



New Developments Summary

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Highlights of the 2022 AICPA & CIMA Conference on Current SEC and PCAOB Developments

Reporting in a fast-paced, digital world

Contents

A. Conference overview	2
B. Accounting matters	4
C. SEC compliance and reporting	5
D. Emerging trends and technologies	12
E. Audit and corporate governance...	14
Appendix A	17
Grant Thornton publications	17

The AICPA, in conjunction with the Chartered Institute of Management Accountants (CIMA), held the 2022 Conference on Current SEC and PCAOB Developments on December 12-14, featuring representatives from the AICPA, SEC, PCAOB, FASB, IASB, and Center for Audit Quality (CAQ), along with others from the accounting profession. The themes echoed throughout the conference by the speakers and panelists include

- The role collaboration plays in enhancing high-quality reporting for the benefit of the capital markets
- The need to proactively address macroeconomic impacts and rapidly advancing technologies

This publication provides a summary of these themes and other topics highlighted at the conference, including fraud risk; crypto assets; environmental, social, and governance matters; cybersecurity; non-GAAP financial measures; and a spike in PCAOB inspection findings. Grant Thornton publications related to topics discussed are featured in Appendix A.

A. Conference overview

The AICPA & CIMA held the 2022 Conference on Current SEC and PCAOB Developments in Washington, D.C., on December 12-14, featuring representatives from regulatory and standard-setting bodies, as well as industry professionals, financial statement preparers, auditors, legal practitioners, decision-makers, thought leaders, and analysts. Speakers and panelists shared their views on current accounting, financial reporting, auditing, and other important and emerging topics, which focused on the following themes:

- The role collaboration plays in enhancing high-quality reporting for the benefit of the capital markets
- The need to proactively address macroeconomic impacts and rapidly advancing technologies

The role collaboration plays in enhancing high-quality reporting for the benefit of the capital markets

Given the challenging economic environment, both SEC Commissioner Hester Peirce and Acting SEC Chief Accountant Paul Munter emphasized the continuous need for high-quality financial reporting and quality audits for the benefit of investor protection. Commissioner Peirce believes that reliable financial reporting is valuable for the broader society and serves as a critical role in the function of the capital markets.

Mr. Munter noted an increase in the number of companies that have consulted with the SEC's Office of the Chief Accountant (OCA) on complex or novel transactions and stressed the importance of transparent reporting. OCA's assistance, he said, helps preparers to better report the transactions in a way that both (1) reflects the underlying economics of the transactions, and (2) enables investors to understand and make informed decisions. He reminded the audience that the SEC is an investor-focused agency whose mission is to protect the interests of investors while facilitating capital formation and fair and efficient markets. He said that investor protection is similarly embedded in the standard-setting process at both the FASB and the PCAOB. Further, the FASB staff noted that certain projects were recently added to its agendas to address investors' request for enhanced transparency.

Mr. Munter also noted that while compliance with the standards and rules is a critical part of high-quality financial reporting, at its heart, accounting is a "communication activity" involving the depiction of complex transactions and events in a manner that is understandable.

In her keynote [address](#), PCAOB Chair Erica Williams emphasized the importance of audit quality, stating that quality audits strengthen investor confidence and, as a result, set apart the U.S. capital markets as the "envy of the world." She reminded the audience that in this post-pandemic world, companies still continue to navigate challenges and uncertainties, which heightens the incentive for fraud. She went on to note that the PCAOB has seen an increase in inspection deficiencies, as noted in the Board's recent [Spotlight](#), caused by factors including (1) COVID-19, (2) remote auditing, (3) the "Great Resignation," and (4) the war for talent. While no firm is immune to these factors, Ms. Williams acknowledged that these factors are no longer new, adding that firms need to design and implement solutions to restore and maintain audit quality. As for the war for talent, numerous speakers and panelists agreed that more outreach to young individuals, especially high school students, is needed to strengthen the pipeline for talent in the audit profession.

With the continuous focus on environmental, social, and governance (ESG) matters, the conference featured several panels that discussed the current state of ESG as well as views from preparers, auditors, and investors. In his welcome address, AICPA Chair Anoop Mehta stressed that public accountants have

the necessary expertise and objectivity to provide advisory and assurance services related to ESG reporting and referred the audience to the AICPA's ESG [resources](#) for assistance.

The need to proactively address macroeconomic impacts and rapidly advancing technologies

Mr. Mehta indicated that the profession continues to operate in an environment that brings one disruption after another, as the world continues to evolve and the pace of change continues to accelerate. Further, he noted that the key to success is recognizing, understanding, and leveraging these drivers of change. He also believes that the profession needs to shift its mindset to anticipate new disruptions and technologies and to move from a reactive to a proactive approach.

Macroeconomic impacts

Recent and ongoing macroeconomic events disrupting the current environment were highlighted frequently throughout the conference by speakers and panelists. Such events included (1) political unrest, (2) inflation, (3) rising interest rates, (4) looming recession, (5) complex regulatory environments, (6) supply and labor challenges, (7) Russia's invasion of Ukraine, and (8) ongoing impacts from COVID-19. In his remarks, Mr. Munter emphasized that transparency in financial reporting is his main concern, especially in the area of estimation uncertainties and critical judgments. For more information about financial reporting issues associated with challenges currently affecting the global economy, Mr. Munter directed the audience to the International Organization of Securities Commissions' "[Statement on Financial Reporting and Disclosure during Economic Uncertainty](#)."

