Accounting, financial reporting, and regulatory developments

FOURTH QUARTER 2023

This update highlights some of the more important 2023 fourth quarter accounting, financial reporting, and regulatory developments that may impact both public and private companies. The content is not meant to be all-inclusive.

VIEW THE DOCUMENT

BACK | NEXT

Accounting guidance

Accounting guidance issued in fourth quarter 2023

ASU 2023-09: Income Taxes (Topic 740) — Improvements to Income Tax Disclosures (ASU 2023-09) enhances the disclosure requirements related to income taxes. The most significant changes are requiring additional disaggregation in the rate reconciliation disclosure (for public business entities) and income taxes paid disclosure (for all entities). The changes to the rate reconciliation disclosures require entities to disclose specific categories in the rate reconciliation by taxing jurisdiction for any individual reconciling item that exceeds 5% of pretax income multiplied by the statutory tax rate. The updates to the income taxes paid disclosure requires entities to disclose amounts paid (net of refunds) for the following categories:

- *Federal income taxes*
- *State income taxes*
- *Foreign income taxes*

In addition, entities would be required to disclose any individual jurisdiction where income taxes paid exceeds 5% of total income taxes paid (net of refunds).

The new guidance will be effective for public business entities for annual periods beginning after Dec. 15, 2024. For all other entities, the guidance will be effective for annual periods beginning after Dec. 15, 2025. Early adoption is permitted for all entities.

ACCOUNTING GUIDANCE

REGULATORY UPDATE

STANDARDS ADOPTION

BACK | NEXT

ASU 2023-08: Intangibles — Goodwill and Other — Crypto Assets (Subtopic 350-60) — Accounting for and Disclosure of Crypto Assets (ASU 2023-08) improves the accounting for and disclosure of crypto assets. Before the issuance of ASU 2023-08, there was no authoritative guidance specific to accounting for crypto assets, which generally required crypto assets to be accounted for as an indefinite-lived intangible assets. ASU 2023-08 requires entities to subsequently account for crypto assets at fair value if the asset meets all of the following criteria:

- *The asset meets the definition of an intangible asset.*
- *The asset doesn't provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets.*
- *The asset is created or resides on a distributed ledger based on blockchain or similar technology.*
- *The asset is secured through cryptography.*
- *The asset is fungible.*
- *The asset isn't created or issued by the reporting entity or its related parties.*

In addition to requiring in scope crypto assets to be subsequently measured at fair value, the ASU provides presentation and disclosure guidance for crypto assets. Crypto assets that don't meet the requirements in the ASU will generally continue to be accounted for as indefinite-lived intangible assets. The new guidance will be effective for entities for fiscal years beginning after Dec. 15, 2024, including interim periods within those fiscal years. Early adoption is permitted for all entities.

ASU 2023-07: Segment Reporting (Topic 280) — Improvements to Reportable Segment Disclosures (ASU 2023-07) requires additional disclosures around reportable segments for public companies and entities that elect to include segment disclosures, including those that comprise a single reportable segment. The changes to the disclosures include the following:

- *Requires entities to disclose significant segment expenses that are regularly provided to the chief operating decision-maker (CODM).*
- *Requires entities to disclose amounts of "other segment items" by reportable segment. These items are the difference between segment revenues less significant segment expenses and the reporting amount of segment profit or loss.*
- *Requires entities to continue to provide all annual segment disclosures currently required by ASC Topic 280: Segment Reporting.*

BACK | NEXT

- *Clarifies that if the CODM uses more than one measure of a segment's profit or loss in assessing segment performance, they may elect to report one or more additional measures of segment profit or loss.*
- *Requires an entity to disclose the title and position of the CODM.*
- *Clarifies that an entity that has a single reportable segment is required to make the disclosures included in ASU 2023-07.*

The new guidance will be effective for public business entities and entities that elect to include segment disclosures for fiscal years beginning after Dec. 15, 2023, and interim periods within fiscal years beginning after Dec. 15, 2024. Early adoption is permitted.

