybersecurity-related information and help facilitate the SEC's inspection and enforcement capabilities.*

The proposed rules also would require advisers to report significant cybersecurity incidents affecting the adviser or its fund or private fund clients to the SEC on a new confidential form.

SEC proposes rules to enhance and standardize climate-related disclosures

As discussed in previous quarterly updates, climate change disclosures have been a concern of the SEC as evidenced in various statements and comments letters. In September 2021, the staff in the Division of Corporation Finance (Corp Fin) published an illustrative letter containing sample comments that it may issue to companies regarding their climate-related disclosure or the absence of such disclosure. As stated in the sample comment letter, depending on the particular facts and circumstances, these disclosures may be required as part of a company's description of business, legal proceedings, risk factors, and management's discussion and analysis of financial condition and results of operations.

On March 21, 2022, the SEC proposed rule changes that would require registrants to include **certain climate-related disclosures** in their registration statements and periodic reports, including information about climate-related risks that are reasonably likely to have a material impact on their business, results of operations, or financial condition, and certain climate-related financial statement metrics in a note to their audited financial statements. The required information about climate-related risks also would include disclosure of a registrant's greenhouse gas emissions, which have become a commonly used metric to assess a registrant's exposure to such risks.

The proposed rule changes would require a registrant to disclose information about (1) its governance of climate-related risks and relevant risk management processes; (2) how any identified climate-related risks have had or are likely to have a material impact on its business and consolidated financial statements, which may manifest over the short-, medium-, or long-term; (3) how any identified climate-related risks have affected or are likely to

affect the registrant's strategy, business model, and outlook; and (4) the impact of climate-related events (severe weather events and other natural conditions) and transition activities on the line items of a registrant's consolidated financial statements, as well as on the financial estimates and assumptions used in the financial statements.

The proposed rules would also require a registrant to disclose information about its direct greenhouse gas (GHG) emissions (Scope 1) and indirect emissions from purchased electricity or other forms of energy (Scope 2). In addition, a registrant would be required to disclose GHG emissions from upstream and downstream activities in its value chain (Scope 3), if material, or if the registrant has set a GHG emissions target or goal that includes Scope 3 emissions. The proposed rules would provide a safe harbor for liability from Scope 3 emissions disclosure and an exemption from the Scope 3 emissions disclosure requirement for smaller reporting companies.

Under the proposed rule changes, accelerated filers and large accelerated filers would be required to include an attestation report from an independent attestation service provider covering Scopes 1 and 2 emissions disclosures, with a phase-in over time, to promote the reliability of GHG emissions disclosures for investors.

The proposed rules would include a phase-in period for all registrants, with the compliance date dependent on the registrant's filer status, and an additional phase-in period for Scope 3 emissions disclosure.

SEC proposes rules to enhance disclosure and investor protection relating to special purpose acquisition companies, shell companies, and projections

On March 30, 2022, the SEC proposed new rules and amendments to enhance disclosure and investor protection in initial public offerings by special purpose acquisition companies (SPACs) and in business combination transactions involving shell companies, such as SPACs, and privately operating companies.

The proposed new rules and amendments, among other things:

- *Require additional disclosures about SPAC sponsors, conflicts of interest, and sources of dilution.*
- *Require additional disclosures regarding business combination transactions between SPACs and privately operating companies, including disclosures relating to the fairness of these transactions.*

- *Address issues relating to projections made by SPACs and their target companies, including the Private Securities Litigation Reform Act safe harbor for forward-looking statements and the use of projections in Commission filings and in business combination transactions.*
- *Address the status of SPACs under the Investment Company Act of 1940, which is designed to increase attention among SPACs about this important assessment. Under the proposed rule, SPACs that satisfy certain conditions that limit their duration, asset composition, business purpose, and activities would not be required to register under the Investment Company Act.*

If adopted, the proposed rules would more closely align the required financial statements of privately operating companies in transactions involving shell companies with those required in registration statements for an initial public offering.