SEC Commissioner Peirce commended Mr. Munter's recently issued [statement](#) on auditor responsibility for fraud, which emphasizes the importance of the independent auditor's responsibilities for fraud detection during the financial statement audit. The statement provides OCA staff's observations on auditor shortcomings; explains how the auditor's responsibilities are incorporated in PCAOB standards; and reminds auditors of best practices. She also encouraged investors and gatekeepers to continue to exercise skepticism and look for and follow up on red flags. Other speakers and panelists also agreed that there is a heightened incentive for fraud in the current environment due to factors such as staffing constraints and economic pressures on companies.

During the CAQ panel, the staff also reminded the audience of [resources and thought leadership](#) available for stakeholders on various emerging issues, including the joint [activities](#) of the CAQ and the Anti-Fraud Collaboration.

Technologies

The constant evolution of new technologies, including artificial intelligence and blockchain, and the impact of these technologies on the capital markets was another prevalent theme at the conference. Also, with the dissemination and consumption of digital information by investors increasing, Mr. Munter noted that preparers should take this opportunity to think about ways to improve the quality of information investors receive. Panelists discussing cybersecurity noted that the risk of a cyber breach has increased significantly given the rapid advancements in technology.

During her remarks, SEC Commissioner Peirce stated that 2022 has been a tough year for the crypto asset markets and that participants in this market should not look to regulation as the savior. While she expects to see regulation in the crypto arena, she reminded participants that the lessons of traditional finance could apply to crypto asset entities, if these entities are centralized. She stated that the SEC has focused on enforcement rather than regulation and believes the broader market would benefit from further dialogue to discuss what "good regulation" might look like in this arena. She believes that good regulation

would allow the crypto industry to be less focused on trading and more focused on how the technology can transform processes in the financial markets to be more efficient.

As for the gatekeeper's role, Mr. Mehta stated that the profession cannot remain static and must foster a sense of learning to support continuous growth. Ms. Williams noted that the PCAOB's standards must also be updated to keep pace with rapid advancements in technology that impact financial reporting and auditing and to keep investors protected.

OCA Deputy Chief Accountant Diana Stoltzfus stressed, however, that the use of automated tools and techniques in the audit process does not diminish the need for auditor judgment. She also reminded preparers to consider how the use of technology for financial reporting will affect internal controls and whether any changes require disclosure.

B. Accounting matters

Accounting standard-setting initiatives

In his remarks, FASB Chair Richard R. Jones discussed the FASB's latest efforts to provide decision-useful information for investors and other users of the financial statements. Mr. Jones discussed the FASB's activity over the past year related to the [2021 FASB Agenda Consultation](#) and the Board's renewed focus on achievable standard-setting projects stemming from that initiative. He noted that the FASB has streamlined its technical and research agendas as a result of this consultation, which includes prioritizing financial reporting gaps identified by investors, redirecting existing projects, and deprioritizing others.

FASB Technical Director Hillary Salo and Deputy Technical Director Helen Debbeler gave an update on the FASB's current [technical agenda](#) and reviewed recently issued standards, including guidance on disclosures for supplier finance program obligations and fair value measurement for equity securities subject to a contractual sale restriction. Ms. Salo and Ms. Debbeler also discussed proposed accounting guidance with open comment periods, including projects on joint venture formations and leasing transactions for entities under common control. They highlighted the status of other projects currently in process, including the following projects focused on disaggregation in the financial statements, which are responsive to investors' requests for enhanced transparency:

1. *Segment reporting*, which would add disclosures about significant expense categories for existing segments along with other disclosures, such as identifying the chief operating decision maker (CODM), and requiring disclosures to be provided on both an interim and annual basis
2. *Disaggregation of expenses on the income statement*, which would require certain expense captions to be further disaggregated into underlying expenses and may include disclosure of costs that are capitalized during the period (such as raw materials and labor costs capitalized within inventory)
3. *Income tax disclosure*, which would provide additional detailed disclosures about income taxes paid and an entity's income tax rate reconciliation

Ms. Salo and Mr. Jones also discussed the FASB's decision to discontinue its project on goodwill amortization, noting mixed feedback from stakeholders as well as mixed views of Board members on a path forward for the project.

International Accounting Standards Board (IASB) Chair Dr. Andreas Barckow noted that a recent prioritization project resulted in the addition of three projects to the IASB's technical agenda. One project is designed to update the intangibles guidance for the modern business environment, while another will

explore various issues in presentation and disclosures on the statement of cash flows, such as the lack of disclosure for supplier financing arrangements. The third project on disclosing climate-related risks in the financial statements is not a fully fledged climate project, but instead will review the requirements in the proposed IFRS S2, *Climate-related Disclosures*, to explore whether supplemental clarification material is required to link these specific requirements to general reporting requirements in IFRS. Dr. Barckow also discussed the IASB's recent decision to discontinue a project to reintroduce the amortization of goodwill on the financial statements, noting a lack of support from stakeholders for the project.

