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Accounting, financial reporting, and regulatory developments

SECOND QUARTER 2023

This update highlights some of the more important 2023 second 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

Current expected credit losses (CECL) considerations for private companies implementing in 2023

Accounting Standards Update (ASU) 2016-13 is effective for fiscal years beginning after Dec. 15, 2022, for all entities that have not yet implemented the standard. ASU 2016-13 requires credit losses to be recognized using an expected loss model instead of an incurred loss model, which has historically been used. Under the incurred loss models, entities were required to recognize credit losses when it was probable that a loss had been incurred. This differs from an expected loss model, which requires development of an estimate of expected lifetime losses when the instrument is originated, with recognition of those losses at origination. ASU 2016-13 requires consideration of the following when developing the estimate of expected losses:

- *The entity's historical loss experience for similar assets*
- *Adjustments for current conditions*
- *Adjustments for reasonable and supportable forecasts*

While many entities previously considered their historical losses and adjustments for current conditions in an incurred loss model, the need to consider forward-looking information related to reasonable and supportable forecasts is a new requirement under the expected loss model. Incorporating this new information will likely require changes to internal controls and processes to capture and process the data underlying the assumptions used. Under the expected credit loss model, the assessment must be performed at the portfolio level by grouping assets with similar risk characteristics into portfolios. With the assessment done at the portfolio level, the new guidance makes it clear that it's generally not appropriate for expected losses to be zero given the uncertainty associated with future events. When developing estimates using reasonable and supportable forecasts, leading indicators will need to be identified that provide the

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best information about the expected future credit losses. Determining what are the relevant leading indicators will be impacted by the entity's industry, geography, as well as customer-specific factors. Determining the relevant leading indicators and assessing how those indicators may correlate to expected credit losses will require significant judgment and appropriate time will need to be allocated for this process. Given this, entities that have not started working on their implementation efforts should look to get started as soon as possible in order to ensure a successful outcome.

FASB Exposure Drafts issued in second quarter 2023

The Financial Accounting and Standards Board (FASB) continues to work through technical projects and improvements to the Codification. While the FASB didn't issue any new ASUs in second quarter 2023, the following is a list of proposed accounting standards updates for which FASB recently issued exposure drafts:

Proposed ASU — Intangibles — Goodwill and Other — Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets, was issued to address stakeholder feedback that the current accounting model for entities that hold crypto assets doesn't provide decision-useful information. Currently, entities that hold crypto assets are required to account for them as indefinite-lived intangible assets (unless industry specific guidance applies). Under this model, once the crypto assets have been recognized they remain at their cost basis and are tested for impairment each reporting period. The proposed ASU would require entities to recognize crypto assets at fair value, and those assets would be remeasured at fair value each reporting period if they meet the following conditions:

- *Meets the definition of an intangible asset.*
- *Does not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets.*
- *Are created or reside on a distributed ledger based on blockchain technology.*
- *Are secured through cryptography.*
- *Are not created or issued by the entity or its related parties.*

As proposed, the Update would apply to all entities holding crypto assets that meet the specific scope criteria.

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Proposed ASU — Compensation — Stock Compensation (Topic 718): Scope Application of Profits Interest Awards, is intended to help address stakeholder concerns with challenges entities face in determining whether profits interests should be accounted for in accordance with Topic 718 or Topic 710. The proposed ASU provides illustrative examples to assist entities in applying the scope guidance in Topic 718, *Compensation — Stock Compensation*, to profits interests and similar awards. The amendments in this proposed Update would apply to all reporting entities that account for profits interest awards as compensation to employees in return for goods or services.

Proposed ASU — Income Taxes (Topic 740): Improvements to Income Tax Disclosures, includes amendments to require additional disaggregation of certain income tax disclosures by taxing jurisdiction. The proposal is in response to investors feedback that disaggregated information about income tax expense and income tax paid by jurisdiction would provide useful decision information. The amendments in this proposed Update would apply to all entities that are subject to income taxes; however, certain disclosures would only be required for public business entities.

Proposed ASU — Financial Instruments — Credit Losses (Topic 326): Purchased Financial Assets, was issued to address stakeholder concerns about comparability and complexity related to purchased financial assets. Currently, Topic 326 requires different accounting for acquired assets depending on whether those assets are considered purchased credit impaired (PCD) or nonpurchased credit impaired (non-PCD). The proposed guidance would eliminate the need to distinguish whether an asset is a PCD or non-PCD asset at acquisition and would require entities to utilize the "gross-up" approach currently required for PCD assts for all assets. The amendments in this proposed Update would apply to all entities subject to the guidance in Topic 326, including public business entities, private companies, and not-for-profit entities.

As these issues make their way through the FASB's new standard setting process, we will provide updates in subsequent versions of this newsletter.

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Regulatory update

SEC reopens comment period for proposed amendments to Exchange Act Rule 3b-16

In April 2023, the SEC reopened the comment period and provided supplemental information on proposed amendments to the definition of “exchange” under Exchange Act Rule 3b-16. The Commission initially proposed the amendments in January 2022 and reopened the comment period in May 2022. The reopened comment period closed on June 13, 2022.

The reopening release reiterated the applicability of existing rules to platforms that trade crypto asset securities, including so-called “DeFi” systems, and provides supplemental information and economic analysis for systems that would be included in the new, proposed exchange definition. The reopening release also requested information and public comment on crypto asset securities trading on such systems and certain aspects of the proposed amendments applicable to all securities.

