

# ASK THE EXPERTS WEBINAR

*AICPA and CIMA Conference Recap:  
2021 Highlights and Key Themes*

**January 13, 2022**

## MODERATED BY:



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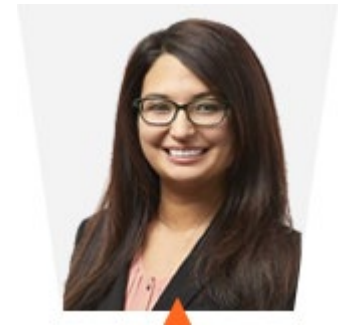
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## KEY REMINDERS

- ▶ Riveron webcasts – past and upcoming
- ▶ 4 polling questions must be answered to obtain CPE
- ▶ If you have questions, feel free to ask in Q&A option in Zoom
- ▶ Webinar evaluation form & CPE certificate will be emailed to you
- ▶ On demand video is not eligible for CPE
- ▶ You will receive a follow up email including:
  - ▶ Access to this webinar recording and deck
  - ▶ The ability to join our Webinars Mailing list to receive future invites
  - ▶ Presenter contact info

# AGENDA

## SEC MATTERS

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ACCOUNTING UPDATE – FASB  
AGENDA AND OFFICE OF THE  
CHIEF ACCOUNTANT

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## OTHER HOT TOPICS

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## Q&A

# Polling Question #1

My company is currently:

- A. A recurring registered accelerated filer with the SEC
- B. A registered filer as an EGC
- C. In the middle of the registration process
- D. Considering an IPO in the next year
- E. None of the above



The image features a dark blue background with a complex, geometric pattern of overlapping shapes and lines. The text "SEC MATTERS" is prominently displayed in the center-right area in a bold, white, sans-serif font. The overall design is modern and professional, typical of a corporate or financial document header.

**SEC MATTERS**

# MATERIALITY ASSESSMENTS AND IMPORTANCE OF OBJECTIVITY

## Emphasis on objectivity

- ▶ Focus on objectivity
- ▶ No changes SAB 99 guidance

## Restatement trends

- ▶ Sustained increases in capital market and M&A activity have spurred additional focus on the topic of materiality
- ▶ “Little r” revisions previously made up approximately 1/3rd, but in recent periods have accounted for almost 3/4ths when compared to “Big R”

## Quantitative metrics vs. qualitative factors

- ▶ SEC staff reminded companies that assessment of the materiality of an error should be grounded by using quantitative metrics before assessing any qualitative factors
- ▶ From the SEC’s perspective, it would be challenging for a quantitatively material error to be deemed immaterial by use of qualitative factors

## Riveron point of view

- ▶ Focus on SAB 99 memo, quantitative guidelines to start, internal control impacts, auditor involvement and consultation process

# LOOKBACK: 2020 AMENDMENTS TO MD&A, SELECTED AND SUPPLEMENTARY FINANCIAL INFORMATION

NOVEMBER 19, 2020

SECTION	PREVIOUS RULE	NEW RULE
Contractual obligations table	<b>Required in tabular format</b> by certain registrants	<b>Not required in tabular format</b> , but must disclose material cash requirements from known contractual and other obligations
Selected financial data	<b>Required for last five years</b> for certain registrants	<b>Not required</b> , but encouraged for years prior to financial statement periods, if valuable
Selected quarterly financial data	<b>Required for each quarter for last two years</b> , variances and effect of disc ops and infrequent/unusual items	<b>Not required</b> , unless a material retrospective change for any prior quarters in past two years
Interim results of operations	Required quarter- to-date and comparative <b>prior year quarter</b>	Comparative quarter can instead be <b>immediately preceding quarter</b>
Net sales and revenues – results of operations	Focus discussion on <b>increases</b>	Focus discussion on <b>changes</b> , both quantitatively and qualitatively