OCA remarks

Mr. Munter highlighted the SEC's focus on protecting investors, including the promulgation of authoritative accounting guidance that enhances the relevance and usefulness of information provided by registrants to investors.

On the theme of transparency, Mr. Munter stated that even without new standard-setting activity by the FASB to require more disaggregated information in certain areas, there is often nothing precluding registrants from providing more disaggregated information to investors. He therefore encouraged registrants to consider their current levels of disaggregation in financial reporting and whether more disaggregation might improve their ability to communicate operating results to investors.

During the OCA panel, the staff discussed recent trends in consultations, noting that the most frequent areas of consultation include business combinations, consolidation, accounting for transactions involving crypto assets, segments, and revenue recognition.

Participants in other panels discussed the accounting impact of global economic events, such as slowing economic growth and higher interest rates, and covered topics that included (1) identifying and measuring impairment, (2) establishing the order of impairment testing for different types of assets, (3) applying the revenue recognition guidance to identify price concessions granted to customers or to measure noncash consideration in a revenue contract, and (4) accounting for the modification of share-based payment awards.

C. SEC compliance and reporting

SEC rulemaking and initiatives

During the SEC's Division of Corporation Finance (CorpFin) panel, Acting Deputy Director of Disclosure Operations Cicely LaMothe discussed recent changes in the division, including the creation of two new offices in the disclosure review program—the Office of Industrial Applications and Services and the Office of Crypto Assets. Ms. LaMothe also discussed the division's priorities, including its continued focus on filing reviews, as well as recent comment letter trends. She noted that issues that were top of mind for the division last year remain relevant, including world events and market developments.

To assist companies in proactively updating their filings, CorpFin staff issued various sample letters that illustrate comments that companies might receive on such topics as (1) climate change, (2) China-based issuers, and (3) Russia's invasion of Ukraine, along with the related supply chain disruptions, labor shortages, and cyberattacks. In light of these and other adverse events, Ms. LaMothe emphasized the need for companies to revisit and update their impacted disclosures in the Risk Factors and Management's Discussion and Analysis (MD&A) sections of their filings. Links to Grant Thornton publications discussing the sample comments and other SEC rulemaking activity are included in [Appendix A](#).

Observations regarding recent rulemaking

Pay versus performance

CorpFin staff reminded the audience that the new disclosures in the [Final Rule, Pay Versus Performance](#), are required in proxy and information statements that require executive compensation disclosure under Item 402 of Regulation S-K for fiscal years ending on or after December 16, 2022.

During the CorpFin panel, CorpFin Chief Accountant Lindsay McCord reminded registrants of the following as they relate to the new disclosures:

- Registrant's net income, which is required to be disclosed in the table, should not be substituted with any other subtotal, such as net income attributable to the registrant or net income from continuing operations.
- U.S. GAAP does not consider market conditions to be vesting conditions, and instead incorporates the market conditions into the grant-date fair value. In contrast, S-K Item 402 considers market conditions in the determination of whether or not the award is vested or unvested. The same principle should be used to determine executive compensation "actually paid" as required by S-K Item 402.
- If dividends paid are included in the fair value of equity awards, then such dividends should not be included separately in compensation "actually paid."

Further, when determining the fair value of equity awards at year-end or as of the vesting date, the registrant is required to use a methodology that is consistent with ASC 718, including a method for determining the expected term of the awards, she noted. The registrant should not compute the expected term by subtracting the elapsed life from the expected term at the time of the grant. She also reminded registrants to disclose valuation assumptions that are materially different from those disclosed in the financial statements at the time of grant. This disclosure would be triggered if the grant-date fair value would have materially differed had it been computed using the valuation assumptions as of the end of the year.

Clawback of erroneously paid executive compensation

Craig Olinger, CorpFin Senior Advisor to the Chief Accountant, clarified that the [Final Rule, Listing Standards for Recovery of Erroneously Awarded Compensation](#), incorporates the definition of an accounting "restatement" from U.S. GAAP, and, accordingly, an adjustment to prior-period financial statements for a material misstatement (a "Big R" restatement), as well as for an immaterial error correction (a "little r" restatement), are scoped into the rule. However, a correction of an error that is considered an out-of-period adjustment is excluded from the scope of the Final Rule, as it does not require revising previously issued financial statements.

The Final Rule also amends certain forms to require a registrant to check boxes on its annual report cover page indicating whether (a) the financial statements included in the annual report reflect a correction of an error to previously issued financial statements, and (b) the correction is a restatement that triggered a recovery analysis. Mr. Olinger clarified that the first box, applicable to both "Big R" and "little r" restatements, highlights whether previously issued financial statements were revised. Accordingly, the box should be checked even if the registrant voluntarily corrected an immaterial error by revising prior-period financial statements and had the option to correct it as an out-of-period adjustment.