SEC issues proposal to reduce risks in clearance and settlement of securities

On Feb. 9, 2022, the SEC proposed rule changes to reduce risks in the clearance and settlement of securities, including by shortening the standard settlement cycle for most broker-dealer transactions in securities from two business days after the trade date (T+2) to one business day after the trade date (T+1). The proposed changes are designed to reduce the credit, market, and liquidity risks in securities transactions faced by market participants and U.S. investors.

In addition to shortening the standard settlement cycle, the proposal includes rules directed at broker-dealers and registered investment advisers to shorten the process of confirming and affirming the trade information necessary to prepare a transaction for settlement so that it can be completed by the end of the trade date. Further, the proposal includes a new requirement to facilitate straight-through processing, which would apply to certain types of clearing agencies that provide central matching services. Central matching service providers help facilitate the processing of institutional trades between broker-dealers and their institutional customers. The proposed rule would require new policies and procedures directed to straight-through processing and require an annual report on progress with the process.

With the goal of shortening the settlement cycle further, the proposal solicits comments on challenges associated with and potential paths to achieving a same-day settlement cycle.

The SEC's published fact sheet notes that "reducing time between the execution of a securities transaction and its settlement reduces risk. Two recent episodes of increased market volatility — in March 2020 following the outbreak of the COVID-19 pandemic, and in January 2021 following heightened interest in certain "meme" stocks — highlighted potential vulnerabilities in the U.S. securities market that shortening the standard settlement cycle and improving institutional trade processing can mitigate. In the future, it may be beneficial to further shorten the standard settlement cycle beyond T+1. The proposal solicits comments on potential paths to and challenges associated with achieving a same day settlement cycle."

Other SEC proposals

PRIVATE FUND REPORTING

On Jan. 26, 2022, the SEC issued **proposed amendments** to Form PF, the confidential reporting form for certain SEC-registered investment advisers to private funds. The proposed amendments are designed to enhance the Financial Stability Oversight Council's (FSOC) ability to assess systemic risk as well as to bolster the SEC's regulatory oversight of private fund advisers and its investor protection efforts considering the growth of the private fund industry.

PRIVATE INVESTOR FUND PROTECTION

On Feb. 9, 2022, the SEC proposed **new rules and amendments** under the Investment Advisers Act of 1940 to enhance the regulation of private fund advisers and to protect private fund investors by increasing transparency, competition, and efficiency.

WHISTLEBLOWER PROGRAM RULES

On Feb. 10, 2022, the SEC proposed **two amendments** to the rules governing its whistleblower program. The first proposed amendment concerns award claims for related actions that would be otherwise covered by an alternative whistleblower program and the second affirms the SEC's authority to consider the dollar amount of a potential award for the limited purpose of increasing an award but not to lower an award.

MODERNIZE BENEFICIAL OWNERSHIP REPORTING

On Feb. 10, 2022, the SEC proposed rule **amendments** governing beneficial ownership reporting under Exchange Act Sections 13(d) and 13(g) to provide more timely information to meet the needs of today's financial markets.

The proposed amendments to Regulation 13D-G would accelerate the filing deadlines for Schedules 13D beneficial ownership reports from 10 days to five days and require that amendments be filed within one business day; generally accelerate the filing deadlines for Schedule 13G beneficial ownership reports (which differ based on the type of filer); expand the application of Regulation 13D-G to certain derivative securities; clarify the circumstances under which two or more persons have formed a "group" that would be subject to beneficial ownership reporting obligations; provide new exemptions to permit certain persons to communicate and consult with one another, jointly engage issuers, and execute certain transactions without being subject to regulation as a "group;" and require that Schedules 13D and 13G be filed using a structured, machine-readable data language.

SHORT SALE DISCLOSURE RULE, ORDER MARKING REQUIREMENT, AND CAT AMENDMENTS

On Feb. 25, 2022, the SEC proposed **changes** that would provide greater transparency to investors and regulators by increasing the public availability of short sale-related data.