## Riveron point of view:



- ▶ Low number of preparers have adopted Regulation S-K amendments as 2021 Form 10-Ks will largely be first adopters
- ▶ Certain of these changes could have a significant impact on time spent preparing legacy disclosures, such as selected quarterly financial data and first-time contractual obligations tables



# RECAP OF 2020 CHANGES TO SIGNIFICANCE TEST AND PRO FORMA INFORMATION AND ISSUES NOTED IN 2021

*The SEC adopted amendments to improve financial disclosures about acquisitions and dispositions of businesses in May 2020*



## CHANGES TO AREAS OF FOCUS 2020

### **Income Test**

- ▶ Now includes revenue component

### **Investment Test**

- ▶ Public Companies will use an “aggregated worldwide market value” (AWMV) as the denominator
- ▶ Private company focus on legacy total assets denominator

### **Asset Test**

- ▶ No changes

### **Pro Forma Financial Statements**

- ▶ Optional synergies and dis-synergies
- ▶ Non-recurring concept for I/S
- ▶ Three specified adjustment categories



## ISSUES NOTED AND IMPACTS IN 2021

### **Investment Test**

- ▶ Use of AWMV - Treatment of voting, non-voting traded vs non-traded, convertible items related to AWMV

### **Pro Forma Financial Statements**

- ▶ Autonomous entity adjustments
- ▶ Synergies vs dis-synergies

### **Riveron Point of View**

- ▶ Focus early on documentation for related S-X 3-05 matters
- ▶ Auditor national office consultation
- ▶ SEC pre-clearance letter where needed

# SEC WAIVER LETTER TRENDS

## Common waiver letter requests in 2021:

- ▶ Entities with differing year-ends
- ▶ Use of pro forma financial information in significance tests
- ▶ Definition of a business for an acquired business
- ▶ Staff looks heavily at anomalous factors impacting the significance test in order to approve waiver requests
- ▶ Substitutions vs waivers
  - ▶ E.g., recent stub periods to substitute old annual periods
- ▶ 2-year vs 1-year waivers
  - ▶ Offer up comparative interim period in earlier of 2-year period
- ▶ Emphasis on submitting letters as complete as possible
  - ▶ Incomplete letters will result in slower responses and unnecessary follow up

## Non-GAAP financial measures

- ▶ SEC staff emphasized focus on the prominence and labeling of Non-GAAP financial measures
- ▶ Presentation of Non-GAAP measures should not overshadow similar GAAP measures

## Riveron point of view:

- ▶ Waivers should emphasize anomalous factors and financial statement substitution for higher quality reporting

# SPAC MERGERS AND CAPITAL MARKETS

## Consultation trends

- ▶ Revenue recognition
- ▶ Debt / Equity
  - ▶ SPAC warrants
  - ▶ Temporary vs permanent equity, EPS
  - ▶ Compensation arrangements, business combinations, and derivatives

## Focus areas

- ▶ Financial reporting, accounting policy, internal controls
- ▶ Ensuring target company is ready to go public

## Direct listings with capital raise

- ▶ Further expand concept and opportunities for entities to go public
- ▶ SEC staff expects to see additional avenues for entities to go public in 2022

## Issues in focus

- ▶ Financial incentives
  - ▶ Staff raised concerns about financial incentives tipped towards sponsors vs non-redeeming investors
  - ▶ Disclosures related to financial incentives

## Riveron point of view

- ▶ Q1 2022 will be 1st birthday of Q1 2021 "Peak SPAC" driving an expected high de-SPAC volume in 2022
- ▶ De-SPAC path not faster or easier for financial reporting purposes, can be more complex

# INSIGHT INTO NEW FASB PROJECTS: TECHNICAL AREAS UNDER CONSIDERATION

## SEGMENT REPORTING AND EXPENSE-RELATED DISCLOSURES

### Segment reporting

- ▶ Changes to business and restructuring
  - ▶ SEC staff expects to see changes
- ▶ Aggregation criteria
  - ▶ All 5 qualitative criteria must be met
- ▶ Entity-wide disclosures
  - ▶ Disclosures related to segment measures of profit and loss
  - ▶ SEC expects to comment if companies disclose more than one measure of profit and loss