2022 SEC rulemaking

During the CorpFin panel, Ms. LaMothe noted the following additional 2022 activities and referred the audience to the SEC's [Regulatory Flexibility Agenda](#) for a summary of future rulemaking:

- [Final Rule](#), *Proxy Voting Advice*
- [Final Rule](#), *Inflation Adjustments under Titles I and III of the JOBS Act*
- [Final Rule](#), *Insider Trading Arrangements and Related Disclosures*
- [Proposed Rule](#), *Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure*
- [Proposed Rule](#), *The Enhancement and Standardization of Climate-Related Disclosures for Investors*
- [Proposed Rule](#), *Special Purpose Acquisition Companies, Shell Companies, and Projections*

Filing review observations

CorpFin staff indicated that MD&A, non-GAAP financial measures, and segment reporting continue to be among the most commented areas in CorpFin filing reviews. There has also been an increased focus on corporate governance matters, specifically related to disclosures of board leadership structure and their role in risk oversight, required by Item 407(h) of Regulation S-K, the staff noted.

Management's discussion and analysis

Ms. McCord stated that MD&A is an ever-evolving disclosure topic and noted that recent comments have asked about direct and indirect impacts of macroeconomic factors on the company's liquidity, results of operations, as well as future outlook and goals. She encouraged companies to consider impacts on their businesses, including changes in customer demand, pressure on margins, change in lead times, and costs associated with returning to work, in determining what disclosures should be included in their filings. She also stressed that the staff expects companies to include separate disclosures for the effects of each relevant macroeconomic factor on the results of operations and liquidity.

Companies were encouraged to review the sample comment letters issued by CorpFin and were reminded to quantify the impact of each of the material drivers when describing changes in a financial statement line item from one year to the next.

Non-GAAP financial measures

Ms. McCord highlighted the recent updates made to CorpFin's Compliance and Disclosure Interpretations section titled [Non-GAAP Financial Measures](#), which provides additional examples of when non-GAAP financial measures could be considered misleading as well as clarifies staff's views related to what constitutes "undue prominence." Ms. McCord noted that these updates do not represent a change in the staff's view about non-GAAP financial measures, adding that the staff will continue to not object to certain adjustments, such as the exclusion of stock-based compensation expense from a non-GAAP financial measure. Rather, the updates stem from CorpFin's filing review observations and are intended to assist companies in improving their disclosure of non-GAAP financial measures.

In addition to including a nonexhaustive list of examples where the non-GAAP financial measure could be misleading or may be given undue prominence, CorpFin staff clarified that a measure could be misleading even if accompanied by extensive and detailed disclosures about the nature and impact of each adjustment. Further, the staff views an operating expense that occurs repeatedly or occasionally, including at irregular intervals, as a recurring expense.

Segment reporting

CorpFin Deputy Chief Accountant Melissa Rocha noted that the staff takes a holistic view when reviewing segment information, which includes (1) listening to earnings calls, (2) reading transcripts, and (3) reviewing websites as well as other publicly available information. She noted that if operating segments are not identified correctly, it could affect other sections of the financial statements, including goodwill, which is tested for impairment at the operating segment level or one level below the operating segment.

She focused her remarks on one of the criteria used to identify operating segments: the CODM's review of operating results used to make decisions about allocating resources to each segment and assessing each segment's performance. Ms. Rocha presented two fact patterns in which the staff objected to a registrant's conclusion regarding the number of operating segments, as follows:

1. A registrant with several business units concluded that it had only one operating segment, but, in the earnings releases, the registrant provided information related to revenue and margin at certain groupings of business units that were more granular than the information in the consolidated financial statements. During the course of the filing review, CorpFin staff noted that the CODM was regularly reviewing the results of operations as well as forecasts at this grouping level. Based on the revised analysis, the registrant concluded that each of these groupings met the definition of an operating segment.
2. A registrant was disclosing revenue and non-GAAP margin information for certain product lines and services and geographical regions outside the financial statements. During the review process, the registrant acknowledged that the CODM was reviewing information at this disaggregated level and, as a result, revised its analysis to conclude that it had more than one operating segment.

Corporate governance matters

Ms. LaMothe noted that corporate governance disclosures seem to be boilerplate and lack the transparency related to unique challenges or opportunities that the board structure and oversight disclosures are meant to address. She emphasized the need for enhanced, tailored disclosures, especially in light of the current macroeconomic environment, increased workload, and demands on board members, as well as an increased spotlight on this area both from shareholders and in litigation.

She indicated that the staff's comments are primarily seeking expanded disclosures on why registrants believe their board leadership structure is appropriate and how the board administers its risk oversight function. Ms. LaMothe encouraged registrants to review the [adopting release](#) for S-K Item 407(h) for additional guidance on disclosures that they may consider including in their filings.

Considerations for the 2022 reporting period

CorpFin staff provided the following financial reporting reminders for financial statement preparers:

- Consider the following questions with respect to the critical accounting estimates disclosure:
 1. Can an investor understand from the disclosure why the estimate is critical?

