



WEBINAR

AICPA CONFERENCE RECAP

2022 Highlights and Key Themes

PRESENTED BY

RIVERON

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AICPA CONFERENCE RECAP AND HIGHLIGHTS WEBINAR

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AGENDA

INTRO & REMINDERS

SEC UPDATE

ESG AND CLIMATE RISK DISCLOSURE

FASB UPDATE AND ACCOUNTING HOT
TOPICS

Q&A

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

THE 2022 AICPA & CIMA CONFERENCE ON CURRENT SEC AND PCAOB DEVELOPMENTS

Our focus today is on topics that we identified as having an impact on preparers, especially in the middle market

CURRENT TRENDS THAT DOMINATED THE AICPA AGENDA:

- ▶ General accounting talent shortage
- ▶ ESG reporting, trends and perspectives
- ▶ Crypto-asset accounting
- ▶ More transparent financial reporting and disclosures
- ▶ Economic risk and relatedly increased fraud risk
- ▶ Continued focus on audit quality
- ▶ Upcoming standard-setting agenda

Polling Question #1

My company's financial reporting requirements are currently based on being:

- A. A public accelerated filer
- B. An emerging growth company
- C. A private company considering a public markets transaction
- D. A private company
- E. Not applicable



A graphic featuring a dark blue background on the left and a lighter blue geometric pattern on the right. The text "SEC UPDATE" is centered in the lighter blue area.

SEC UPDATE

KEY THEMES DISCUSSED BY THE SEC

NON-GAAP C&DI'S

(Compliance and disclosure interpretations)

were updated

- ▶ Provided clarity and additional emphasis on normal and recurring expense (retail)
- ▶ Prohibition on individually tailored measures, which are generally deemed misleading (non-GAAP revenue)
- ▶ Prominence of non-GAAP measures and clear labeling

CHALLENGING ECONOMIC ENVIRONMENT

- ▶ Critical Accounting Estimates
- ▶ Risk Factors

SEGMENTS

- ▶ More disaggregation

ADDITIONAL TRANSPARENCY IN DISCLOSURES

Changes and uncertainties can affect

- ▶ Assumptions
- ▶ Estimates
- ▶ Predictive value of historical financials

CRYPTO

- ▶ See CorpFin sample letter

SEC UPDATE - CRYPTOCURRENCY

STAFF ACCOUNTING BULLETIN 121 (SAB 121)

FV asset/liability approach for custodians – issuers involved in providing crypto asset account platforms (including electronic wallets), should carefully document agency issues

CRYPTO LENDING ARRANGEMENTS

May be appropriate to derecognize where control transfers to the borrower and recognize a loan receivable at FV through earnings. The Staff also indicated a CECL allowance should be applied to the loan.

CORPFIN'S SAMPLE CRYPTO COMMENT LETTER

Asks for the following, if material:

- ▶ Description of how crypto asset market developments have impacted the issuer's business, financial condition, results or share price
- ▶ The impact of recent bankruptcies on the same
- ▶ Description of direct or indirect exposures to other crypto market participants experiencing distress
- ▶ How customer crypto assets are safeguarded and policies regarding conflict of interest, comingling of assets, and changes to processes resulting from recent market disruptions
- ▶ Risk factors

AUDIT RISK

Do auditors have the necessary skill?

IMPORTANCE OF DISCLOSURE OF T'S AND C'S

In determining custodianship obligations

FASB

Exposure document coming in 2023, tentative conclusion to measure certain crypto assets at fair value

SEC UPDATE – TRANSPARENCY OF INFORMATION

Investors are requesting additional disaggregation of financial information

Segments

- ▶ Staff continuing to focus on identification and aggregation of operating segments
- ▶ Increased focus on consistency between results reported in filings, earnings releases, investor presentations, website, and transcripts
- ▶ SEC reviews have identified instances where more granular information is being presented outside of the financials and reviewed by the chief operating decision maker (CODM)

Expenses and Income Taxes

- ▶ Investors are looking for more detail to better understand operating results
- ▶ There are FASB projects underway to address the same feedback

The SEC chief accountant suggested companies may want to consider voluntarily providing additional information in these areas

SEC UPDATE – SEC REVIEW AND INPUT

SAMPLE COMMENT LETTERS

Climate Change Disclosures

War in Ukraine

Supply Chain

CONSULTATION TRENDS

Consolidation

Business combinations

Crypto

SEC RESOURCES AVAILABLE

Sample Comment Letters

Non-GAAP C&DIs

SAB 121 on accounting for cryptocurrency

Polling Question #2

Which of the following best represents your organization's status on climate related disclosures:

- A. We have issued a sustainability report including Scope 1 and 2 emissions
- B. We are in the process of preparing Scope 1 and 2 emissions and other required disclosures
- C. We are still evaluating the disclosure requirements
- D. We have not yet addressed climate related disclosures





ESG AND CLIMATE DISCLOSURE

SEC'S PROPOSED CLIMATE RISK DISCLOSURE RULE



WHAT IS IT?

