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Accounting, financial reporting, and regulatory developments

THIRD QUARTER 2022

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

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Accounting guidance

Accounting guidance issued in third quarter 2022

ASU 2022-04, Liabilities — Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations, requires a buyer in a supplier finance program to provide disclosures about the arrangement to allow a financial statement user to understand the program's nature, activity during the period, changes from period to period, and potential magnitude. The ASU requires the buyer to disclose the following information:

- *The key terms of the program, including a description of the payment terms and assets pledged as security or other forms of guarantees provided for the committed payments.*
- *For obligations the buyer has confirmed as valid to the finance provider:*
  - *The amount outstanding that remains unpaid by the buyer as of the end of the annual period.*
  - *A description of where those obligations are presented on the balance sheet.*
  - *A roll-forward of those obligations during the annual period.*

The new guidance is effective for all entities for fiscal years beginning after Dec. 15, 2022, except for the roll-forward disclosure requirements, which is effective for fiscal years beginning after Dec. 15, 2023. Early adoption is permitted.

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New lease accounting standard effective for 2022

The FASB's new lease accounting standard, ASC Topic 842, will be effective for calendar year-end entities that haven't previously adopted the new guidance for their 2022 annual financial statements. Many entities that have already adopted ASC Topic 842 have indicated the implementation process was more time-consuming than initially anticipated. Some of the areas that have taken longer than initially anticipated include compiling a complete inventory of leases, determining the lease term, determining the discount rate, and inputting the leases into a software solution. Entities that haven't started working on their implementation efforts should get started as soon as possible in order to ensure a successful outcome. See our "Accounting, financial reporting, and regulatory developments: Second quarter 2022" article for additional information on key considerations implementing the new lease standard.

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Regulatory update

SEC amends whistleblower rules

In August 2022, the SEC adopted two amendments to the rules governing its whistleblower program. The amendments allow the SEC to pay whistleblowers for their information and assistance in connection with non-SEC actions in additional circumstances and affirm 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 the amount.

SEC adopts pay versus performance disclosure rules

In August 2022, the SEC adopted amendments to its rules to require registrants to disclose information reflecting the relationship between executive compensation actually paid by a registrant and the registrant's financial performance. The rules implement a requirement mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The amendments require registrants to provide a table disclosing specified executive compensation and financial performance measures for their five most recently completed fiscal years. With respect to the measures of performance, a registrant will be required to report its total shareholder return (TSR), the TSR of companies in the registrant's peer group, its net income, and a financial performance measure chosen by the registrant. Then, using the information in the table, registrants will be required to describe the relationships between the executive compensation actually paid and each of the performance measures, as well as the relationship between the registrant's TSR and the TSR of its selected peer group. A registrant will also be required to provide a list of three to seven financial performance measures that it determines are its most important performance measures for linking executive compensation actually paid to company performance. Smaller reporting companies will be subject to scaled disclosure requirements under the rules.

Registrants must begin to comply with the new disclosure requirements in proxy and information statements that are required to include Item 402 executive compensation disclosure for fiscal years ending on or after Dec. 16, 2022.

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SEC issues final rule on inflation adjustments

In September 2022, the SEC issued a final rule to make certain inflation adjustments in response to a mandate of the Jumpstart Our Business Startups Act, which requires the SEC to make such adjustments at least once every five years. The final rule adjusts the revenue thresholds in the definition of "emerging growth company" from \$1.070 billion to \$1.235 billion as well as dollar amounts in Regulation Crowdfunding.

SEC updates questions and answers (Q&As) for compliance and disclosure interpretations (C&DI) of rule 14a-19

The SEC added three Q&As in their proxy rules and Schedule 14A C&DIs relating to dissident or contested shareholder notices in Questions 139.01, 139.02, and 139.03.

Climate-related disclosures

The SEC's proposed rule changes that would require registrants to include certain climate-related disclosures in their registration statements and annual reports were discussed in the prior quarters' updates, and the SEC is expected to issue final rules in the fourth quarter 2022. On October 7, the SEC reopened the public comment period for comments due to a technological error that resulted in a number of public comments submitted through the SEC's internet comment form not being received. The majority of the affected comments were submitted in August 2022; however, the technological error is known to have occurred as early as June 2021. Comments can be submitted until 14 days following publication of the reopening release in the Federal Register.

Meanwhile, the SEC has issued comment letters to registrants regarding climate disclosures required under existing disclosure rules.

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Crypto assets

SEC Chair Gensler spoke at the September Practicing Law Institute's annual SEC Speaks Conference regarding regulation of cryptocurrency and intermediaries. He stated that "Nothing about the crypto markets is incompatible with the securities laws. Investor protection is just as relevant, regardless of underlying technologies."