2. Are there any numbers or dollar signs in the discussion to help an investor understand the estimation uncertainty?
 3. Is there any information incremental to the financial statement accounting policy disclosure?
 4. Can an investor understand past variability in the estimate and assumptions?
 5. Does the disclosure discuss, both qualitatively and quantitatively, the sensitivity of the reported amount to the method and assumptions underlining its calculation?
- Assess whether Schedule II is required to disclose qualifying and valuation accounts so that investors understand certain activity, such as inventory valuation, allowance for doubtful accounts, or deferred tax assets, in light of the macroeconomic environment and possible concerns about earnings quality.

Acquisition of a business

Measuring significance of a target acquired by a registrant's less than 100% owned subsidiary

Ms. Rocha discussed the application of the significance tests in Rule 1-02(w) of Regulation S-X in a situation where a business is acquired by a subsidiary that is less than 100% owned by the registrant. To illustrate, she outlined a fact pattern where the registrant has a 60% owned subsidiary and that subsidiary acquires 100% of the target. In this fact pattern, she noted that the registrant should perform the significance tests as shown in the following table.

Significance test	Numerator	Denominator
Asset test	100% of total assets of the target	100% of total assets of the registrant
Investment test	100% of consideration transferred	Aggregate worldwide market value of voting and nonvoting common equity securities. If there is no worldwide market value, then 100% of total assets of the registrant.
Income test: <i>Revenue component</i>	100% of revenues of the target	100% of revenues of the registrant
Income test: <i>Income component</i>	60% of the target's pretax income or loss	Pretax income or loss from continuing operations attributable to controlling interest. This would exclude pretax earnings or loss attributable to the noncontrolling interest.

Revenue component

Ms. Rocha also reminded registrants that the revenue component of the income test applies only when both the registrant and the target have material revenues in each of the two most recently completed fiscal years. The materiality for this purpose is determined for each of the entities separately, not in

relation to one another. In other words, whether the target has material revenues is determined within the context of its own business and not in relation to the business of the registrant. She also clarified that the revenue component applies to acquisitions of investees that are accounted for using the equity method or the fair value option.

Pro forma financial information

Mr. Olinger outlined the treatment of transaction expenses incurred in connection with a business combination when preparing pro forma financial information pursuant to Article 11 of Regulation S-X. He noted that no adjustment should be recorded for transaction expenses that are already reflected in the annual or interim historical financial statements of either the registrant or the acquiree for the periods for which the pro forma financial information is presented. For transaction expenses incurred or expected to be incurred by the registrant that are not yet reflected in the historical financial statements, an adjustment should be recorded in the most recent annual pro forma income statement. Because the pro forma information is meant to reflect the accounting for the transaction by the registrant, no adjustment should be made for any transaction expenses incurred by the acquiree that are not yet reflected in its historical financial statements.

Mr. Olinger also reminded registrants that if the transaction is structured in such a manner that yields significantly different results, additional pro forma presentation may be required to give effect to the range of possible results. Further, if the pro forma financial information is being presented in a proxy or information statement for purposes of obtaining shareholder approval of one of the transactions, the effects of that transaction must be clearly set forth.

Waiver requests to omit or substitute financial statements

Mr. Olinger discussed the waiver request process pursuant to Rule 3-13 of Regulation S-X and noted that the staff has observed a decrease in waiver requests since the implementation of the 2020 Final Rule, *Amendments to Financial Disclosures about Acquired and Disposed Businesses*, especially in the area of anomalous results in the income test. Mr. Olinger stated that the staff continues to receive waiver requests for complex transactions and that the staff takes a holistic view of the “true” significance of the acquisition. He noted that in deciding whether to grant a waiver, the staff assesses all relevant facts and circumstances regarding the relative size of the acquisition in relation to the size of the acquirer for all applicable significance tests and other relevant financial statement and operating metrics.

Mr. Olinger also indicated that when a company is seeking a waiver to provide one year instead of two years of financial statements, the waiver request letter should clearly state the company’s intention to also exclude the prior interim period, if applicable.

S-X Rule 3-13 best practices

Mr. Olinger provided the following insights into best practices for a company submitting an S-X Rule 3-13 waiver request in relation to a business acquisition. However, he explained that the same considerations can be applied to waiver requests for other transactions, such as an acquisition of a real estate operation or an equity method investee.

- Make the initial request as complete as possible and include all relevant facts, circumstances, and analysis. The request should include details of the transaction, including the key terms, nature of the items being acquired, and the purchase price allocation.

- Provide results of all significance tests and the relevant inputs used in the calculations.
- Explain why the significance tests are not reflective of the relative size of the acquired entity and why filing the financial statements is not necessary for investor protection.
- Outline other disclosures and necessary information related to the transaction that will be provided to investors.

Recasting prior periods upon adoption of the long-duration insurance contracts standard

For calendar-year companies, the amendments in both ASU 2018-12, *Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts* (in light of the effective date relief provided by ASU 2020-11, *Financial Services – Insurance (Topic 955): Effective Date and Early Application*) and IFRS 17, *Insurance Contracts*, are effective for annual periods beginning on January 1, 2023, with an initial application date of January 1, 2021 under U.S. GAAP and January 1, 2022 under IFRS.

