



FOCUS ON BUSINESS VALUE
2022 Crowe Financial Services Conference

Accounting and Financial Reporting Developments Part II

November & December 2022

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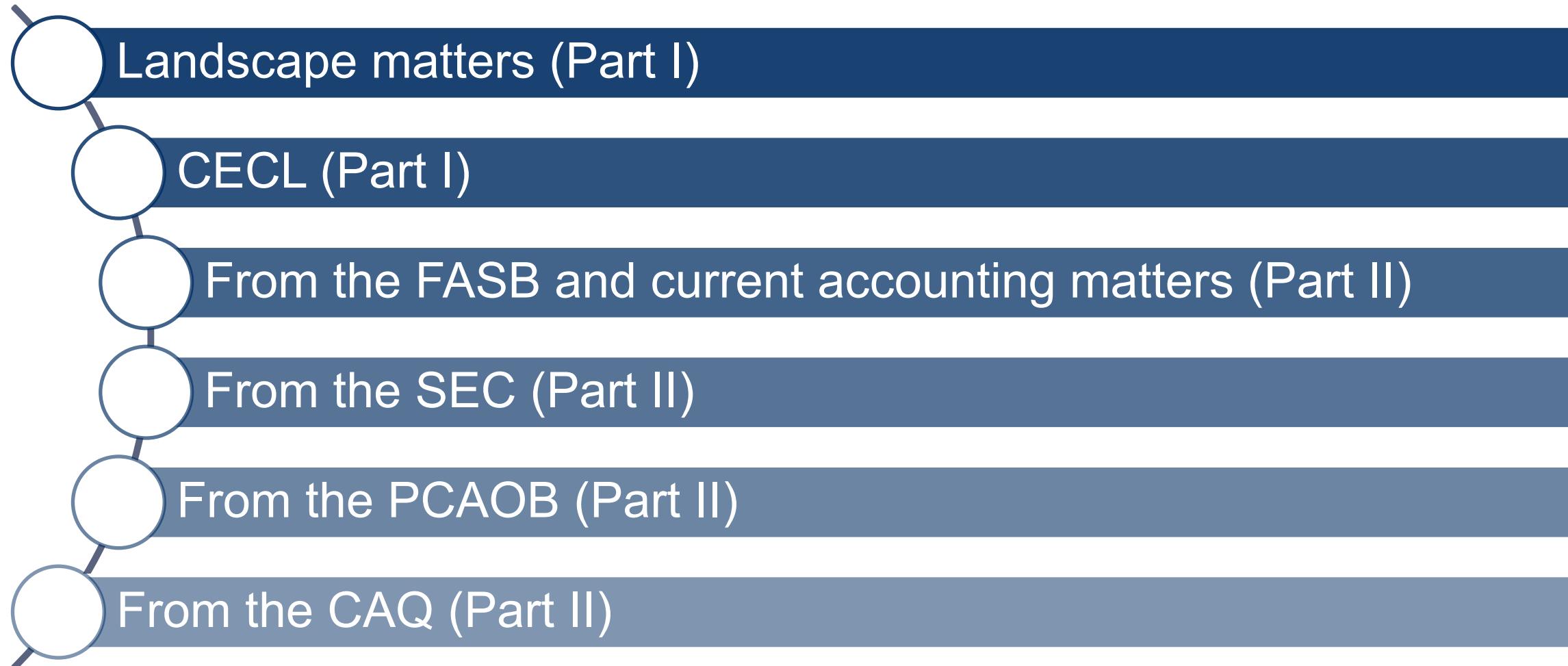
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Agenda



From the FASB and current accounting matters

FASB Agenda Consultation



- 2021 Agenda Consultation Report
 - Issued June 29, 2022 (22 pages)
 - Prioritization process
 - Feedback received by stakeholders
- Responses from financial institutions

Top priorities

1. ESG-related transactions or disclosures
2. Digital assets
3. Software capitalization / definition of a derivative (tie)

Low priorities

1. Disaggregation of performance / KPI, non-GAAP (tie)
2. Consolidation / statement of cash flows (tie)



We are pleased to present the **2021 FASB Agenda Consultation Report**. The report summarizes the robust stakeholder feedback obtained during our 2021 agenda consultation project and how that feedback has influenced the Board's technical and research agendas and standard-setting process as of June 29, 2022.

When we embarked on this initiative in late 2020, we sought to do more than create a new project lineup. We wanted to offer stakeholders a broader opportunity to weigh in on the FASB's future direction—in other words, where and how we should focus our resources to best fulfill our mission to establish and improve financial accounting and reporting standards to provide useful financial information to investors and other allocators of capital.

We engaged a broad range of stakeholders (including our advisory groups) to help us answer these questions, meeting with more than 200 of them even before we published the formal Invitation to Comment (ITC) in June 2021. The ITC elicited 522 responses, and starting at the end of last year we began to incorporate what we learned into existing technical agenda projects and initiated research on new issues to determine potential paths to standard setting.

The feedback from all of our stakeholder groups was tremendous and the increased participation of investors in our process has already shaped our agenda. The top seven most frequently cited investor priorities either are now included on our technical agenda or are undergoing further analysis as part of our research agenda. The overall input we received has resulted in the following changes to our technical and research agendas:

Redefining the scope and direction of existing technical agenda projects
We used investor input to redefine and focus a path forward on our project on financial performance reporting, revising its objective and scope to focus on disaggregation of income statement expenses. Investor input also helped focus our long-term project to improve the transparency and usefulness of income tax disclosures by revising its objective and establishing a project scope that primarily focuses on income taxes paid and the rate reconciliation table.