Other developments

Accounting and reporting implications of the Russia/Ukraine war

As the impacts of Russia's invasion of Ukraine are being felt throughout the world, there will also be accounting and financial reporting implications that entities need to consider in addition to the humanitarian considerations.

The impacts from the war in Ukraine have already begun for many entities both directly and indirectly. Some of the areas where entities may be impacted include (not all-inclusive):

ASSET IMPAIRMENT

Asset impairments will be a common area that require consideration as a result of the war in Ukraine. Some of the different classes of assets where impairment considerations may be required include (not all-inclusive):

- *Financing receivables, including accounts receivable and loans receivable, entities with financing receivables will need to assess if those assets are impaired. Impairments may occur due to customers or borrowers being physically located in Ukraine or Russia, or due to these customers and borrowers being affected by some of the indirect impacts from the war, including supply chain issues, volatility in energy prices, etc. Guidance for evaluating impairment of financing receivables can be found in* ***ASC 310, Receivables or ASC 326, Financial Instruments — Credit Losses*** *(if adopted).*
- *Investment securities: Investment securities will need to be evaluated if the war or its direct and indirect effects have significantly impacted the entity issuing the security. The accounting implications will depend on the classification of the investment security:*
  - *Marketable equity securities with a readily determinable fair value and debt securities classified as trading are measured at fair value with changes in fair value recorded in income. Increased volatility may be seen for securities that continue to trade in active markets. Consideration should also be given to whether the primary market in which a security trades is no longer active, or whether trading of the security has been restricted. In these circumstances, classification of the security may change.*

- *Marketable equity securities without a readily determinable fair value are required to be written down to fair value if a qualitative assessment of the security indicates the fair value of the investment is less than its carrying value.* ***ASC 321, Investments — Equity Securities,*** *provides guidance on recognizing and measuring impairment losses on marketable equity securities without a readily determinable fair value.*

- *Available-for-sale and held-to-maturity debt securities are required to be assessed for impairment with an impairment loss recorded when other than temporary impairment exists. Guidance on recognizing and measuring impairments for available for sale and held to maturity debt securities can be found in ASC 320, I****nvestments — Debt and Equity Securities or ASC 326, Financial Instruments — Credit losses*** *(if adopted).*

- *Inventory: Entities with inventory located in Russia or Ukraine, or inventory that was intended for sale to customers in Russia or Ukraine, will need to assess whether that inventory will still be able to be sold as intended. If the inventory has been damaged in the war or will not be able to be sold due to the war and the related sanctions imposed by different worldwide governments, an additional reserve for the inventory may be required.* ***ASC 330, Inventory,*** *provides guidance on recognition and measurement of reserves on inventory.*

- *Goodwill and other intangibles: Entities that have experienced significant financial impacts, or expect significant financial impacts in the future, may need to assess if there are any impairments of goodwill or other intangible assets. Indefinite lived intangible assets and goodwill are required to be tested for impairment annually and more frequently if there are indicators that fair value of goodwill or intangibles may be less than the carrying value. Entities that have elected to apply the private company alternative to amortize goodwill also need to perform an impairment test if it is more likely than not the fair value of goodwill is less than its carrying value.* ***ASC 350, Intangibles — Goodwill and Other,*** *provides guidance on evaluating goodwill and other intangible assets for impairment.*

- *Property, plant, and equipment and right-of-use assets: Entities with long-lived assets in countries impacted by the war will need to evaluate if the assets located within those countries may be impaired.* ***ASC 360, Property Plant, and Equipment,*** *includes guidance on recognizing and measuring impairment losses on long-lived assets, including right-of-use assets from leases.*

EQUITY METHOD INVESTMENTS

Entities with equity method investments in Ukraine or Russia may need to assess if changes have occurred that have resulted in the entity losing the ability to exercise significant influence over the investee. If the war has resulted in an entity losing the ability to exercise significant influence, the guidance in ASC 323, *Investments — Equity Method and Joint Ventures*, should be followed to account for an investment when significant influence is lost. Equity method investments are also subject to the impairment guidance in ASC 323.