ASU 2023-06: Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative (ASU 2023-06) will modify the SEC's disclosure and presentation requirements in the FASB's Accounting Standards Codification (ASC) for a variety of topics. The ASU is the result of the SEC's Disclosure Update and Simplification issued in August 2018. In that document, the SEC referred the FASB to its disclosure requirements that were incremental to U.S. GAAP for inclusion in the ASC. The changes will affect entities required to file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that aren't subject to contractual restrictions on transfer. The changes to the Codification will become effective when the SEC removes the respective requirements from Regulation S-X or Regulation S-K. For any entities that elect to but are not required to follow the SEC's disclosure requirements, the changes will be effective two years after their removal from the relevant SEC regulations. Refer to the ASU for the specific disclosures affected.

BACK | NEXT

Regulatory update

SEC chief accountant discusses improving the quality of cash flow information

At the AICPA & CIMA Conference on current SEC and PCAOB developments, SEC Chief Accountant Paul Munter emphasized the importance of cash flow reporting to investors. During his speech, Mr. Munter emphasized the following items:

- *Given the importance of cash flow information, entities should carefully consider how to best present cash and noncash information in order to provide the most useful information to financial statement users. This may include assessing whether information about gross cash receipts and payments should be presented either through using the direct method or as supplemental information when using the indirect method.*
- *Entities should ensure there are appropriate internal controls in place related to the preparation of the statement of cash flows.*

Mr. Munter reminded preparers that proper classification of cash flows as operating, investing, or financing is important for financial statement users. Given this, entities should apply judgment when determining classification within the statement of cash flows, especially for nonroutine transactions.

SEC issues staff report on accredited investor definition

The SEC has issued a staff report on the accredited investor definition. The Dodd-Frank Wall Street Reform and Consumer Protection Act directs the Commission to review the accredited investor definition as it relates to natural persons every four years to determine whether the definition should be modified or adjusted.

BACK | NEXT

SEC staff previously reviewed the definition in 2015 and in 2019 (as part of the Concept Release on Harmonization of Securities Offering Exemptions). Staff from the Divisions of Corporation Finance and Economic and Risk Analysis prepared the report in connection with this third review of the definition.

The report examines the current status of the accredited investor pool and concludes with a review of frequently suggested revisions to the accredited investor definition received from a variety of sources, including public commenters, the Investor Advisory Committee, and the Small Business Capital Formation Advisory Committee.

SEC small business advocacy office delivers report to Congress on capital raising from startups to small public companies

The SEC's Office of the Advocate for Small Business Capital Formation recently issued its 2023 Annual Report to Congress and the Commission. The report details how entrepreneurs and investors are building companies together, from startups to small public companies.

The report is a comprehensive resource on the dynamics of capital raising in communities across the country. Its contents include:

- *Data on small business capital formation, broken down by:*
  - *Small and emerging businesses*
  - *Mature and later-stage businesses*
  - *Initial public offerings and small public companies*
  - *Women founders and investors*
  - *Diverse founders and investors*
  - *Natural disaster areas*
  - *Rural communities*

- *Policy recommendations from the Office*
- *Highlights of the Office's advocacy work and public engagements from fiscal year 2023*
- *Small Business Capital Formation Advisory Committee's fiscal year 2023 summary of activities*

The independent Advocacy Office works to help advance the interests of small businesses and their investors. Based on feedback received through the team's continuous public outreach, the Office has developed educational resources to help equip small businesses and their investors with tools to navigate capital raising. Throughout its activities, the Office proactively works to identify and address unique challenges faced by diverse founders and their investors.

SEC division of examinations announces 2024 priorities

The SEC's Division of Examinations has released its **2024 examination priorities** to inform investors and registrants of the key risks, examination topics, and priorities that the division plans to focus on in the upcoming year. This year's examinations will prioritize areas that pose emerging risks to investors or the markets in addition to core and perennial risk areas.

"Continuing to make our examination priorities public increases transparency into the examination program and encourages firms to focus their compliance and surveillance efforts on areas of potentially heightened risk to retail investors," said Division of Examinations' Director Richard R. Best.

The Division conducts examinations and inspections of SEC-registered investment advisers, investment companies, broker-dealers, transfer agents, municipal advisors, securities-based swap dealers, clearing agencies, and other self-regulatory organizations. The Division prioritizes examinations of certain practices, products, and services that it believes present potentially heightened risks to investors or the integrity of the U.S. capital markets. It uses a risk-based approach to fulfill its mission to improve compliance, prevent fraud, monitor risk, and inform policy.

