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Accounting, financial reporting, and regulatory developments

FIRST QUARTER 2024

This update highlights some of the more important 2024 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 2024

ASU 2024-02: Codification Improvements — Amendments to Remove References to the Concepts Statements (ASU 2024-02) updates various Topics within the Accounting Standards Codification to remove references to the Concept Statements, which aren't authoritative guidance. The update is not intended to change existing accounting guidance, and therefore is not expected to have a significant impact for most entities. However, it's possible that accounting changes could occur for some entities, and transition guidance has been provided for those circumstances. The changes will be effective for public business entities for annual periods beginning after Dec. 15, 2024. For all other entities, the guidance will be for annual periods beginning after Dec. 15, 2025, including interim periods within those annual periods.

ASU 2024-01: Compensation — Stock Compensation (Topic 718) — Scope Application of Profits Interests and Similar Awards was issued to address diversity in practice in determining whether profits interests and similar awards should be accounted for in accordance with Topic 718 or Topic 710. The update doesn't change the scope for either Topic 718 or Topic 710; however, it provides implementation guidance and examples to assist entities in determining if profits interests or similar awards are within the scope of Topic 718. The guidance will be effective for public business entities for annual periods beginning after Dec. 15, 2024, including interim periods within those annual periods. For all other entities, the guidance will be effective for annual periods beginning after Dec. 15, 2025, including interim periods within those annual periods. Entities will have the option to apply the guidance either prospectively to new awards or retrospectively to all prior periods presented. Early adoption is permitted.

Accounting guidance effective first quarter 2024: Public companies

ASU 2023-02: Investments — Equity Method and Joint Ventures (Topic 323) — Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method expands the situations where entities can make an accounting policy election to account for tax credit investments by applying the proportional amortization method. Previously, the use of the proportional amortization method was limited to low-income housing tax credit structures. However, ASU 2023-02 expands this to allow entities to elect this accounting approach for all tax credit investments. Electing the proportional amortization method is an accounting policy election that can be made on a tax-credit-program by tax-credit-program basis. Upon adoption, the new guidance should be applied using either a modified retrospective approach or a retrospective approach.

ASU 2023-01: Leases (Topic 842): Common Control Arrangements addresses two common issues raised by stakeholders related to the accounting for leasing arrangements between entities under common control; however, only one change applies to public companies. The first issue relates to determining what terms are legally enforceable in common control lease arrangements. The amendments in ASU 2023-01 allow private companies and not-for-profit entities that aren't conduit bond obligors to elect a practical expedient to use the written terms and conditions of an arrangement between entities under common control when determining whether the lease exists and the classification and accounting for that lease. These written terms must be completed prior to financial statement issuance in order to be considered effective during the reporting period.

The second issue relates to accounting for leasehold improvements between entities under common control and applies to all entities. ASC 842 generally requires entities to amortize leasehold improvements over the shorter of the lease term and the useful life of the assets. ASU 2023-01 changes the requirement for leasing arrangements between entities under common control and requires all entities (both public and private) to amortize leasehold improvements between entities under common control over the useful life of assets to the common control group, even if that's longer than the lease term. If a lessee were to cease use of the leasehold improvements prior to the end of the useful life of the leasehold improvements to the common control group, then it would be accounted for as a transfer of assets between entities under common control.

ASU 2022-03: Fair value Measurement (Topic 820) — Fair Value Measurement of Equity Securities Subject to Contractual Sales Restrictions provides updated guidance on determining the fair value of equity securities when those securities have contractual sales restrictions. The new ASU clarifies that a contractual sales restriction shouldn't be considered when determining the fair value of the equity security. The new guidance also adds additional disclosure requirements for equity securities subject to contractual sales restrictions.

Accounting guidance effective for years ended Dec. 31, 2024: Public companies

ASU 2023-07: Segment Reporting (Topic 280) — Improvements to Reportable Segment Disclosures requires additional disclosures around reportable segments for public companies and entities that elect to include segment disclosures, including those that consist of 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 reported amount of segment profit or loss.*
- *Requires entities to continue to provide all annual segment disclosures currently required by ASC Topic 280: Segment Reporting.*
- *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.