DISCONTINUED OPERATIONS

Entities with subsidiaries or operations in Russia or Ukraine may need to consider the discontinued operations guidance if they plan to cease their operations in Eastern Europe as a result of the war. Determining whether the ceasing operations qualifies for reporting as a discontinued operation is based on the guidance in ASC 205-20, *Discontinued Operations*, and can require significant judgment to determine if the criteria have been met.

EXIT/DISPOSAL COSTS

Entities that do not continue operations in Russia or Ukraine, will need to evaluate if there are any exit or disposal costs that need to be recognized. This can include costs to terminate a contract (including leases accounted for under ASC 840), costs to close a facility or dispose of fixed assets, and employee termination benefit costs. ASC 420, *Exit or Disposal Cost Obligations*, provides guidance for determining when exit and disposals costs are required to be recognized and the measurement of those costs.

CONSOLIDATION

Entities with consolidated subsidiaries (or consolidated variable interest entities) located in Russia or Ukraine may need to reassess if consolidation of those entities is still appropriate. The impact of the war and the related economic sanctions may result in situations where an entity is no longer able to control a subsidiary or variable interest entity. If an entity loses control of a previously consolidated subsidiary or variable interest entity, it would need to deconsolidate that entity for financial reporting purposes and assess its ongoing relationship with that entity to determine the proper accounting going forward. ASC 810, *Consolidation*, provides guidance on the accounting requirements when a previously consolidated entity is required to be deconsolidated.

CONTINGENCIES

Entities should also consider if there are any contingencies that have arisen as a result of the war, including the related sanctions. If there are contingent losses that have arisen, they are required to be accrued if they are both probable and reasonably estimable. Even if a loss is not probable, and no liability needs to be recorded, entities are required to disclose the nature of a loss contingency when it is at least reasonably possible that a loss has been incurred. ASC 450, *Contingencies*, provides guidance on accounting and disclosure requirements for loss contingencies.

OTHER CONSIDERATIONS

In addition to the items discussed above, entities should also consider other financial statement disclosures that may be appropriate. Entities that may be impacted should consider whether disclosure should be included in their risks and uncertainties disclosures or as a subsequent event.

If SEC registrants are considering including non-GAAP financial metrics in their filings as a result of the war in Ukraine, they should consider the SEC's rules and guidance on including non-GAAP metrics within their Form 10Q or Form 10K.

Standards adoption

Standards issued in 2022

Final ASU	Early adoption	Effective date
ASU 2022-02: *Financial Instruments — Credit Losses (Topic 326) — Troubled Debt Restructurings and Vintage Disclosures*	Yes	**SEC registrants (excluding entities that qualify as SRCs):** Fiscal years beginning after Dec. 15, 2022, including interim periods within those fiscal years. **All other entities:** Upon adoption of ASU 2016-13
ASU 2022-01: *Derivatives and Hedging (Topic 815) — Fair Value Hedging — Portfolio Layer Method*	Yes	**Nonpublic:** *Fiscal years beginning after Dec. 15, 2023, and interim periods within those fiscal years.* **Public:** *Fiscal years beginning after Dec. 15, 2022, and interim periods within those fiscal years.*

