

To the Point

FASB – final guidance

FASB incorporates certain SEC disclosure requirements into US GAAP

The guidance affects both public and private companies.

What you need to know

- ▶ The FASB issued an ASU to incorporate several SEC disclosure requirements into US GAAP in response to a request from the SEC.
- ▶ The ASU adds interim and annual disclosure requirements to a variety of topics in the Accounting Standards Codification, including those focusing on accounting changes, earnings per share, debt and repurchase agreements.
- ▶ 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.

Overview

The Financial Accounting Standards Board (FASB or Board) issued an **Accounting Standards Update** (ASU)¹ to add interim and annual disclosure requirements to US GAAP at the request of the Securities and Exchange Commission (SEC).

The SEC made the request in conjunction with a 2018 rule that eliminated or amended certain redundant or outdated SEC disclosure requirements. The SEC referred to the FASB certain of its disclosure requirements that overlap with, but require incremental information to, US GAAP for potential incorporation into the Accounting Standards Codification (ASC or Codification). However, the FASB did not incorporate all of the disclosure requirements the SEC referred to the Board and made clarifying edits to some of them. The ASU adds interim and annual disclosure requirements to a variety of Codification topics. Most of the amendments apply to all entities, including those that are not public business entities (PBEs).

The FASB considered its Private Company Decision-Making Framework and feedback from the Private Company Council in deciding which disclosure requirements should apply to private companies. The FASB amendments require only PBEs to disclose the weighted average interest rate on outstanding short-term borrowings or repurchase liabilities. Further, only publicly traded companies will be required to make certain oil and gas comparative disclosures.

Key considerations

The list below summarizes the ASU and includes references to the related SEC requirements:

ASC 230, Statement of Cash Flows, and ASC 815, Derivatives and Hedging

- Requires disclosure of the accounting policy for where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flows [Rule 4-08(n) of Regulation S-X]

ASC 250, Accounting Changes and Error Corrections

- When there has been a change in the reporting entity, requires interim and annual disclosure of the cumulative effect of the change on retained earnings or other appropriate components of equity or net assets as of the beginning of the earliest period presented [Rule 10-01(b)(7) of Regulation S-X]

ASC 260, Earnings Per Share

- Requires disclosure of the methods used (e.g., treasury stock, if-converted) in the diluted earnings per share (EPS) computation for each dilutive instrument and clarifies that certain disclosures should be made during interim periods
- Amends the illustrative guidance to show the disclosure of the methods used in the diluted EPS computation [Rule 10-01(b)(2) of Regulation S-X]

ASC 270, Interim Reporting

- Amends the guidance to conform to interim reporting amendments made to other Codification topics

ASC 440, Commitments

- Requires disclosure of assets mortgaged, pledged or otherwise subject to a lien; the approximate amounts of those assets; and the related obligations collateralized [Rule 4-08(b) of Regulation S-X]

ASC 470, Debt

- Requires disclosure of the amounts and terms of unused lines of credit for short-term financing arrangements and of unused commitments for long-term financing arrangements (including commitment fees and the conditions under which lines and commitments can be withdrawn), as well as the amount of lines of credit that support commercial paper borrowing or similar arrangements [Rule 5-02.19(b) and Rule 5-02.22(b) of Regulation S-X]

- Requires PBEs to disclose the weighted average interest rate on short-term borrowings outstanding as of the date of each balance sheet presented [Rule 5-02.19(b) of Regulation S-X]

ASC 505, *Equity*

- Requires the presentation of preference in involuntary liquidation parenthetically in the equity section of the balance sheet if the liquidation preference is other than at par or stated value of the shares [Rule 4-08(d) of Regulation S-X]

ASC 860, *Transfers and Servicing*

- Clarifies that accrued interest should be included in the disclosure of liabilities incurred in securities borrowing or resale transactions
- Requires separate classification of the aggregate carrying amount of reverse repurchase agreements on the face of the balance sheet if that amount exceeds 10% of total assets
- Requires PBEs to disclose the weighted average interest rates of repurchase liabilities
- Requires disclosure of amounts at risk with an individual counterparty or group of related counterparties if that amount exceeds more than 10% of stockholders' equity, in addition to disclosure of the names of those counterparties and the weighted average maturity of the repurchase or reverse repurchase agreements
- Requires disclosure of whether there are any provisions in a reverse repurchase agreement that exceed 10% of total assets to make sure that the market value of the underlying assets remains sufficient to protect against counterparty default and, if so, the nature of those provisions [Rule 4-08(m) of Regulation S-X]

ASC 932-235, *Extractive Activities – Oil and Gas – Notes to Financial Statements*

- Clarifies that the supplemental information required to be disclosed by publicly traded companies under ASC 932-235-50-3 through 50-36 is required for all annual periods presented in the financial statements [Item 302(b) of Regulation S-K]

ASC 946-20, *Financial Services – Investment Companies – Investment Company Activities*

- Clarifies the requirement that investment companies disclose the components of capital on the balance sheet [Rule 6-04.17 of Regulation S-X]

ASC 974, *Real Estate – Real Estate Investment Trusts*

- Requires disclosure of the tax status of distributions per unit (e.g., ordinary income, capital gain, return of capital) for real estate investment trusts [Rule 3-15(c) of Regulation S-X]

How we see it

While incorporating these disclosure requirements into US GAAP simplifies compliance for most registrants, the guidance creates more work for smaller reporting companies that currently receive relief from these requirements and nonpublic companies that don't have to comply with SEC requirements.

The guidance adds interim and annual disclosure requirements to a variety of Codification topics.

Transition and effective date

The guidance will be applied prospectively, primarily to prevent entities that are not subject to the SEC's disclosure requirements from incurring additional costs to provide the new information for comparable periods.

For entities subject to the SEC disclosure requirements and those "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 are not subject to contractual restrictions on transfer,"² the US GAAP requirements will be effective when the removal of the related SEC rule is effective. 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.

That is, financial statements issued after the effective date of each amendment are required to include on a prospective basis the related disclosure incorporated into US GAAP by this ASU. However, if the SEC does not act to remove its related requirements by 30 June 2027, any related FASB amendments will be removed from the Codification and will not be effective for any entities.

Endnotes:

- ¹ ASU 2023-06, *Disclosure Improvements – Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*.
- ² This wording is generally consistent with criterion (c) of the definition of "public business entity" in the ASC Master Glossary.

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SCORE No. 21244-231US

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