Chair Gensler noted he believed that the vast majority of tokens in the crypto market are securities and offers and sales are covered under the securities laws. He also noted that crypto intermediaries in essence function as exchanges, brokers and dealers, and custodians. Accordingly, they should assess their registration obligations. He said that "the public benefits when intermediaries are registered and overseen."

PCAOB releases 2022 audit committee resource

In August 2022, the PCAOB released a new publication, "Spotlight: Audit Committee Resource." The Spotlight serves as a timely reference for auditors, audit committee members, investors, and other personnel, and includes questions that audit committees of public companies might want to consider as part of their ongoing engagement and discussion with their auditors. Questions include how the auditors are responding to the financial reporting and audit risks posed by the current economic environment. We also encourage management to consider the Spotlight in preparing financial statements and disclosures and in communications with the audit committee.

Topics covered in the publication include:

- *Fraud and other risks*
- *IPOs and mergers and acquisitions*
- *Audit execution*
- *Audit firms' quality control systems*
- *Compliance with auditor independence requirements*
- *Technology (auditing digital assets, responding to cyberthreats, and use of data and technology in the audit)*

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Other developments

Impacts of inflation and rising interest rates on financial reporting

While most entities are familiar with the impact that inflation and rising interest rates are having on operations, it's also important to consider the financial reporting implications.

INFLATION

In addition to the impact inflation has on costs, entities also must take into account expectations of future inflation when they are required to use projected financial information. When developing projected financial information, those projections will need to take into account estimates of whether and how inflation will persist into the future. Some common areas where projected financial information is required to be used include:

- *Goodwill impairment*
- *Long-lived asset impairment*
- *Loan or investment impairment*
- *Going-concern assessments*
- *Valuations of assets acquired and liabilities assumed in a business combination or asset acquisition*
- *Fair value measurements of derivatives and other financial instruments*
- *Fair value measurements of share-based payment arrangements*
- *Realization of deferred tax assets*
- *Any other valuations that rely on financial projections*

In instances where there is significant uncertainty around the anticipated level of future inflation, entities may need to develop projections for multiple scenarios and weigh those scenarios by likelihood to account for the uncertainty.

INTEREST RATES

Many entities have been impacted by the rising interest rates and the resulting increased borrowing costs and interest expense. In addition to these direct impacts, rising interest rates can also impact financial reporting by

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causing an increase in discount rates, which are a significant input into discounted cash flow models. Common areas where discounted cash flow models can affect financial reporting include:

- *Goodwill impairment*
- *Long-lived asset impairment*
- *Calculation of lease liabilities and right-of-use assets*
- *Valuation of investments*
- *Valuations of intangible assets*
- *Valuation of share-based payment arrangements*
- *Valuations of debt and equity securities*

The impact of increasing discount rates is a corresponding decrease in many valuations. As a result, more entities may be required to evaluate potential asset impairments in 2022 resulting from these potential declines in asset valuations.

Inflation Reduction Act

President Joe Biden signed the inflation Reduction Act of 2022 (Act) into law on Aug. 16, 2022. A summary and discussion of the key provisions is included in our article, "Congress completes reconciliation bill with key tax changes."

The Act has potential accounting and financial reporting implications for provisions related to a new corporate minimum tax rate, public company excise tax on stock buybacks, and various tax credits and incentives for clean energy technologies. We encourage companies to become familiar with the Act and assess the potential impacts.

Reference Rate Reform

Many entities have contractual arrangements that use LIBOR as a reference rate. Because the remaining LIBOR indices are scheduled to sunset on June 30, 2023, FASB has provided optional practical expedients in ASC Topic 848, *Reference Rate Reform*, which provide entities with the option to not apply modification accounting if an agreement is modified to change the reference rate. To qualify for this simplified alternative, modifications must meet specific criteria, most notably that changes can't substantively affect terms other than the reference rate. Currently, the simplifications are only available to modifications made on or before Dec. 31, 2022; however, in a recent board meeting, FASB decided to issue an ASU that will extend the date by which modifications to change the reference rate can be made until Dec. 31, 2024. While not yet issued, the final ASU is expected by the end of 2022.

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Standards adoption

Standards issued in 2022

Final ASU	Early adoption	Effective date
ASU 2022-04: *Liabilities — Supplier Finance Programs (Subtopic 405-50) — Disclosures of Supplier Finance Program Obligations*	Yes	Effective for all entities for fiscal years beginning after Dec. 15, 2022.
ASU 2022-03: *Fair value Measurement (Topic 820) — Fair Value Measurement of Equity Securities Subject to Contractual Sales Restrictions*	Yes	**Nonpublic:** *Fiscal years beginning after Dec. 15, 2024, and interim periods within those fiscal years.* **Public:** *Fiscal years beginning after Dec. 15, 2023, and interim periods within those fiscal years.*
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.*

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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.*

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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.***

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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**

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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.*

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