- ▶ The SEC issued proposed rules for climate-related disclosures in March 2022. The final rule is expected in the coming months.
- ▶ Proposed rules include disclosure of greenhouse gas emissions and material financial risks facing the business related to climate change
- ▶ Also requires companies to disclose plans to achieve stated goals related to environmental impact and track progress



WHAT IS THE SEC SAYING?

- ▶ The SEC didn't comment on the proposed rule, but acknowledged the difficulties preparers are having satisfying various stakeholder requires for ESG data and also providing quality information
- ▶ The staff reminded companies of their 2010 climate change interpretive guidance and their sample comment letter on climate change related disclosures



WHAT ARE COMPANIES SAYING?

- ▶ Over the course of the conference, several panels addressed how companies are addressing both the SEC's proposed rule, other climate related disclosures, and broader ESG matters

FIRST STEPS - UNDERSTAND THE REQUIREMENTS



Assess the SEC's proposed rule as well as other required or voluntary climate-related disclosures relevant to the organization



Utilize current voluntary disclosures to evaluate what information and processes can be leveraged to comply with the proposed rules



Identify gaps against current climate-related disclosures and proposed requirements

FIRST STEPS – INVENTORY DATA, ESTABLISH CONTROLS



Inventory climate-related data available to address the reporting requirements and identify gaps



Evaluate current-state methodologies and processes to capture relevant data in a timely manner



Establish framework of SOX-like internal controls covering the systems, processes, assumptions and data to ensure information reported is investor-grade

FIRST STEPS – ESTABLISH GOVERNANCE STRUCTURE



Establish a team to develop a strategy on climate-risk management and disclosures



Create board level training regarding the proposed governance related disclosures



Assess if changes are warranted regarding the board's oversight processes for managing climate-related risks

Polling Question #3

In following the FASB and SEC agenda, I typically:

- A. Listen to virtual meetings and read exposure drafts
- B. Get updated through quarterly CPE trainings
- C. Watch for new publications and rule changes
- D. Wait for my accounting advisors/auditors to tell me when I need to do something
- E. N/A – I'm at the FASB/SEC





FASB UPDATE AND ACCOUNTING HOT TOPICS

FASB UPDATE

FASB Chair Rich Jones, Technical Director Hilary Sato, and Deputy Technical Director Helen Debbeler presented the FASB Update

LOOKING BACK...

- ▶ Lessons learned from post implementation reviews of revenue recognition, leases and CECL
- ▶ FASB Agenda Consultation Report 2022
 - ▶ 445 of 522 responses addressed accounting for digital assets
- ▶ Goodwill accounting project removed from the FASB Agenda
- ▶ Recap recently issued smaller scale ASU's:
 - ▶ Supplier finance disclosures
 - ▶ CECL Targeted improvements – revising TDR disclosures and vintage disclosures

LOOKING FORWARD...

- ▶ Adding Crypto assets to the agenda
- ▶ Disaggregation of information projects focused on:
 - ▶ Income tax disclosure disaggregation
 - ▶ Segment expenses disclosures
 - ▶ Income statement detail
- ▶ Revisiting the accounting for software costs
- ▶ Accounting for environment credit programs
- ▶ Government Grants (invitation to comment)
- ▶ Financial instruments with ESG-linked features

DEEP DIVE ON THREE TOPICS

REMOVAL OF GOODWILL PROJECT

- ▶ No clear alternative or preference emerged in feedback
- ▶ Desire to maintain convergence with IFRS
- ▶ May be revisited at some point in the future