### Expanded disclosures related to expense line items

- ▶ Investors are looking for further insight into the disaggregation of expenses in order to better predict future cash flows. Specifically, the nature of:
  - ▶ Fixed vs. variable expenses
  - ▶ Recurring vs. nonrecurring expenses

### Significant Expense Principle

- ▶ The FASB is considering implementation of the Significant Expense Principle, requiring disclosure of significant expense categories by reportable segment
- ▶ The disclosure requirement would require entities to report “significant segment expenses” that are both:
  - ▶ Regularly provided to the chief operating decision-maker (CODM)
  - ▶ Included in the entity’s measure of segment profit or loss
- ▶ When applying the proposed principle, an entity should:
  1. Identify reportable segments
  2. Apply significance threshold to determine which expenses should be disclosed
- ▶ The goal of this principle is for investors to receive information that is aligned with the way the CODM receives information related to reportable segments

## Polling Question #2

Which accounting standard transition do you expect to focus on in 2022?

- A. ASC 842 Leases
- B. ASC 326 Current expected credit losses
- C. ASC 848 Reference rate reform (LIBOR transition)
- D. Expect focus to continue on other accounting issues like revenue recognition goodwill, impairments, stock comp, etc.





**ACCOUNTING UPDATE – FASB AGENDA  
AND OFFICE OF THE CHIEF ACCOUNTANT**

## FASB – STANDARD SETTING AGENDA

The FASB chairman, technical director, and deputy technical director presented an update on its current technical agenda, noting key items on recently-issued standards:

- ▶ (ASU 2021-05) **lessor accounting for certain leases with variable lease payments** requires lessors to classify sales-type or direct financing leases that would result in the recognition of a selling loss at lease commencement and have variable lease payments which are not dependent on an index or rate as an operating lease.
- ▶ (ASU 2021-09) **discount rate elections for non-public company lessees** allow lessees that make the risk-free rate election to make the election by class of underlying asset, rather than at the entity-wide level.
- ▶ (ASU 2021-08) **accounting for contract assets and liabilities acquired in a business combination** requires acquiring entities to apply Topic 606 to recognize and measure contract assets and contract liabilities as opposed to measuring the assets and liabilities at fair value at the acquisition date.

# FASB – STANDARD SETTING AGENDA (CONTINUED)

## Highlights of the Current Upcoming Agenda

### PROPOSED ASUS:

- ▶ **Proposed ASU regarding troubled debt restructuring evaluation and related disclosures**
  - ▶ The proposed ASU would eliminate the accounting guidance for TDRs by creditors while enhancing disclosure requirements for loan refinancings and restructurings by creditors made to borrowers experiencing financial difficulty
- ▶ **Proposed ASU to revise gross write off related to vintage disclosures**
  - ▶ The proposed ASU would require that a public business entity disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases.

### FORWARD-LOOKING PROJECTS:

- ▶ **Goodwill Impairment** – The FASB staff is considering revising the level at which goodwill impairment analyses are performed including moving to either the reportable or operating segment level from the reporting unit level.
- ▶ **Accounting for Goodwill** – The FASB staff is currently looking at potential options for the ongoing accounting for goodwill, such as moving to an amortization and impairment model.
- ▶ **Libor** – The FASB staff is considering updating the expiration date of the reference rate reform guidance to align with LIBOR's expected extended life.
- ▶ **Segment Reporting** – The FASB staff is currently researching options that would require additional disclosure of significant expense items that are regularly reviewed by the CODM.