Once the registrant issues its financial statements for an interim period in 2023 that reflects the adoption of these amendments, a registration statement that is filed or amended prior to filing the annual report for 2023 accelerates the requirement to recast the annual financial statements included or incorporated by reference in that registration statement. Mr. Olinger clarified that in such instances, the staff does not expect registrants to recast their previously issued financial statements for any period prior to the date of initial application specified in the standard.

In addition, for foreign private issuers, Mr. Olinger clarified that if interim financial information is not required in the registration statement (that is, the registration statement is filed prior to October 1, 2023 by a calendar-year registrant) but the registrant has published interim information in its home jurisdiction reflecting the adoption of IFRS 17, the staff does not expect the registrant to recast its annual financial statements included or incorporated by reference in the registration statement. In such an instance, he noted that the post-adoption financial statements are not required in the registration statement and are included or incorporated by reference only because they were published or made available in a foreign jurisdiction.

Cybersecurity

The conference featured a panel discussing the existing landscape for cyber-related threats as well as actions companies can take to address these threats. The panelists noted that rapid technological advancements have significantly increased the risk of a cyber breach. Accordingly, companies need a robust cybersecurity risk management program to protect their operations, information systems, and personnel. Panelists also highlighted certain best practices, such as

1. Establishing strong cybersecurity controls;
2. Developing relevant expertise at the senior management and board levels;
3. Performing a gap assessment regularly to identify any vulnerabilities; and
4. Creating a culture of continuous learning about cybersecurity.

During the CorpFin panel, the staff encouraged companies to report cyber instances on a timely basis, to the extent they are quantitatively or qualitatively material. The staff also reminded companies to review

risk factors and other similar disclosures, as it is likely inappropriate for a filing to refer only to hypothetical cyberattacks while not disclosing the relevant details of actual breaches.

D. Emerging trends and technologies

Crypto assets

Accounting for crypto assets

Mr. Jones and Ms. Salo discussed the FASB's current standard-setting project on the accounting for and disclosure of crypto assets, which was added to the Board's technical agenda in response to stakeholder feedback that indicated existing U.S. GAAP does not reflect the economics of underlying crypto asset transactions. The project will focus on providing guidance for entities that hold crypto assets, as opposed to custodians, and will allow crypto assets that meet certain criteria to be measured at fair value. The FASB expects to release a proposal on crypto assets in the first half of 2023.

Dr. Barckow noted that the IASB considered, but ultimately declined, taking on a standard-setting project on accounting for cryptocurrencies, remarking that current IFRS standards already provide both an accounting treatment for such transactions and citing a lack of evidence of significant issues across both jurisdictions and industries.

OCA remarks

In his remarks, Mr. Munter acknowledged that companies consulted with OCA staff about several accounting questions related to crypto assets over the past year, noting that there is no authoritative accounting guidance that directly addresses a company's accounting for crypto assets it owns and holds. Although the SEC staff issued guidance about accounting for a company's obligation to safeguard platform users' crypto assets in [Staff Accounting Bulletin 121](#), Mr. Munter emphasized that this guidance does not address the accounting by the owner of the crypto assets.

When considering the appropriate accounting for a crypto asset arrangement, Mr. Munter explained that the OCA staff focuses on the rights and obligations of the parties to the arrangement and on the risks inherent in the arrangement. Although some crypto asset arrangements might appear structured similarly to other arrangements for which authoritative accounting guidance exists, he noted that the risks associated with these similarly structured arrangements might be very different from the risks associated with crypto asset arrangements, warranting different accounting.

OCA Senior Associate Chief Accountant Jonathan Wiggins discussed a fact pattern where an entity lends a specified quantity of crypto assets to a borrower, earning a fee that is typically based on a percentage of the crypto assets loaned. The lender may or may not require the borrower to pledge collateral. The borrower controls the crypto assets during the loan period and can sell, lend, or otherwise use the crypto asset as it sees fit, but must return the same type and quantity of crypto assets upon maturity. In accounting for such a fact pattern, Mr. Wiggins said that the OCA staff would not object to the lender derecognizing the underlying crypto assets loaned because, by loaning the crypto assets, the lender forgoes the economic benefits associated with the crypto assets (that is, no longer controls those assets) until they are returned. Concurrent with derecognizing the loaned crypto assets, the lender would recognize an asset representing its right to receive the crypto assets back from the borrower. That asset would be initially and subsequently measured at the fair value of the crypto assets to be received, with gains and losses recognized on the income statement and presented separately from revenue. On account of its exposure to the borrower's credit risk, the lender would also recognize an allowance for credit losses based on the guidance in ASC 326.

Mr. Wiggins noted that the staff would expect disclosures for such transactions to include, but not be limited to, (1) the collateral requirements of the loan, including the type and amount of collateral held, (2) how the lender monitors its ability to liquidate the collateral, and (3) any changes in the fair value of collateral. The staff also believes that the disclosure requirements in ASC 326 provide a good starting point for lenders to use when considering which information to disclose about credit risk in crypto asset lending arrangements.

