

Financial reporting briefs

What you need to know about this quarter's accounting, financial reporting and other developments

December 2023

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Building a better working world

Top story

Welcome to the December 2023 Financial reporting briefs. This edition highlights the latest developments in financial reporting and alerts you to some important considerations for 2023.

Interested in what happened at the AICPA & CIMA Conference on Current SEC and PCAOB Developments? We've got it covered in our Top Story.

In our Accounting update section, we discuss the FASB's new guidance on income tax disclosures, crypto assets and significant segment expenses.

In our Regulatory developments section, we provide updates on SEC, PCAOB and other developments.

Need more information? Check out our Reference library, where we list our recent publications on the topics discussed here and provide links to them.

AICPA & CIMA Conference on Current SEC and PCAOB Developments

Regulators and standard setters discussed a broad range of financial reporting topics and emerging issues last week at the annual AICPA & CIMA Conference on Current SEC and PCAOB Developments (Conference) in Washington, DC. The speakers and panelists included representatives of the Securities and Exchange Commission (SEC or Commission), the Financial Accounting Standards Board (FASB), the Public Company Accounting Oversight Board (PCAOB or Board) and the International Accounting Standards Board (IASB), who shared their views on various accounting, financial reporting, auditing and regulatory issues.

Highlights included:

The importance of the accounting profession – Regulators highlighted the importance of the accounting profession in promoting public trust in the capital markets and serving the public interest. Speakers also emphasized the importance of attracting and retaining talent, saying it is critical to the future of audit quality.

Communication – Regulators, standard setters and other speakers emphasized that financial reporting is a communication activity at its core, and the accounting profession plays a key role in providing investors with the information they need to understand an investment's risks and price those risks into their capital allocation decisions. They also emphasized the importance of robust communication, particularly in the current macroeconomic environment.

Audit firm culture – Regulators noted that a professional services firm that performs audits should have a culture that emphasizes audit quality and independence, and that culture should cascade through all of its service lines. They highlighted the tone at the top, firm leadership's ways of incentivizing certain behaviors, and the firm's systems and structures (e.g., policies and procedures, performance management system, code of conduct) as some of the main elements of a culture that promotes audit quality.

Stakeholder engagement – Regulators and standard setters discussed the importance of seeking and receiving feedback in rulemaking and standard-setting. They highlighted that engagement across the spectrum of stakeholders, especially investors, is critical to achieve the appropriate balance between requiring companies to provide useful information and addressing the challenges companies face in gathering and synthesizing that information.

PCAOB activities – PCAOB Board members, including Chair Erica Williams, emphasized that public trust should be the North Star of the auditing profession, noting that audit firm culture and professional skepticism are key elements of promoting public trust in the profession and in promoting audit quality. She noted that audit deficiency rates increased for the second year in a row. She and the other Board members also discussed the PCAOB's continued focus on modernizing auditing standards, enhancing inspections and the other strategic areas highlighted in its Strategic Plan for 2022-2026.

Accounting updates – SEC and FASB representatives discussed ways to provide investors with decision-useful and transparent disclosures. FASB representatives also discussed the FASB's recently completed projects and technical agenda and stressed the importance of stakeholder feedback throughout the standard-setting process. The FASB representatives also indicated that Emerging Issues Task Force will adopt a new process that will allow the FASB to address emerging issues in a more timely manner.



Accounting update

FASB expands income tax disclosure requirements

The FASB issued final guidance requiring public business entities (PBEs) to disclose in their rate reconciliation table additional categories of information about federal, state and foreign income taxes and provide more details about the reconciling items in some categories if items meet a quantitative threshold. Entities other than PBEs would have to provide qualitative disclosures about the new categories.

The guidance will require all entities to disclose income taxes paid, net of refunds, disaggregated by federal (national), state and foreign taxes for annual periods and to disaggregate the information by jurisdiction based on a quantitative threshold. The guidance makes several other changes to the disclosure requirements.

All entities are required to apply the guidance prospectively, with the option to apply it retrospectively. The guidance is effective for PBEs for fiscal years beginning after 15 December 2024. It is effective for other entities for fiscal years beginning after 15 December 2025. Early adoption is permitted.

FASB requires fair value accounting and enhanced disclosures for certain crypto assets

The FASB issued final guidance requiring all entities to measure certain crypto assets they hold at fair value and to reflect changes in fair value in net income each reporting period. Entities are required to present crypto assets measured at fair value separately from other intangible assets on the balance sheet and present changes in the fair value of crypto assets separately from changes in the carrying amounts of other intangible assets in the income statement.

An entity that receives crypto assets as noncash consideration in the ordinary course of business and converts them nearly immediately into cash is required to classify those cash receipts as cash flows from operating activities. Entities are also required to provide interim and annual disclosures about the types of crypto assets they hold and any changes in their holdings of crypto assets.