# SUMMARY OF OCA SPEECHES

Annually, the Office of the Chief Accountant (“OCA”), reviews a number of representative consults highlighting key issues and trends. Typically, the “speeches” represent non-authoritative GAAP and indicate what the SEC considers best practices. In addition to the accounting consultations examined on subsequent slides in this presentation, these topics were highlighted:

## SPAC- SPECIFIC ACCOUNTING ISSUES

The OCA received several consultations related to the increase in SPAC transaction activity, including warrant accounting, earnings per share, temporary and permanent equity classification, and business combination accounting and derivatives.

## MATERIALITY

The increase in transaction activity has spurred more consultations regarding materiality.

## AUDITOR INDEPENDENCE

The number of auditor independence consultations increased related to the October 2021 targeted amendments to the independence requirements in Rule 2-01 of Regulation S-X.

## DIGITAL ASSETS

Despite ample feedback around the accounting model for digital assets, the panel indicated the FASB does not currently have a project on its agenda to address the accounting for digital assets.

# KEY TOPICS COVERED BY OCA SPEECHES



## IDENTIFICATION OF PERFORMANCE OBLIGATIONS

- ▶ Assessing whether promises to provide goods or services upfront and a related service over time are considered distinct
- ▶ Consultations primarily focused on cases where software licenses are sold with ongoing services, cases where smart devices are provided with ongoing software and situations where companies are incorporating third-party goods/services into their own offerings which are then sold as a combined good to the end-user
- ▶ Importance of determining whether the company is performing a significant integration service, whether the software is integral to the device functionality and whether companies are obtaining control of the third-party inputs.



## PRINCIPAL VS. AGENT

- ▶ Properly concluding on Principal vs. Agent and related gross vs. net presentation
- ▶ Consultations primarily around technology businesses, specifically platform business models and digital asset space
- ▶ Importance of beginning with a detailed understanding of the fact pattern and substance of the arrangement
- ▶ Remember that indicators of control in the principal vs. agent analysis are not a replacement for the assessment of the definition of control but should support that assessment

# KEY TOPICS COVERED BY OCA SPEECHES, CONT'D



## CONSIDERATION PAYABLE TO CUSTOMERS

- ▶ Accounting for consideration payable to customers when the company is an agent
  - ▶ Importance of determining the nature of the entity's promise and the entity's customers (single or multiple) in situations where the company offers incentives to one or more parties to the contract
  - ▶ Consultations with platform companies acting as the seller's agent with an end user buying from the seller that is not a customer of the company.
  - ▶ If the company has a single customer, consider whether the company has a promise to provide incentives to end user on seller's behalf or if the company is making an in-substance price concession for the agency service.