CorpFin remarks

Ms. LaMothe's remarks touched on the recent widespread disruption in the crypto asset markets and alerted the audience to the recently issued [sample letter](#) illustrating comments that the CorpFin staff might issue to companies about their direct and indirect exposure to the crypto asset market. She stated that the sample comments do not create new disclosure requirements, but are instead designed to help companies comply with disclosure obligations under federal securities laws.

Ms. McCord provided examples of crypto asset transactions, but noted that these examples assume that the crypto asset offered is a security and that the company is registering the asset to comply with federal securities laws. She went on to say that the accounting for these transactions, while sometimes complex, must be based on the specific facts and circumstances of each case. The staff has seen companies consider and apply several different accounting standards to crypto asset arrangements, including the guidance on accounting for liabilities, equity, revenue from contracts with customers, research and development, and derivatives. When determining the appropriate accounting, Ms. McCord stated that understanding the key terms and conditions of the crypto assets being offered is critical, as is understanding the rights of the holder and obligations of the issuer, since the issuer's obligation is a primary consideration in the accounting determination. She reminded the audience that when determining the accounting treatment for crypto assets, they should have (1) a well-supported accounting conclusion, (2) a clear understanding of the GAAP alternatives and reasons why they were rejected, and (3) a conclusion vetted with their independent auditor and audit committee.

Environment, social, and governance matters

Panel discussions throughout the conference focused on ESG initiatives and disclosures from the perspective of preparers, auditors, and investors. While no timing update was provided on the SEC's anticipated final rule on climate change disclosures, international ESG disclosure standard-setting activities were discussed in detail at the conference and are already under way.

European Union's Corporate Sustainability Reporting Directive

The Corporate Sustainability Reporting Directive (CSRD) was approved in November by the Council and Parliament of the European Union (EU) and includes new sustainability reporting requirements that are expected to impact thousands of multinational companies. The CSRD greatly expands the scope of entities required to comply with sustainability reporting requirements and introduces different reporting requirements for certain non-EU parent entities (such as US entities with operations in the EU) and EU-based parents and subsidiaries (including subsidiary reporting requirements for non-EU entities).

US-based entities with operations in the EU are advised to consider the new requirements immediately to identify any reporting obligations. The CSRD's extensive reporting requirements will phase in, by type of entity, starting in 2025, with disclosures related to the 2024 period. Entities that are not within the scope of the CSRD reporting requirements may still face increased information requests from impacted business partners.

International Sustainability Standards Board

The International Sustainability Standards Board (ISSB) is deliberating feedback received on its first two drafts of standards issued earlier in 2022: IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information*, and IFRS S2. The ISSB [confirmed](#) it will include Scope 3 greenhouse gas (GHG) emissions in IFRS S2, and its recent deliberations indicate scenario analysis will be [required](#) in the final standard. Companies that report to the CDP (formerly the Carbon Disclosure Project) are encouraged to monitor IFRS S2, as the CDP has [announced](#) it will incorporate this guidance into its disclosure platform.

Climate disclosure readiness

Panelists shared the following advice for preparers who may be evaluating whether and how to prioritize ESG reporting activities as they await the SEC's anticipated final rule:

- *Monitor developments*: Public and private companies are advised to monitor regulatory developments, such as the CSRD, and stakeholder expectations for climate-related information as governments and companies move to manage climate risk. For example, the Biden Administration recently proposed a rule that would require suppliers with more than \$7.5 million of activity with the federal government to report additional climate-related information.
- *GHG inventory*: Registrants that have not already prepared a GHG inventory and calculated their GHG emissions were encouraged to begin these activities immediately. GHG emissions are increasingly seen as a baseline disclosure item across all industries; panelists cited increasing requests for this information from investors, customers, and other stakeholders.
- *Assurance readiness*: Public and private companies that have started collecting and reporting GHG emissions metrics were encouraged to undertake an assurance readiness assessment to identify disclosure, data, and process gaps that need to be addressed before reporting or obtaining external assurance. The SEC's proposed rule on climate change disclosures would require assurance over Scope 1 and Scope 2 emissions for both large accelerated and accelerated filers.
- *The Task Force on Climate-Related Financial Disclosures' (TCFD) risk analysis*: Much of the qualitative disclosures proposed in Regulation S-K draw from the recommendations of the TCFD. Undertaking a TCFD climate risk assessment will help registrants prepare for the potential new disclosure requirements.

E. Audit and corporate governance

PCAOB standard-setting update

PCAOB Chief Auditor Barbara Vanich provided a standard-setting update for the PCAOB, focusing on the recently proposed standards on confirmations and firms' systems of quality control. Ms. Vanich discussed how the proposed quality control standard is based on the international quality management standards, with incremental requirements proposed to address specific PCAOB and SEC rules and requirements for registered firms.

Ms. Vanich noted that the current standard-setting agenda reflects the Office of the Chief Auditor's focus on modernizing, simplifying, and enhancing existing standards, particularly the interim standards originally adopted by the PCAOB upon its creation. Short-term projects where Board action is expected within the next 12 months include (1) noncompliance with laws and regulations, (2) going concern, (3) updating the interim standards in the AS 1000 series, (4) amendments related to certain aspects of designing and performing audit procedures that involve technology-assisted data analysis, and (5) the PCAOB's interim attestation standards. Ms. Vanich emphasized that the standard-setting and research [agendas](#) are dynamic and informed by continuing stakeholder outreach and collaboration with the Board and other divisions of the PCAOB.