**Effective 2022 for nonpublic companies*
***Effective 2022 for public business entities*

Standards issued in prior years effective 2022 or after

Final ASU	Early adoption	Effective date
ASU 2021-10: *Government Assistance (Topic 832) — Disclosures by Business Entities about Government Assistance*	Yes	Effective for all business entities for fiscal years beginning after Dec. 15, 2021.*,**
ASU 2021-09: *Leases (Topic 842) — Discount Rate for Lessees That Are Not Public Business Entities*	Yes — if early ASU 2016-02 is early adopted	**Nonpublic entities that have not adopted ASC 842:** *See ASU 2016-02** **Nonpublic entities that have adopted ASC 842:** *Fiscal years beginning after Dec. 15, 2021, and interim periods within fiscal years beginning after Dec. 15, 2022.** **Public business entities:** *Not eligible*
ASU 2021-08: *Business Combinations (Topic 805) — Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*	Yes	**Nonpublic:** *Fiscal years beginning after Dec. 15, 2023, and interim periods within those fiscal years.* **Public:** *Fiscal years beginning after Dec. 15, 2022, and interim periods within those fiscal years.*
ASU 2021-07: *Compensation — Stock Compensation (Topic 718) — Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards (a consensus of the Private Company Council)*	Yes	**Nonpublic:** *Fiscal years beginning after Dec. 15, 2021, and interim periods within fiscal years beginning after Dec. 15, 2022.** **Public business entities:** *Not eligible*
ASU 2021-05: *Leases (Topic 842) — Lessors — Certain Leases with Variable Payments*	Yes	**Nonpublic:** *Fiscal years beginning after Dec. 15, 2021, and interim periods within fiscal years beginning after Dec. 15, 2022.** **Public:** *Fiscal years beginning after Dec. 15, 2021, and interim periods within those fiscal years.***
ASU 2021-04: *Earnings Per Share (Topic 260), Debt — Modifications and Extinguishments (Subtopic 470-50), Compensation — Stock Compensation (Topic 718), and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options*	Yes	Effective for all entities for fiscal years beginning after Dec. 15, 2021.*,**
ASU 2021-01: *Reference Rate Reform (Topic 848): Scope*	Effective upon issuance	*Effective for the period March 12, 2020 through Dec. 31, 2022.*,***
Update 2020-11: *Financial Services — Insurance (Topic 944): Effective Date and Early Adoption*	Yes	**SEC registrants (excluding entities that qualify as SRCs):** *Fiscal years beginning after Dec. 15, 2022, including interim periods within those fiscal years.* **All other entities:** *Fiscal years beginning after Dec. 15, 2024, and interim periods beginning in fiscal years beginning after Dec. 15, 2025.*

*Effective 2022 for nonpublic companies
**Effective 2022 for public business entities

Final ASU	Early adoption	Effective date
Update 2020-10: *Codification Improvements*	Yes	**See ASU**
Update 2020-08: *Codification Improvements to Subtopic 310-20, Receivables — Nonrefundable Fees and Costs*	Yes for nonpublic entities only — but no earlier than years beginning after Dec. 15, 2020	**Nonpublic:** *Fiscal years beginning after Dec. 15, 2021, and interim periods within annual periods beginning after Dec. 15, 2022.** **Public business entities:** *Fiscal years beginning after Dec. 15, 2020, and interim periods within these fiscal years.*
Update 2020-07: *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*	Yes	*Effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022.*
Update 2020-06: *Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*	Yes — but no earlier than fiscal years beginning after Dec. 15, 2020	**SEC registrants (excluding entities eligible to be SRCs):** *Fiscal years beginning after Dec. 15, 2021, and interim periods within those fiscal years.*** **All other entities:** *Fiscal years beginning after Dec. 15, 2023, and interim periods within those fiscal years.*
Update 2020-05: *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Date for Certain Entities*	Yes	REVENUE RECOGNITION **Nonpublic:** *Fiscal years beginning after Dec. 15, 2019, and interim periods within annual periods beginning after Dec. 15, 2020.* LEASES **Nonpublic:** *Fiscal years beginning after Dec. 15, 2021, and interim periods within annual periods beginning after Dec. 15, 2022.** **Public not-for-profit entities:** *Fiscal years beginning after Dec. 15, 2019 and interim periods within those fiscal years.*
Update 2020-04: *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*	Effective upon issuance	*Effective for the period March 12, 2020 through Dec. 31, 2022.*,***
Update 2020-03: *Codification Improvements to Financial Instruments*	Yes	*See ASU*
Update 2020-02: *Financial Instruments — Credit Losses (Topic 326) and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842)*	Yes, if ASU 2016-13 adopted	*See ASU 2016-13* *See ASU 2016-02**
Update 2020-01: *Investments — Equity Securities (Topic 321), Investments — Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*	Yes	**Nonpublic:** *Fiscal years beginning after Dec. 15, 2021, and interim periods within those fiscal years.** **Public business entities:** *Fiscal years beginning after Dec. 15, 2020, and interim periods within those fiscal years.***