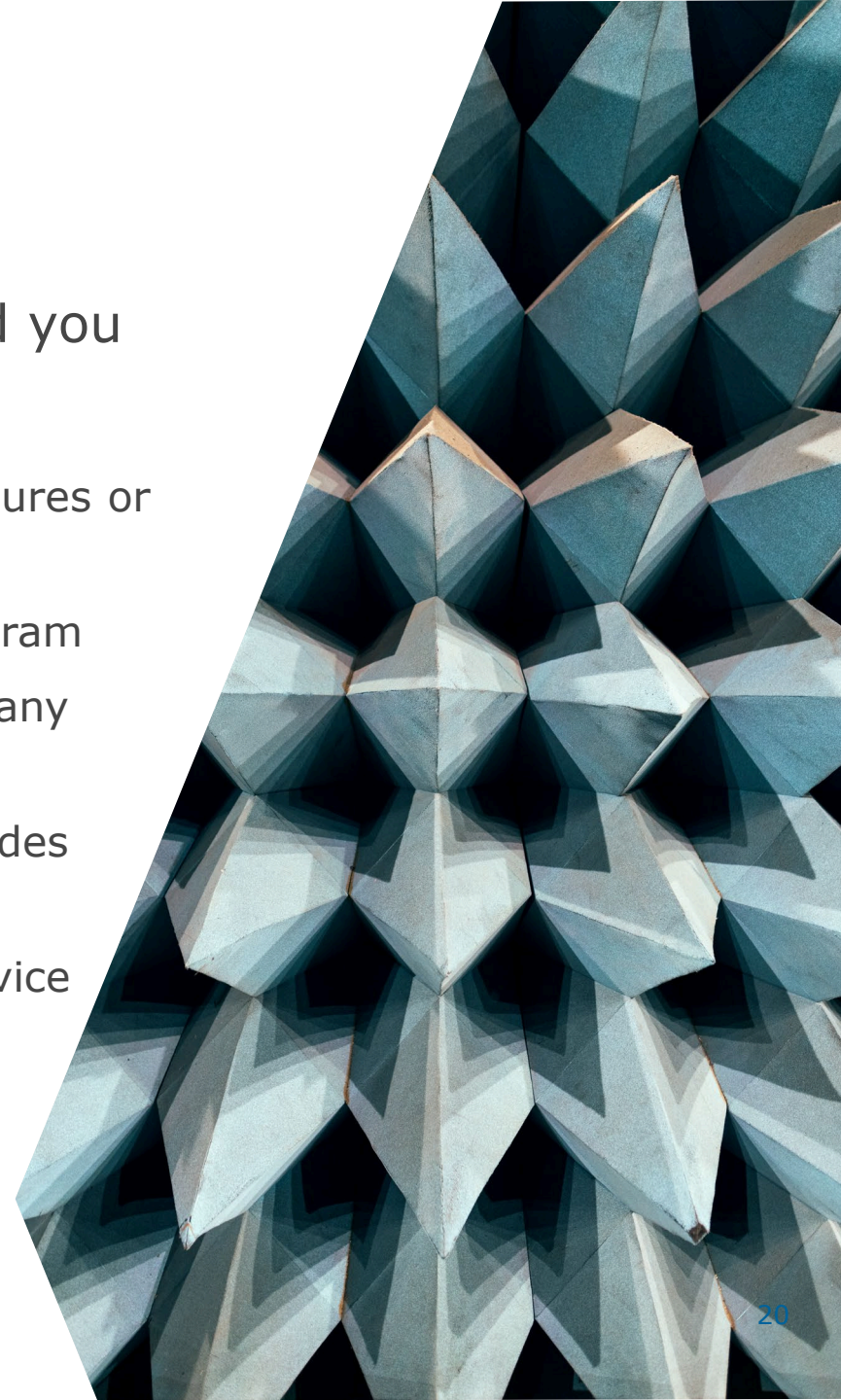
## LEASES

- ▶ Consultation questions primarily related to scope of standard, transition and certain lessor and lessee costs
- ▶ Following effective date of standard for public companies, the FASB has been active in considering improvements or clarifications to standard ahead of effective date for private companies
- ▶ FASB will continue to monitor issues related to financial reporting related to leasing transactions

## Polling Question #3

What stage of ESG reporting would you categorize your company?

- A. Nothing outside of required 10k disclosures or annual financial statement disclosures
- B. Starting to plan for ESG reporting program
- C. Doing sustainability reporting on company website
- D. Issue an ongoing ESG report that includes assurance
- E. Not applicable – I'm a professional service provider





# OTHER HOT TOPICS

# ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) REPORTING

## WHERE WE WERE

- ▶ SEC climate guidance in 2010
- ▶ Low interest from investors, stakeholders
- ▶ Relatively low demand for information, not included with the same prominence as financial results

## WHERE WE ARE

- ▶ Increased investor interest driving demand for more ESG reporting
- ▶ Patchwork of 5 different commonly used frameworks tailored to each company's stakeholder interests
- ▶ Generally, Not included in SEC filings
- ▶ Low level of assurance in U.S.