Accounting guidance effective for years ended Dec. 31, 2024: Private companies

ASU 2023-07: Segment Reporting (Topic 280) — Improvements to Reportable Segment Disclosures requires additional disclosures around reportable segments for public companies and private companies that elect to include segment disclosures, including those that consist of 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 reported amount of segment profit or loss.*
- *Requires entities to continue to provide all annual segment disclosures currently required by ASC Topic 280: Segment Reporting.*

- *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 2023-01: Leases (Topic 842): Common Control Arrangements addresses two common issues raised by private company stakeholders related to the accounting for leasing arrangements between entities under common control. The first issue relates to determining what terms are legally enforceable in common control lease arrangements. The amendments in ASU 2023-01 allow private companies and not-for-profit entities that aren't conduit bond obligors to elect a practical expedient to use the written terms and conditions of an arrangement between entities under common control when determining whether the lease exists and the classification and accounting for that lease. These written terms must be completed prior to financial statement issuance in order to be considered effective during the reporting period.

The second issue relates to accounting for leasehold improvements between entities under common control. ASC 842 generally requires entities to amortize leasehold improvements over the shorter of the lease term and the useful life of the assets. ASU 2023-01 changes the requirement for leasing arrangements between entities under common control and requires all entities (both public and private) to amortize leasehold improvements between entities under common control over the useful life of assets to the common control group, even if that's longer than the lease term. If a lessee were to cease use of the leasehold improvements prior to the end of the useful life of the leasehold improvements to the common control group, then it would be accounted for as a transfer of assets between entities under common control.

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.*

ASU 2021-08: Business Combinations (Topic 805) — Accounting for Contract Assets and Contract Liabilities from Contracts with Customers requires entities to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASC Topic 606. This ASU creates an exception to the general principle that assets and liabilities acquired in a business combination should be recorded at fair value.

In general, the acquirer should account for the acquired revenue contracts as if it had originated the contracts. However, because the acquiree may be following a different accounting framework or applying different policies or judgments in evaluating contracts than the acquirer, the acquirer may not be able to solely rely on the acquiree's carrying value of contract assets and contract liabilities. In these circumstances, the acquirer may need to perform their own analysis under ASC Topic 606.

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 prior 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).

Regulatory update

SEC adopts rules to enhance investor protections relating to SPACs, shell companies, and projections

The Securities and Exchange Commission adopted new rules and amendments to enhance disclosures and provide additional investor protection in initial public offerings (IPOs) by special purpose acquisition companies (SPACs) and in subsequent business combination transactions between SPACs and target companies (de-SPAC transactions).

SPAC IPOs and de-SPAC transactions can be used as a means for private companies to enter the public markets. Given the complexity of these transactions, the Commission seeks to enhance investor protection in SPAC IPOs and de-SPAC transactions with respect to the adequacy of disclosure and the responsible use of projections. The rules also address investor protection concerns more broadly with respect to shell companies and blank check companies, including SPACs.

“Just because a company uses an alternative method to go public does not mean that its investors are any less deserving of time-tested investor protections,” said SEC Chair Gary Gensler. “Today’s adoption will help ensure that the rules for SPACs are substantially aligned with those of traditional IPOs, enhancing investor protection through three areas: disclosure, use of projections, and issuer obligations. Taken together, these steps will help protect investors by addressing information asymmetries, misleading information, and conflicts of interest in SPAC and de-SPAC transactions.”

The new rules and amendments require, among other things, enhanced disclosures about conflicts of interest, SPAC sponsor compensation, dilution, and other information that’s important to investors in SPAC IPOs and de-SPAC transactions. The rules also require registrants to provide additional information about the target company to investors that will help investors make more informed voting and investment decisions in connection with a de-SPAC transaction.