The guidance is effective for fiscal years beginning after 15 December 2024, including interim periods within those fiscal years. Early adoption is permitted.

FASB requires disclosure of significant segment expenses and allows reporting on more than one segment measure of profitability

The FASB amended the guidance in Accounting Standards Codification (ASC) 280, *Segment Reporting*, to require a public entity to disclose significant segment expenses and other segment items on an annual and interim basis and provide in interim periods all disclosures about a reportable segment's profit or loss and assets that are currently required annually. Public entities with a single reportable segment are required to provide the new disclosures and all the disclosures currently required under ASC 280.

Entities are also permitted to disclose more than one measure of a segment's profit or loss if such measures are used by the chief operating decision maker to allocate resources and assess performance, as long as at least one of those measures is determined in a way that is most consistent with the measurement principles used to measure the corresponding amounts in the consolidated financial statements.

The SEC staff said that because the new guidance neither requires nor expressly permits disclosure of additional segment profitability measures (i.e., by prescribing or otherwise specifying the additional measures that may be reported), they would consider additional reported measures of segment profit or loss that are not determined in accordance with US GAAP to be non-GAAP measures subject to the relevant SEC rules, regulations and SEC staff interpretations on the use of non-GAAP financial measures. Accordingly, the SEC staff encouraged registrants planning to early adopt and disclose additional measures of segment profit or loss that would be considered non-GAAP financial measures to consult with the SEC Division of Corporation Finance's Office of the Chief Accountant about their fact pattern.

The US GAAP guidance applies to all public entities and is effective for fiscal years beginning after 15 December 2023 and for interim periods beginning after 15 December 2024. The guidance is applied retrospectively to all periods presented in financial statements, unless doing so is impracticable, and early adoption is permitted.

FASB incorporates certain SEC disclosure requirements into US GAAP

The FASB issued an Accounting Standards Update (ASU) that incorporates several SEC disclosure requirements, including those focusing on accounting changes, earnings per share, debt and repurchase agreements, into US GAAP in response to a request from the SEC. Most of these interim and annual disclosure requirements apply to all entities, including those that are not PBEs. Nonpublic entities will be required to make certain disclosures they have not previously had to make.

For entities subject to the SEC requirements and those required to file or furnish financial statements in connection with the sale or issuance of securities without contractual restrictions on transfer, the guidance will be effective upon the removal of the related SEC requirement. Early adoption is not permitted for these entities. For all other entities, the effective date will be two years later, and early adoption is permitted.

FAF appointments to FASB, PCC and FAF board of trustees

The Financial Accounting Foundation (FAF) appointed Hillary H. Salo to the FASB for a five-year term, effective 1 July 2024. She will succeed James L. Kroeker. The FAF also reappointed Susan M. Cospser to the FASB for a second five-year term, effective 1 July 2024.

The FAF also appointed David Finkelstein to the Private Company Council (PCC) for a three-year term, effective 1 January 2024. He will succeed Jeremy Dillard.

In addition, the FAF appointed Michael B. Clement and Elizabeth (Beth) Pearce to its board of trustees, each for a five-year term, effective 1 January 2024. They will succeed Mary E. Barth and David H. Lillard, Jr.



Regulatory developments

SEC issues order to postpone effective date of share repurchase rule

The SEC issued an order postponing the effective date of its share repurchase disclosure rule after the US Court of Appeals for the Fifth Circuit, in response to a lawsuit by the US Chamber of Commerce, directed it to correct certain defects the court identified in the rule. However, the SEC informed the court on 1 December that it was unable to correct the defects, and the petitioners filed a motion on 8 December asking the court to vacate the rules.

California enacts climate disclosure laws

California enacted two climate-disclosure laws that apply to both public and private entities that do business in the state and meet certain annual revenue thresholds. Both laws require initial disclosures in 2026.

Entities with more than \$1 billion in annual revenue that do business in California will be required to annually disclose to a designated emissions reporting organization their Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions in accordance with the Greenhouse Gas Protocol and obtain assurance over those disclosures. Entities with more than \$500 million in annual revenue that do business in the state will be required to biennially disclose on their websites (1) climate-related information in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and (2) the measures they adopted to reduce and adapt to identified climate-related risks. The TCFD's recommendations include providing disclosures about Scope 1 and Scope 2 emissions without assurance.

California also enacted a third climate-disclosure law that will require entities that operate in the state and make net zero emissions claims, carbon-neutral claims or significant GHG emissions reduction claims to disclose information about those claims and the voluntary carbon offsets they purchased or used to achieve those claims on their websites.

SEC amends 'names' rule for funds

The SEC adopted amendments to the "names" rule under the Investment Company Act of 1940 to expand the scope of funds that must adopt a policy to invest at least 80% of the value of their assets in accordance with the investment focus that the fund's name suggests.