The public comment period has ended.

SEC reopens comment period for proposed rule amendments to modernize beneficial ownership reporting

In April 2023, the SEC reopened the comment period for its proposed amendments to modernize the rules governing beneficial ownership reporting, and the staff of the Commission’s Division of Economic and Risk Analysis released a memorandum that provides supplemental data and analysis related to the proposed amendments’ economic effects.

The public comment period has ended.

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SEC adopts amendments to modernize share repurchase disclosure

In May 2023, the SEC adopted **amendments** to modernize the disclosure requirements relating to repurchases of an issuer's equity securities, including requiring issuers to provide daily repurchase activity on a quarterly or semiannual basis, depending on the type of issuer. The amendments will improve disclosure and provide investors with enhanced information to assess the purposes and effects of share repurchases. The timing and disclosure requirements are outlined in the amendment.

In May 2023, the SEC adopted **amendments** to Form PF, the confidential reporting form for certain SEC-registered investment advisers to private funds. The amendments are designed to enhance the ability of the Financial Stability Oversight Council (FSOC) to assess systemic risk and to bolster the SEC's oversight of private fund advisers and its investor protection efforts.

The amendments will require large hedge fund advisers and all private equity fund advisers to file current reports upon the occurrence of certain reporting events, as included in the amendments, that could indicate significant stress at a fund or investor harm. Large hedge fund advisers must file these reports as soon as practicable, but not later than 72 hours from the occurrence of the relevant event. Private equity fund advisers must file these reports on a quarterly basis within 60 days of the fiscal quarter end.

The amendments will also require large private equity fund advisers to report information on general partner and limited partner clawbacks on an annual basis as well as additional information on their strategies and borrowings as a part of their annual filing.

The amendments for current reporting will become effective six months after publication of the adopting release in the Federal Register, and the remaining amendments will become effective one year after publication in the Federal Register.

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Digital assets tool for audit committees

In May 2023, the Center for Audit Quality (CAQ) published a resource for audit committee members, "Continuing Your Digital Assets Journey: A Tool for Audit Committees," with oversight of companies that hold or transact with digital assets that includes information on topics and questions for audit committees to consider, such as:

- *Legal and regulatory environment: The digital asset legal and regulatory environment is rapidly evolving with domestic and international regulators and legislators prioritizing this topic.*
- *Risk assessment: Engaging with digital assets can introduce new or heightened risks for companies, including risks of fraud.*
- *Safeguarding digital assets: Custody practices are a key focus for companies holding and transacting with digital assets.*
- *Third-party service providers: Companies that rely on third-party service providers in the digital asset ecosystem must perform due diligence on the third parties they plan to engage with.*
- *Accounting and auditing considerations: Engaging with digital assets introduces a number of new accounting and auditing considerations.*

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Standards adoption

Standards issued in 2023

Final ASU	Early adoption	Effective date
ASU 2023-02: *Investments — Equity Method and Joint Ventures (Topic 323) — Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*	Yes	**Public:** Fiscal years beginning after Dec. 15, 2023, and interim periods within those fiscal years. **Nonpublic:** Fiscal years beginning after Dec. 15, 2024, and interim periods within those fiscal years.
ASU 2023-01: *Leases (Topic 842): Common Control Arrangements*	Yes	Effective for all entities for fiscal years beginning after Dec. 15, 2023, and interim periods within those fiscal years

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Final ASU	Early adoption	Effective date
ASU 2022-06: *Reference Rate Reform (Topic 848) — Deferral of the Sunset Date of Topic 848*	N/A	Effective upon issuance. Sunset date of Topic 848 is extended to Dec. 31, 2024.*,**
ASU 2022-05: *Financial Services — Insurance (Topic 944) — Transition for Sold Contracts*	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 Dece.15, 2025.
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 Measurements (Topic 820) — Fair Value Measurement of Equity Securities Subject to Contractual Sales Restrictions*	Yes	**Public:** *Fiscal years beginning after Dec. 15, 2023, and interim periods within those fiscal years.* **Nonpublic:** *Fiscal years beginning after Dec. 15, 2024, 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	**Public:** Fiscal years beginning after Dec. 15, 2022, and interim periods within those fiscal years.** **Nonpublic:** Fiscal years beginning after Dec. 15, 2023, and interim periods within those fiscal years.
ASU 2021-08: *Business Combinations (Topic 805) — Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*	Yes	**Public:** Fiscal years beginning after Dec. 15, 2022, and interim periods within those fiscal years.** **Nonpublic:** Fiscal years beginning after Dec. 15, 2023, and interim periods with-in those fiscal years.
ASU 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
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*	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.*
ASU 2020-03: *Codification Improvements to Financial Instruments*	Yes	*See ASU**
ASU 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**
ASU 2019-04: *Codification Improvements to Topic 326, Financial Instruments — Credit Losses, Topic 815 Derivatives and Hedging, and Topic 825, Financial Instruments*	Yes	*See ASU*
ASU 2018-19: *Codification Improvements to Topic 326, Financial Instruments — Credit Losses*	Yes, if ASU 2016-13 adopted	*See ASU 2016-13**
ASU 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.*
ASU 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.**

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