The rules more closely align the required disclosures and legal liabilities that may be incurred in de-SPAC transactions with those in traditional IPOs. For example, in certain situations, the rules require the target company to sign a registration statement filed by a SPAC (or another shell company) in connection with a de-SPAC transaction. This would make the target

company a “co-registrant” and assume responsibility for disclosures in that registration statement. In addition, the rules make the Private Securities Litigation Reform Act of 1995 safe harbor from liability for forward-looking statements unavailable to certain blank check companies, including SPACs.

In connection with de-SPAC transactions, the rules include disclosure requirements related to projections, including disclosure of all material bases of the projections and all material assumptions underlying the projections. The rules also update and expand guidance on the use of projections in all SEC filings.

The **adopting release is published on SEC.gov** and the Federal Register. The rules will become effective 125 days after publication in the Federal Register. Compliance with the structured data requirements, which require tagging of information disclosed pursuant to new subpart 1600 of Regulation S-K in Inline XBRL, will be required 490 days after publication of the rules in the Federal Register.

SEC adopt amendments to enhance private fund reporting

The Securities and Exchange Commission today adopted amendments to Form PF, the confidential reporting form for certain SEC-registered investment advisers to private funds, including those that also are registered with the Commodity Futures Trading Commission (CFTC) as commodity pool operators or commodity trading advisers. The amendments, which the CFTC concurrently adopted, are designed to enhance the ability of the Financial Stability Oversight Council (FSOC) to monitor and assess systemic risk and to bolster the SEC’s oversight of private fund advisers and the agency’s investor protection efforts. The SEC and CFTC also agreed to a memorandum of understanding related to the sharing of Form PF data.

Among other things, the amendments to Form PF will enhance how large hedge fund advisers report investment exposures; borrowing and counterparty exposure; market factor effects; currency exposure; turnover; country and industry exposure; central clearing counterparty reporting; risk metrics; investment performance by strategy; portfolio liquidity; and financing and investor liquidity to provide better insight into the operations and strategies of these funds and their advisers and improve data quality and comparability.

Further, the amendments will require additional basic information about advisers and the private funds they advise, including identifying information; assets under management; withdrawal and redemption rights; gross asset value and net asset value; inflows and outflows; base currency; borrowings and types of creditors; fair value hierarchy; beneficial ownership; and fund performance to provide greater insight into private funds’ operations and strategies, to assist in identifying trends, including those that could create systemic risk, to improve data quality and comparability, and to reduce reporting errors.

The amendments will also require more detailed information about the investment strategies, counterparty exposures, and trading and clearing mechanisms employed by hedge funds, while also removing duplicative questions, to provide greater insight into hedge funds' operations and strategies, to assist in identifying trends, and to improve data quality and comparability.

The amendments will become effective one year after publication in the Federal Register. The compliance date for the amendments is the same as the effective date.

SEC adopts rules to enhance and standardize climate-related disclosures for investors

The Securities and Exchange Commission adopted rules to enhance and standardize climate-related disclosures by public companies and in public offerings. The final rules reflect the Commission's efforts to respond to investors' demand for more consistent, comparable, and reliable information about the financial effects of climate-related risks on a registrant's operations and how it manages those risks while balancing concerns about mitigating the associated costs of the rules.

SEC Chair Gary Gensler commented, "These final rules build on past requirements by mandating material climate risk disclosures by public companies and in public offerings. The rules will provide investors with consistent, comparable, and decision-useful information, and issuers with clear reporting requirements. Further, they will provide specificity on what companies must disclose, which will produce more useful information than what investors see today. They will also require that climate risk disclosures be included in a company's SEC filings, such as annual reports and registration statements rather than on company websites, which will help make them more reliable."