The amendments also update notice requirements and establish additional recordkeeping requirements, enhance prospectus disclosure requirements for terminology used in fund names and include additional requirements for funds to report information on Form N-PORT regarding compliance with the names-related regulatory requirement.

Compliance with the amendments is required beginning 11 December 2025 for fund groups with net assets of \$1 billion or more and 11 June 2026 for fund groups with net assets of less than \$1 billion.

PCAOB adopts new standard on the auditor's use of confirmation

The PCAOB adopted a new standard to enhance its guidance on the auditor's use of confirmation. The standard establishes principles-based requirements that apply to all methods of confirmation, incorporate certain risk-based considerations and emphasize the auditor's responsibilities for obtaining relevant and reliable audit evidence through the confirmation process.

Under the standard, audit teams can obtain relevant and reliable audit evidence by directly accessing information maintained by a knowledgeable external source. For significant risks associated with cash or accounts receivable, auditors are now required to communicate with the audit committee when they did not perform confirmation procedures or obtain audit evidence by directly accessing information maintained by a knowledgeable external source. Among other things, the standard provides guidance on the use of third-party intermediaries (e.g., Confirmation.com) to facilitate direct electronic transmission of confirmation requests and responses.

The standard will be effective for audits of financial statements for fiscal years ending on or after 15 June 2025.

PCAOB staff reminds auditors of importance of engagement quality reviews

The PCAOB staff issued a Spotlight publication to remind auditors of the importance of a well-performed engagement quality review and highlight inspection observations and good practices. It also provides a list of questions that audit committees may want to consider in their discussions with auditors.

SEC appoints George Botic as PCAOB board member

The SEC appointed George R. Botic as a PCAOB board member, succeeding Duane M. DesParte, whose second term ended on 24 October 2023. Mr. Botic was most recently the director of the PCAOB's Division of Registration and Inspections.

Other considerations

Reminders on risk assessment

Management should evaluate how the current environment is affecting the company's risk assessment process, which is an important part of a company's entity-level controls over financial reporting. As part of this evaluation, management should reassess the risk of material misstatement due to fraud and document the company's thought process and judgments each quarter.

Companies also should evaluate whether there are heightened risks due to the high interest rate environment and current geopolitical situation and whether these risks involve new or different fraud risks. Considerations include (1) risk factors due to business disruptions caused by the current economic environment; (2) the virtual work environment; and (3) other risk factors, such as inflation, supply chain issues and workforce disruption.

As companies evaluate changes to the business environment, they may need to develop and document new controls or modify existing controls to address the identified risks.

Considerations for valuation allowances

Companies need to continually assess both positive and negative evidence in determining whether to record, maintain or reverse a valuation allowance under ASC 740, *Income Taxes*. This assessment is challenging and requires companies to apply judgment.

As a reminder, the SEC staff frequently asks companies to explain how they considered both positive and negative evidence when evaluating the need for a valuation allowance. By its very nature, future taxable income (exclusive of the reversal of existing temporary differences and carryforwards) requires estimates and judgments about future events that may be predictable but are far less certain than past events that can be objectively measured.

Reminder on goodwill impairment testing

When companies perform the required annual goodwill impairment test before the end of the annual reporting period (e.g., 1 October for a calendar year-end company), they will still need to consider whether there have been events or changes in circumstances between the date of that test and year end that indicate it is more likely than not that goodwill is impaired at year end. When evaluating whether impairment indicators exist, companies should focus on events and circumstances that most affect a reporting unit's fair value (i.e., the significant inputs used to determine fair value) or the carrying amount of its net assets.

This is important to remember because companies often perform the annual goodwill impairment test as of the beginning of the fourth fiscal quarter. They choose that date because reporting unit carrying amounts from the end of the preceding quarter are available by then, and it gives them a reasonable amount of time to assess whether they have a potential impairment (qualitative assessment, if used) and complete the quantitative impairment test, if required.

Reminder on intent and ability to hold HTM securities to maturity

Liquidity issues may lead a company to consider sales or transfers of debt securities from its held-to-maturity (HTM) debt portfolio, which would call into question the company's assertion that it has the intent and ability to hold all of the securities in the portfolio to maturity. This could necessitate the transfer of all remaining HTM securities to the available-for-sale (AFS) or trading categories.

The SEC staff, in fact, presumes that a company that sells or transfers any securities from the HTM portfolio, other than in the limited circumstances described in ASC 320-10-25-6, should reevaluate the entire HTM portfolio for reclassification to its AFS or trading portfolios. Although that presumption may be overcome in rare situations, each additional sale or transfer from the HTM portfolio strengthens the presumption that the entire portfolio should be reclassified.