ACCOUNTING FOR SOFTWARE COSTS

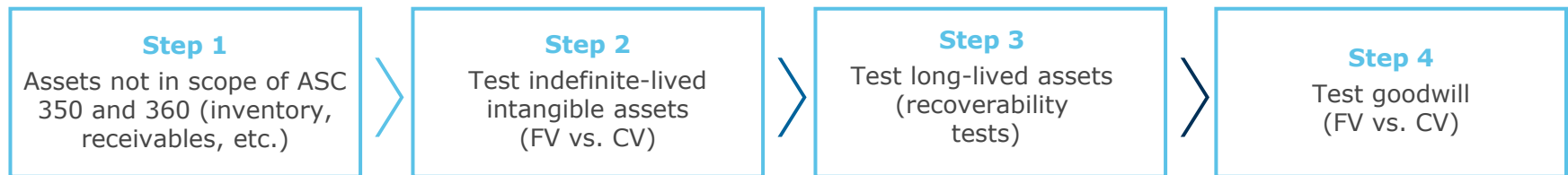
- ▶ Noted by the CAO panel as the FASB project that they believed would have the most impact
- ▶ Highlights a need to update the software accounting model for modern software development processes
- ▶ Started with focus group discussions between the FASB and preparers to get feedback from affected teams

FOCUS ON DISAGGREGATION BASED ON INVESTOR FEEDBACK

- ▶ Focus on decision-useful information
- ▶ Income statement disaggregation could potentially breakout components of expenses, like depreciation, employee compensation; expected exposure draft in 1H 2023
- ▶ Segment expense disclosure requiring disclosure of significant expenses based on management approach; clarify that more than one measure of segment profit can be disclosed; require segment disclosures for single-segment entities; exposure draft issued in Oct. 2022, comments received in December
- ▶ Income tax disclosures focus on the rate reconciliation disclosures; disaggregate specific items in the rate rec over 5%; exposure draft expected Q1 2023

NONFINANCIAL ASSETS IMPAIRMENT

Order of impairment testing – 4 steps:



Key areas to keep in mind as impairment analyses are prepared:

- ▶ Consider cost of inflation impact on margins (e.g. can rising costs be passed through?)
- ▶ Projected financial information across a company needs to be consistent
- ▶ Remember to reconcile market cap to fair value as part of assessments
- ▶ Impact of interest rates on discount rates (increase in risk free rate)
- ▶ Cannot assume that things are status quo; historical trends are a data point but cannot assume that what happened last year will happen again next year

Goodwill specific reminders:

- ▶ Consider how long since last quantitative test; could be time for another quantitative test
- ▶ Recent acquisitions need to be carefully considered since cushion is \$0; even just change in discount rate could impact impairment analysis

REVENUE RECOGNITION

In challenging economic times, revenue recognition judgments could impact accounting.

COLLECTABILITY

- ▶ Gating criteria for a contract is collectability
- ▶ Consider if price concessions changes nature of the contract
- ▶ Introduces element of variable consideration
- ▶ Cash received before meeting definition of a contract has specific accounting considerations

CONTRACT MODIFICATIONS

- ▶ Change in scope and/or price
- ▶ Results in either:
 - ▶ Termination
 - ▶ Continuation
 - ▶ Mixed when multiple performance obligations are in the contract

NONCASH CONSIDERATION

- ▶ Fair value at inception
- ▶ Change due to form of consideration, no impact to consideration
- ▶ Other factors, treat as variable consideration

SHARE-BASED COMPENSATION



In periods of economic distress, many companies will revisit their share-based compensation awards due to:

- ▶ Options becoming out-of-the-money
- ▶ Performance conditions becoming unlikely of being achieved
- ▶ Market conditions becoming unlikely of being achieved



Companies that revisit their awards need to be aware of implications of changes to awards.



Cancellation of market condition awards can result in **an acceleration of unrecognized compensation cost at the time the award is cancelled.**



Modifications may also result in incremental compensation cost over the vesting period.

Polling Question #4

Of the following issues, which do you expect to be the most challenging in 2023?

- A. Impairment analyses
- B. ESG reporting
- C. Technical accounting issues created by changing economic conditions (debt modification, stock comp, reserves/allowances, etc.)
- D. Lack of bandwidth in accounting department
- E. Accounting for digital assets



Q&A

ADDITIONAL RESOURCES



RELATED THOUGHT LEADERSHIP

[Top Focal Points for Audit Season](#)

[Accounting, Audit, and ESG Insights from the 2022 AICPA Conference](#)

[Ready for Year-End? Experts Recap Audit and Planning Considerations](#)

[Five Steps to Attracting Tomorrow's Accounting Professionals](#)

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