Holding Foreign Companies Accountable Act update

Subsequent to the conference, the PCAOB determined that its staff was able to secure complete access to inspect and investigate audit firms in mainland China and Hong Kong and issued its [2022 HFCAA Determination Report](#).

PCAOB inspection update

Director of the PCAOB's Division of Registration and Inspections George Botic reinforced the importance of audit quality, due professional care, and professional skepticism as various macroeconomic factors could introduce new risks of material misstatements in the financial statements. He discussed the Board's inspection activities and recent inspection results, along with 2023 focus areas. For the 2022 inspection cycle, engagement deficiencies were commonly identified in revenue, business combinations, and allowance for credit losses, among other areas. Mr. Botic noted that 2023's inspection plan includes a continued focus on financial statement areas that are complex, judgmental, and particularly susceptible to change. He encouraged auditors to perform robust risk assessments, including focusing on the identification of and responses to fraud risks, and avoiding a "same as last year" mentality due to the continued influence of macroeconomic events on a company's operations and financial results.

Auditor independence

The OCA staff highlighted the importance of auditor independence, in both fact and appearance, and noted that this independence is foundational to the credibility of the financial statements. The staff reminded the audience that independence is a shared responsibility between the auditor, the audit committee, and management. The staff also reinforced the importance of having a good tone at the top and maintaining a culture of ethical behavior.

Ms. Stoltzfus referred the audience to OCA staff statements that were issued based on emerging trends and new independence risks, which address [audit firm restructuring](#) and the importance of complying with the [general standard on independence](#) (general standard). While a service or relationship may not appear on the nonexclusive list of services and relationships under Rule 2-01(c) of Regulation S-X, she said, audit firms need to evaluate whether the service or relationship complies with the general standard.

OCA staff noted that the complexity of consulting service offerings continues to evolve and the formation of business relationships to perform these services has increased. These changes require auditors to perform an enhanced evaluation, including monitoring, of these services and relationships. To further illustrate the impact of business relationships with entities that have beneficial ownership with significant influence (BOSI) over an audit client, the staff shared an example that focused on the auditor's lack of

independence for an audit target due to a business relationship that existed with a technology company with a BOSI over the audit target.

According to Ms. Stoltzfus, while an auditor needs to comply with S-X Rule 2-01 for the most recent year included in the initial public offering document, the auditor also needs to comply with the general standard and any local standards for the back years included in the filing. She also stated that the staff continues to believe that it is a high hurdle to conclude that an auditor can remain objective and impartial when it provides, in any of the periods in a filing, bookkeeping services that include, but are not limited to, (1) tax provision preparation, (2) payroll, or (3) financial statement preparation.

As previously indicated, the PCAOB also shared that the Board is focused on modernizing, simplifying, and standardizing the general quality control standards in AS 1000, which will include an update to the independence rules covered in AS 1005. PCAOB staff highlighted independence violations as a recurring inspection issue, despite constant reminders in the marketplace of the importance of independence to auditor credibility. In addition to independence matters, the staff also emphasized the potential for sanctions and additional enforcement efforts if firms' quality control policies and procedures are deficient, cautioning the audience that firms need to recognize the potential for ethical lapses and take efforts to prevent or detect extensive answer sharing or exam cheating.

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Appendix A

Grant Thornton publications

SEC Final Rules

- [Snapshot 2022-13](#), “SEC enhances executive compensation disclosure”
- [Snapshot 2022-15](#), “‘Clawback’ of executive compensation Final Rule adopted”
- [Snapshot 2022-16](#), “Pay versus performance – Compensation ‘actually paid’”

SEC Proposed Rules

- [Snapshot 2022-06](#), “SEC proposes to enhance cybersecurity disclosures”
- [Snapshot 2022-07](#), “SEC proposal would enhance climate-related disclosures”
- [Snapshot 2022-08](#), “SEC proposes rules to improve SPAC disclosures”

Staff sample comment letters

- [Snapshot 2021-12](#), “CorpFin releases sample comments on climate change”
- [Snapshot 2022-10](#), “CorpFin releases sample comments on Russia’s invasion of Ukraine”
- [Snapshot 2022-18](#), “Crypto asset disruptions trigger sample comments from CorpFin”

Other staff guidance

- [Snapshot 2022-05](#), “SEC staff issues statement on assessing materiality”
- [Snapshot 2022-20](#), “CorpFin updates its non-GAAP financial measures guidance”

Accounting

- [New Developments Summary 2022-01](#), “Russia-Ukraine War – Accounting and financial reporting considerations”
- [Snapshot 2022-12](#), “Equity securities subject to contractual sale restrictions”
- [Snapshot 2022-14](#), “Disclosure of supplier finance program obligations”

Environmental, social, and governance matters

- [Snapshot 2022-07](#), “SEC proposal would enhance climate-related disclosures”
- [Snapshot 2022-17](#), “Federal Supplier Climate Risks and Resilience Proposed Rule”

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