## WHERE WE'RE GOING

- ▶ ISSB coming, hopefully SEC and ISSB stay aligned, but would expect there will be some differences. ISSB has signaled it intends to use the TCFD as a basis for reporting framework.
- ▶ SEC area of focus, expect new climate risk disclosures in 2022
- ▶ SEC round of comment letters
- ▶ Expect expanded levels of assurance on ESG reporting

***"This year, we are asking the companies that we invest in on behalf of our clients to (1) publish a disclosure in line with industry-specific SASB guidelines by year-end and (2) disclose climate-related risks in line with the TCFD's recommendations"*** – Larry Fink, BlackRock CEO

# ESG REPORTING – WHAT IS EVERYONE SAYING?

## WHAT STANDARD SETTERS ARE SAYING:

- ▶ Staff comment letters issued in late 2021, sample comments include:
  - ▶ Reason for providing more expansive disclosures in the corporate social responsibility report (CSR) than in SEC filing
  - ▶ Disclose material litigation risks and transition risks such as policy or regulatory changes that could impose operational and compliance burdens and their potential impact
  - ▶ Disclose material pending or existing climate-change-related legislation and their material effect on your business
  - ▶ Discuss indirect consequences of climate-related regulation or business trends
  - ▶ Quantify any material increased compliance costs related to climate change
  - ▶ Reminded issuers about 2010 climate risk guidance
  - ▶ Focus on ESG is investor driven

## WHAT PREPARERS ARE SAYING:

- ▶ Identify what your investors and stakeholders care about and focus on those facts
- ▶ Work cross-functionally
- ▶ Utilize the accounting background to ensure validation, consistent process and answer the questions of where the data comes
- ▶ Report the “bad” with the “good”
- ▶ Controls and governance framework over ESG

## DATA AND TECHNOLOGY EVOLUTION

***"Registrants will need to consider how changes in the use of technology in the financial reporting process impact their internal controls and evaluate whether any changes in Internal control may require disclosure in accordance with Item 308(c) of Regulation S-K"*** – Anita Doutt, Sr. Associate Chief Accountant

- ▶ SEC Staff discussed:
  - ▶ Evolution of cybersecurity and its impact in the related risk on financial statements and related disclosures
  - ▶ The importance of determining whether a cybersecurity breach impacts an entity's financial reporting process
- ▶ Need for company analysis of each cybersecurity breach and its materiality, both quantitatively and qualitatively
- ▶ Julie Lindsay, CEO of Center for Audit Quality (CAQ) mentioned that the SEC continues to emphasize their focus on ESG and Cybersecurity reporting and disclosures
  - ▶ Increased focus on ESG and Cybersecurity related internal control frameworks over financial reporting and disclosures



# AUDITOR INDEPENDENCE

## AMENDMENTS TO RULE 2-01 OF REGULATION S-X

- ▶ Adjustment to independence requirements in the “look-back” period has caused the SEC staff to receive the most questions
- ▶ General independence standard within Rule 2-01(b) of Regulation S-X is required in “look-back” periods and includes guiding principles as to whether a relationship or service:
  - ▶ Creates a conflicting or mutual interest between accountant and audit client
  - ▶ Places accountant in a position to audit their own work or act as management of the audit client

## 2021 INDEPENDENCE VIOLATIONS EXAMPLES

- ▶ Private company tax provision preparation in “look-back” period as a result of going public
- ▶ Performance of certain bookkeeping or financial statement preparation within the “look-back” period

Auditor Independence is a shared responsibility between registrants, audit committees, and auditors

## Polling Question #4

Going into the 2021 year-end financial reporting cycle, I expect the following to be the most challenging:

- A. An application of new SEC guidance, like revised MD&A
- B. Application of accounting standards
- C. Satisfying new investor demands for increased ESG reporting
- D. Other

# Q&A

## ADDITIONAL RESOURCES

### Related Thought Leadership

[Accounting Insights from the 2021 AICPA Conference](#)

[Safeguarding Against Employee Turnover Amid the Audit Cycle](#)

[Human Capital: New Disclosures May Propel Values-Based Investing](#)

[Fitting Internal Controls and SOX Within the IPO Roadmap](#)

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