



Audit Committee Quarterly Update

SECOND QUARTER 2022

In this newsletter, we highlight some important 2022 second quarter issues facing audit committees. The content is not all-inclusive. You may also be interested in our quarterly publication that summarizes accounting, financial reporting, and regulatory matters that may impact both public and private companies.

Accounting and reporting implications of the Russia/Ukraine war

Accounting and reporting considerations

As the impacts of Russia's invasion of Ukraine are being felt throughout the world, there are also 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
- Discontinued operations
- Consolidation
- Equity method investments
- Exit/disposal costs
- Contingencies

For each of the areas above, see “**Accounting, financial reporting, and regulatory developments: First quarter 2022**”

for additional considerations on the financial reporting impacts. 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.

Sample letter to companies regarding disclosures pertaining to Russia’s invasion of Ukraine and related supply chain issues

In May 2022, staff in the SEC’s Division of Corporation Finance (Corp Fin) posted a **sample letter** in their article, “Companies Regarding Disclosures Pertaining to Russia’s Invasion of Ukraine and Related Supply Chain Issues.” They noted that companies may have disclosure obligations under the federal securities laws related to the direct or indirect impact that Russia’s invasion of Ukraine and the international response have had or may have on their business. To satisfy these obligations, Corp Fin believes that companies should provide detailed disclosure, to the extent material or otherwise required, regarding:

1. Direct or indirect exposure to Russia, Belarus, or Ukraine through their operations, employee base, investments in Russia, Belarus, or Ukraine, securities traded in Russia, sanctions against Russian or Belarusian individuals or entities, or legal or regulatory uncertainty associated with operating in or exiting Russia or Belarus.
2. Direct or indirect reliance on goods or services sourced in Russia or Ukraine or, in some cases, in countries supportive of Russia.
3. Actual or potential disruptions in the company’s supply chain.

4. Business relationships, connections to, or assets in Russia, Belarus, or Ukraine.

The financial statements may also need to reflect and disclose the impairment of assets, changes in inventory valuation, deferred tax asset valuation allowance, disposal or exiting of a business, deconsolidation, changes in exchange rates, and changes in contracts with customers or the ability to collect contract considerations. Corp Fin also notes that since Russia’s invasion of Ukraine, many companies have experienced heightened cybersecurity risks, increased or ongoing supply chain challenges, and volatility related to the trading prices of commodities regardless of whether they have operations in Russia, Belarus, or Ukraine that warrant disclosure.

In addition, Corp Fin states that, “Companies also should consider how these matters affect management’s evaluation of disclosure controls and procedures, management’s assessment of the effectiveness of internal control over financial reporting, and the role of the board of directors in risk oversight of any action or inaction related to Russia’s invasion of Ukraine, including consideration of whether to continue or to halt operations or investments in Russia and/or Belarus.”

We suggest that management and audit committees carefully review this sample letter as it relates to their exposure and business to ensure appropriate disclosures.

SEC proposals

Enhance and standardize climate-related disclosures

In May 2022, the SEC extended the comment period for proposed rule changes that would require registrants to include **certain climate-related disclosures** in their registration statements and annual reports. The comment period for the release was originally scheduled to close on May 20, 2022. The new comment period ended on June 17, 2022. This proposal was discussed in the prior quarter’s update.

Enhance disclosures by certain investment advisers and investment companies about environmental, social, and governance (ESG) investment practices

In May 2022, the SEC **proposed amendments** to rules and reporting forms to promote consistent, comparable, and reliable information for investors concerning funds' and advisers' incorporation of ESG factors. The proposed changes would apply to certain registered investment advisers, advisers exempt from registration, registered investment companies, and business development companies. The proposed amendments seek to categorize certain types of ESG strategies broadly and require funds and advisers to provide more specific disclosures in fund prospectuses, annual reports, and adviser brochures based on the ESG strategies they pursue. In order to complement the proposed ESG disclosures in fund prospectuses, annual reports, and adviser brochures, the proposal would require certain ESG reporting on Forms N-CEN and ADV Part 1A.

Rule changes to prevent misleading or deceptive fund names

In May 2022, the SEC **proposed amendments** under the Investment Company Act of 1940 that addresses certain broad categories of investment company names that are likely to mislead investors about an investment company's investments and risks. The proposed amendments are designed to increase investor protection by improving and clarifying the requirement for certain funds to adopt a policy to invest at least 80% of their assets in accordance with the investment focus that the fund's name suggests, updating the rule's notice requirements, and establishing recordkeeping requirements. The SEC is also proposing enhanced prospectus disclosure requirements for terminology used in fund names, and additional requirements for funds to report information on Form N-PORT regarding compliance with the proposed names-related regulatory requirements.

Digital assets and crypto investments

On May 16, 2022, at a FINRA conference, Chair Gensler made several speeches dealing with investor protections and specifically warned about investing in cryptocurrencies following the significant price declines. On May 17, 2022, in a speech at the 2022 NASAA Spring Meeting & Public Policy Symposium, Chair Gensler stated: "I think there's a need to bring greater investor protection to these crypto markets" and "The crypto-related events in recent weeks have highlighted yet again how important it is to protect investors in this highly speculative asset class."