Because there are differences between the accounting for HTM, AFS and trading debt securities, it is important for management to make sure that the treasury function has an ongoing dialogue with the company's financial reporting team so they can appropriately consider the effects of any sales or transfers of HTM securities.

Reference library

Click on any of the EY publications below, all of which are available free of charge on AccountingLink at www.ey.com/en_us/assurance/accountinglink.

To the Point

- ▶ [FASB requires fair value accounting and enhanced disclosures for certain crypto assets \(14 December 2023\)](#)
- ▶ [FASB requires public entities to disclose significant expenses and other segment items \(30 November 2023\)](#)
- ▶ [FASB incorporates certain SEC disclosure requirements into US GAAP \(19 October 2023\)](#)
- ▶ [FASB moves forward with guidance to enhance income tax disclosures \(14 Sep 2023\)](#)

Technical Line

- ▶ [Financial reporting considerations for commercial real estate entities and their lenders \(29 November 2023\)](#)
- ▶ [A closer look at the FASB's guidance on accounting for joint venture formations \(14 November 2023\)](#)
- ▶ [A closer look at how to account for government assistance received under the CHIPS Act \(9 November 2023\)](#)
- ▶ [How to apply the SEC's new pay versus performance disclosure requirements \(19 October 2023\)](#)
- ▶ [A closer look at California's recently enacted climate disclosure laws \(12 October 2023\)](#)
- ▶ [A closer look at the FASB's proposal to require disaggregation of certain income statement expenses \(4 October 2023\)](#)

Financial reporting developments

- ▶ [Impairment or disposal of long-lived assets \(7 December 2023\)](#)
- ▶ [Reinsurance \(7 December 2023\)](#)
- ▶ [Derivatives and hedging \(27 September 2023\)](#)
- ▶ [Fair value measurement \(26 September 2023\)](#)
- ▶ [Gains and losses from the derecognition of nonfinancial assets \(ASC 610-20\) \(26 September 2023\)](#)
- ▶ [Intangibles – Goodwill and other \(22 June 2023\)](#)
- ▶ [Certain investments in debt and equity securities \(11 May 2023\)](#)

Comment letters

- ▶ [AICPA's proposed amendments to attestation standards to align them with the standards on quality management \(1 December 2023\)](#)
- ▶ [PCAOB proposal to expand liability for individual auditors involved in firm violations \(3 November 2023\)](#)
- ▶ [FASB's proposed guidance on disaggregation of income statement expenses \(30 October 2023\)](#)
- ▶ [GAO's proposal to update the methodology for assessing design, implementation and operating effectiveness of information system controls \(18 October 2023\)](#)

Other

- ▶ [2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments \(9 December 2023\)](#)
- ▶ [2023 Pro forma financial information – A guide for applying Article 11 of Regulation S-X \(30 November 2023\)](#)
- ▶ [2024 SEC quarterly reports – Form 10-Q \(30 November 2023\)](#)
- ▶ [2023 SEC annual reports – Form 10-K \(30 November 2023\)](#)
- ▶ [2024 proxy statements – an overview of the requirements \(30 November 2023\)](#)
- ▶ [Sustainability reporting developments: Greenhouse Gas Protocol \(6 November 2023\)](#)
- ▶ [Effective date matrix as of 30 September 2023 \(10 October 2023\)](#)
- ▶ [Quarterly Tax Developments – September 2023 \(6 October 2023\)](#)
- ▶ [SEC in Focus – September 2023 \(5 October 2023\)](#)
- ▶ [NAIC Bulletin – Summer 2023 edition \(28 September 2023\)](#)

On-demand webcasts

- ▶ [Spotlight on BEPS 2.0 for US MNEs \(November 2023\)](#)
- ▶ [Accounting for income taxes: a quarterly perspective \(December 2023\)](#)
- ▶ [What to consider for year-end SEC reporting 2023](#)
- ▶ [A closer look at California's climate disclosure laws](#)
- ▶ [Financial reporting for private companies – 2023](#)
- ▶ [US corporate income tax compliance](#)
- ▶ [EY global economic outlook: opportunities and risks](#)
- ▶ [Audit committee responses to new cybersecurity developments](#)
- ▶ [Spotlight on BEPS 2.0 for US MNEs \(October 2023\)](#)

Upcoming webcasts

- ▶ [What you need to know for Q4 2023 financial reporting \(Live – offering 1 of 2\) \(14 December 2023\)](#)
- ▶ [Navigating Derivatives and hedge accounting \(19 December 2023\)](#)
- ▶ [What you need to know for Q4 2023 financial reporting \(Replay – offering 2 of 2\) \(19 December 2023\)](#)
- ▶ [What audit committees need to know to prepare for 2024 \(19 December 2023\)](#)

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