**Effective 2022 for nonpublic companies*
***Effective 2022 for public business entities*

Final ASU	Early adoption	Effective date
Update 2019-12: *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*	Yes	**Nonpublic:** *Fiscal years beginning after Dec. 15, 2021 and interim periods within annual periods beginning after Dec. 15, 2022.** **Public business entities:** *Fiscal years beginning after Dec. 15, 2020, and interim periods within these fiscal years.*
Update 2019-11: *Codification Improvements to Topic 326, Financial Instruments — Credit Losses*	Yes, if ASU 2016-13 adopted	*See ASU 2016-13*
Update 2019-10: *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*	N/A	*See ASU 2016-02** *See ASU 2016-13* *See ASU 2017-12**
Update 2019-09: *Financial Services — Insurance (Topic 944): Effective Date*	N/A	*See ASU 2018-12*
Update 2019-05: *Financial Instruments — Credit Losses (Topic 326): Targeted Transition Relief*	Yes, if ASU 2016-13 adopted	*See ASU 2016-13*
Update 2019-04: *Codification Improvements to Topic 326, Financial Instruments — Credit Losses, Topic 815 Derivatives and Hedging, and Topic 825, Financial Instruments*	Yes	*See ASU*
Update 2019-01: *Leases (Topic 842): Codification Improvements*	Yes, if ASU 2016-02 adopted	*See ASU 2016-02**
Update 2018-20: *Leases (Topic 842): Narrow-Scope Improvements for Lessors*	Yes, if ASU 2016-02 adopted	*See ASU 2016-02**
Update 2018-19: *Codification Improvements to Topic 326, Financial Instruments — Credit Losses*	Yes, if ASU 2016-13 adopted	*See ASU 2016-13*
Update 2018-12: *Financial Services — Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*	Yes	**SEC registrants (excluding entities eligible to be SRCs):** *Fiscal years beginning after Dec. 15, 2022, and interim periods within those fiscal years.*** **All other entities:** *Fiscal years beginning after Dec. 15, 2024, and interim periods beginning after Dec. 15, 2025.*
Update 2018-11: *Leases (Topic 842): Targeted Improvements*	Yes, if ASU 2016-02 adopted	*See ASU 2016-02**
Update 2018-10: *Codification Improvements to Topic 842, Leases*	Yes, if ASU 2016-02 adopted	*See ASU 2016-02**

*Effective 2022 for nonpublic companies
**Effective 2022 for public business entities

Final ASU	Early adoption	Effective date
Update 2018-01: *Leases (Topic 842) — Land Easement Practical Expedient for Transition to Topic 842*	Yes	*See ASU 2016-02**
Update 2017-04: *Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*	Yes	**SEC registrants (excluding entities that qualify as SRCs):** *Fiscal years beginning after Dec. 15, 2019, including interim periods within those fiscal years.* **All other entities:** *Fiscal years beginning after Dec. 15, 2022, including interim periods within those fiscal years.*
Update 2016-13: *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*	Yes, as of fiscal years beginning after Dec. 15, 2018, including interim periods within those fiscal years	**SEC registrants (excluding entities that qualify as SRCs):** *Fiscal years beginning after Dec. 15, 2019, including interim periods within those fiscal years.* **All other entities:** *Fiscal years beginning after Dec. 15, 2022, including interim periods within those fiscal years.*
Update 2016-02: *Leases (Topic 842)*	Yes	**Nonpublic:** *Fiscal years beginning after Dec. 15, 2021, and interim periods within annual periods beginning after Dec. 15, 2022.** **Public not-for-profit entities:** *Fiscal years beginning after Dec. 15, 2019 and interim periods within those fiscal years.* **Public business entities:** *Fiscal years beginning after Dec. 15, 2018, including interim periods within those fiscal years.*

**Effective 2022 for nonpublic companies*
***Effective 2022 for public business entities*