The published priorities aren't exhaustive of the focus areas of the division in its examinations, risk alerts, and outreach. The scope of any examination includes analysis of an entity's history, operations, services, products offered, and other risk factors.

BACK | NEXT

SEC adopts amendments to rules governing beneficial ownership reporting

The SEC has adopted rule amendments governing beneficial ownership reporting under Sections 13(d) and 13(g) of the Securities Exchange Act of 1934. The amendments update Regulation 13D-G to require market participants to provide more timely information on their positions to meet the needs of investors in today's financial markets.

Exchange Act Sections 13(d) and 13(g), along with Regulation 13D-G, require an investor who beneficially owns more than 5% of a covered class of equity securities to publicly file either a Schedule 13D or a Schedule 13G, as applicable. An investor with control intent files Schedule 13D, while exempt investors and investors without a control intent, such as qualified institutional investors and passive investors, file Schedule 13G.

Among other things, the amendments: shorten the deadline for initial Schedule 13D filings from 10 days to five business days and require that Schedule 13D amendments be filed within two business days; generally accelerate the filing deadlines for Schedule 13G beneficial ownership reports (the filing deadlines differ based on the type of filer); clarify the Schedule 13D disclosure requirements with respect to derivative securities; and require that Schedule 13D and 13G filings be made using a structured, machine-readable data language.

Further, the adopting release provides guidance regarding the current legal standard governing when two or more persons may be considered a group for the purposes of determining whether the beneficial ownership threshold has been met, as well as how, under the current beneficial ownership reporting rules, an investor's use of certain cash-settled derivative securities may result in the person being treated as a beneficial owner of the class of the reference equity securities.

Compliance with the revised Schedule 13G filing deadlines will be required beginning on Sept. 30, 2024. Compliance with the structured data requirement for Schedules 13D and 13G will be required on Dec. 18, 2024. Compliance with the other rule amendments will be required upon their effectiveness.

Standards adoption

Standards issued in 2023

Final ASU	Early adoption	Effective date
ASU 2023-09: *Income Taxes (Topic 740) — Improvements to Income Tax Disclosures*	Yes	**Public:** Annual periods beginning after Dec. 15, 2024. **Nonpublic:** Annual periods years beginning after Dec. 15, 2025.
ASU 2023-08: *Intangibles — Goodwill and Other — Crypto Assets (Subtopic 350-60) — Accounting for and Disclosure of Crypto Assets*	Yes	Effective for all entities for fiscal years beginning after Dec. 15, 2024, including interim periods within those fiscal years.
ASU 2023-07: *Segment Reporting (Topic 280) — Improvements to Reportable Segment Disclosures*	Yes	Effective for all entities that are required or elect to disclose segment information for fiscal years beginning after Dec. 15, 2023, and interim periods beginning in fiscal years beginning after Dec. 15, 2024.
ASU 2023-06: *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*	No	SEC registrants or other entities subject to SEC disclosure requirements: Effective date based on date on which the SEC removes the related disclosure from Regulation S-X or Regulation S-K. All other entities: the amendments will be effective two years after the effective date for entities following the SEC disclosure requirements.
ASU 2023-05: *Business Combinations — Joint Venture Formations (Subtopic 805-60) — Recognition and Initial Measurement*	Yes	Effective for all joint ventures with a formation date on or after Jan. 1, 2025.
ASU 2023-04: *Liabilities (Topic 405) — Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121*	N/A	Effective upon issuance.
ASU 2023-03: *Presentation of Financial Statements (Topic 205), Income Statement — Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation — Stock Compensation (Topic 718) — Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022 EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280 — General Revision of Regulation S-X: Income or Loss Applicable to Common Stock*	N/A	Effective upon issuance.
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

*Effective 2023 for nonpublic companies
**Effective 2023 for public business entities

Standards issued in prior years effective 2023 or after

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 Dec.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 within 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.

**Effective 2023 for nonpublic companies*
***Effective 2023 for public business entities*

BACK | NEXT

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.*

*Effective 2023 for nonpublic companies
**Effective 2023 for public business entities