Specifically, the final rules will require a registrant to disclose:

- *Climate-related risks that have had or are reasonably likely to have a material impact on the registrant's business strategy, results of operations, or financial condition.*
- *The actual and potential material impacts of any identified climate-related risks on the registrant's strategy, business model, and outlook.*
- *If, as part of its strategy, a registrant has undertaken activities to mitigate or adapt to a material climate-related risk, a quantitative and qualitative description of material expenditures incurred and material impacts on financial estimates and assumptions that directly result from such mitigation or adaptation activities.*
- *Specified disclosures regarding a registrant's activities, if any, to mitigate or adapt to a material climate-related risk, including the use, if any, of transition plans, scenario analysis, or internal carbon prices.*

- *Any oversight by the board of directors of climate-related risks and any role by management in assessing and managing the registrant's material climate-related risks.*
- *Any processes the registrant has for identifying, assessing, and managing material climate-related risks and, if the registrant is managing those risks, whether and how any such processes are integrated into the registrant's overall risk management system or processes.*
- *Information about a registrant's climate-related targets or goals, if any, that have materially affected or are reasonably likely to materially affect the registrant's business, results of operations, or financial condition. Disclosures would include material expenditures and material impacts on financial estimates and assumptions as a direct result of the target or goal or actions taken to make progress toward meeting such target or goal.*
- *For large accelerated filers (LAFs) and accelerated filers (AFs) that aren't otherwise exempted, information about material Scope 1 emissions and/or Scope 2 emissions.*
- *For those required to disclose Scope 1 and/or Scope 2 emissions, an assurance report at the limited assurance level, which, for an LAF, following an additional transition period, will be at the reasonable assurance level.*
- *The capitalized costs, expenditures expensed, charges, and losses incurred as a result of severe weather events and other natural conditions, such as hurricanes, tornadoes, flooding, drought, wildfires, extreme temperatures, and sea level rise, subject to applicable 1% and de minimis disclosure thresholds, disclosed in a note to the financial statements.*
- *The capitalized costs, expenditures expensed, and losses related to carbon offsets and renewable energy credits or certificates (RECs) if used as a material component of a registrant's plans to achieve its disclosed climate-related targets or goals, disclosed in a note to the financial statements.*
- *If the estimates and assumptions a registrant uses to produce the financial statements were materially impacted by risks and uncertainties associated with severe weather events and other natural conditions or any disclosed climate-related targets or transition plans, a qualitative description of how the development of such estimates and assumptions was impacted, disclosed in a note to the financial statements.*

The adopting release is **published on SEC.gov** and the Federal Register. The final rules were intended to become effective 60 days following publication of the adopting release in the Federal Register, and compliance dates for the rules will be phased in for all registrants, with the compliance date dependent on the registrant's filer status.

However, on April 4, 2024, the SEC voluntarily stayed the climate disclosure rules pending completion of a judicial review by the Court of Appeals for the Eight Circuit. It's important to note that while stay affect the recently adopted climate disclosure rules, the SECs 2010 climate guidance is still in effect for registrants.

Standards adoption

Standards issued in 2024

Final ASU	Early adoption	Effective date
ASU 2024-02: *Codification Improvements — Amendments to Remove References to the Concepts Statements*	Yes	**Public:** Annual periods beginning after Dec. 15, 2024, including interim periods within those fiscal years. **Nonpublic:** Annual periods beginning after Dec. 15, 2025, including interim periods within those fiscal years.
ASU 2024-01: *Compensation — Stock Compensation (Topic 718) — Scope Application of Profits Interests and Similar Awards*	Yes	**Public:** Annual periods beginning after Dec. 15, 2024, including interim periods within those fiscal years. **Nonpublic:** Annual periods beginning after Dec. 15, 2025, including interim periods within those fiscal years.

**Effective 2024 for nonpublic companies*
***Effective 2024 for public business entities*

Standards issued in prior years effective 2024 or after

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 yeas 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 2023-02: *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.*,**
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.

**Effective 2024 for nonpublic companies*
***Effective 2024 for public business entities*

Final ASU	Early adoption	Effective date
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 2022-01: *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.
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 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.

**Effective 2024 for nonpublic companies*
***Effective 2024 for public business entities*