Adding new projects to our technical agenda
Stakeholders from all professional backgrounds expressed strong interest in addressing emerging areas in financial reporting, including digital assets and the accounting for environmental credit programs. We also heard calls to update the accounting for software to better reflect advances in technology and development. Based on this feedback, we added the following projects to our technical agenda:

- Accounting for and Disclosure of Digital Assets
- Accounting for Environmental Credit Programs
- Accounting for and Disclosure of Software Costs.

Adding new projects to our research agenda
Investor and other stakeholder feedback also helped reshape our research agenda. What we learn during the research phase helps us determine whether there's an achievable path forward on projects. This process

Emergency Capital Investment Program (ECIP)



- Established by the Consolidated Appropriations Act, US Treasury will make direct investments in CDFIs and MDIs

	C-Corporations	S-Corporations & Mutuals	Credit Unions
Form	Senior preferred stock	Senior subordinated debt	Senior subordinated debt
Regulatory Capital Treatment	Tier 1	Tier 2	Secondary capital (for low-income credit unions only)
Dividends (interest) payable	None for first 24 months; quarterly thereafter	None for first 24 months; quarterly thereafter	None for first 24 months; quarterly thereafter
Dividend (interest) rate	Based on increase in Qualified Lending over Baseline	Based on increase in Qualified Lending over Baseline	Based on increase in Qualified Lending over Baseline
Reporting required	Initial Supplementary Report Quarterly Supplementary Reports	Initial Supplementary Report Quarterly Supplementary Reports	Initial Supplementary Report Quarterly Supplementary Reports

<https://home.treasury.gov/policy-issues/coronavirus/assistance-for-small-businesses/emergency-capital-investment-program>

EITF proposal: Investments in tax credits



FASB's Emerging Issues Task Force (EITF) project added (Sept. 22)

EITF educational session (Nov. 11)

EITF meeting (March 24)

EITF meeting (June 16 – consensus for exposure reached)

Exposure draft issued Aug. 22; comments due Oct. 6

To expand the proportional amortization method to investments in tax credits other than low-income housing tax credits (LIHTC), such as:

- New Markets Tax Credits (NMTC)
- Historic Rehabilitation Tax Credits (HTC)
- Renewable Energy Tax Credits (RETC)

EITF 21-A, "Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method"

EITF proposal: Investments in tax credits



- Exposure draft generally retains the ASU 2014-01 requirements for a tax equity investment to qualify
- The election to apply proportional amortization is an accounting policy election which can be made independently for equity investments in each type of tax credit program
- However, if elected, proportional amortization applies to all such equity investments in that particular tax program

These requirements may not be met under typical solar tax credit structures currently in use

- 1. It is probable that the income tax credits allocable to the investor will be available.
- 2. The investor does not have the ability to exercise significant influence over the operating and financial policies of the underlying project.
- 3. Substantially all of the projected benefits are from income tax credits and other income tax benefits. Projected benefits include income tax credits, other income tax benefits, and other non-income-tax-related benefits. The projected benefits should be determined on a discounted basis, using a discount rate that is consistent with the cash flow assumptions used by the tax equity investor in making its decision to invest in the project.
- 4. The investor's projected yield based solely on the cash flows from the income tax credits and other tax benefits is positive.
- 5. The investor is a limited liability investor in the limited liability entity for both legal and tax purposes, and the investor's liability is limited to its capital investment.

FASB proposal: Reference rate reform



- ASU 2020-04/ASC 848
 - Originally to sunset Dec. 31, 2022
 - 12 months after planned cessation of LIBOR
 - Exposure draft issued April 20
 - Extend to Dec. 31, 2024
 - 18 months after June 30, 2023
 - Add term Secured Overnight Financing Rates (SOFRs) as benchmark rates (in addition to Overnight Index Swap [OIS] SOFR)



Discussion at Oct. 5, 2022, FASB meeting:
1. Affirm proposed sunset date
2. Decline to add additional SOFR rates

Final ASU expected
in 4Q22

Hedging with Term SOFR



- Momentum has been growing for term SOFR based derivatives and hedging is still possible
- CF hedge of variable rate instrument tied to a term SOFR; the contractually specified rate can be hedged with a matching term SOFR derivative (concept of benchmark rate not applicable)
- CF hedge of forecast issuance of rolling fixed rate debt -or- FV hedge of fixed rate instrument
 - No mismatch – Designate hedge of benchmark rate and use a derivative tied to benchmark rate (e.g., ON SOFR or ON Fed Funds)
 - Mismatch – Designate hedge of benchmark rate of ON SOFR (or ON Fed Funds) and use derivative tied to term SOFR; hedge possible, but will require regression because of the mismatched indices

Reference Rate Reform - transition



- Renegotiate prior to June 30, 2023, or just allow instruments to follow fallback language – either acceptable
- Caution: Certain changes such as maturity date or principal/notional amount cause that entire modification to be out of scope (848-20-15), particularly important for hedge accounting; out of scope will most likely trigger a dedesignation and if hedge desired, an off-market redesignation
- Caution: Be sure modified contracts end up as desired; Ex: In a cash flow hedge, make sure both hedged item and hedging derivative end upon on the same index and reset date (fallback language may not be the same between the two agreements)
- Note: Expedients for cash flow hedges expedients end when both instruments no longer tied to LIBOR (hint – sooner than Dec. 31, 2024)

Bank or CU Owned Life Insurance



BOLI or CUOLI

- Investments in life insurance are measured at the amount that can be realized (ASC 325-30; formerly FASB Technical Bulletin 85-4)
- General account vs separate account
- Separate account generally has what is known as a stable value wrapper to mitigate market value volatility, but downward adjustments may still be necessary
- FV wrappers often limited (e.g., up to 10% decline), may not cover all asset types, and has its own credit risk
- Not an allowance or impairment, simply recorded at the amount that can be realized (subsequent mark-ups permitted)

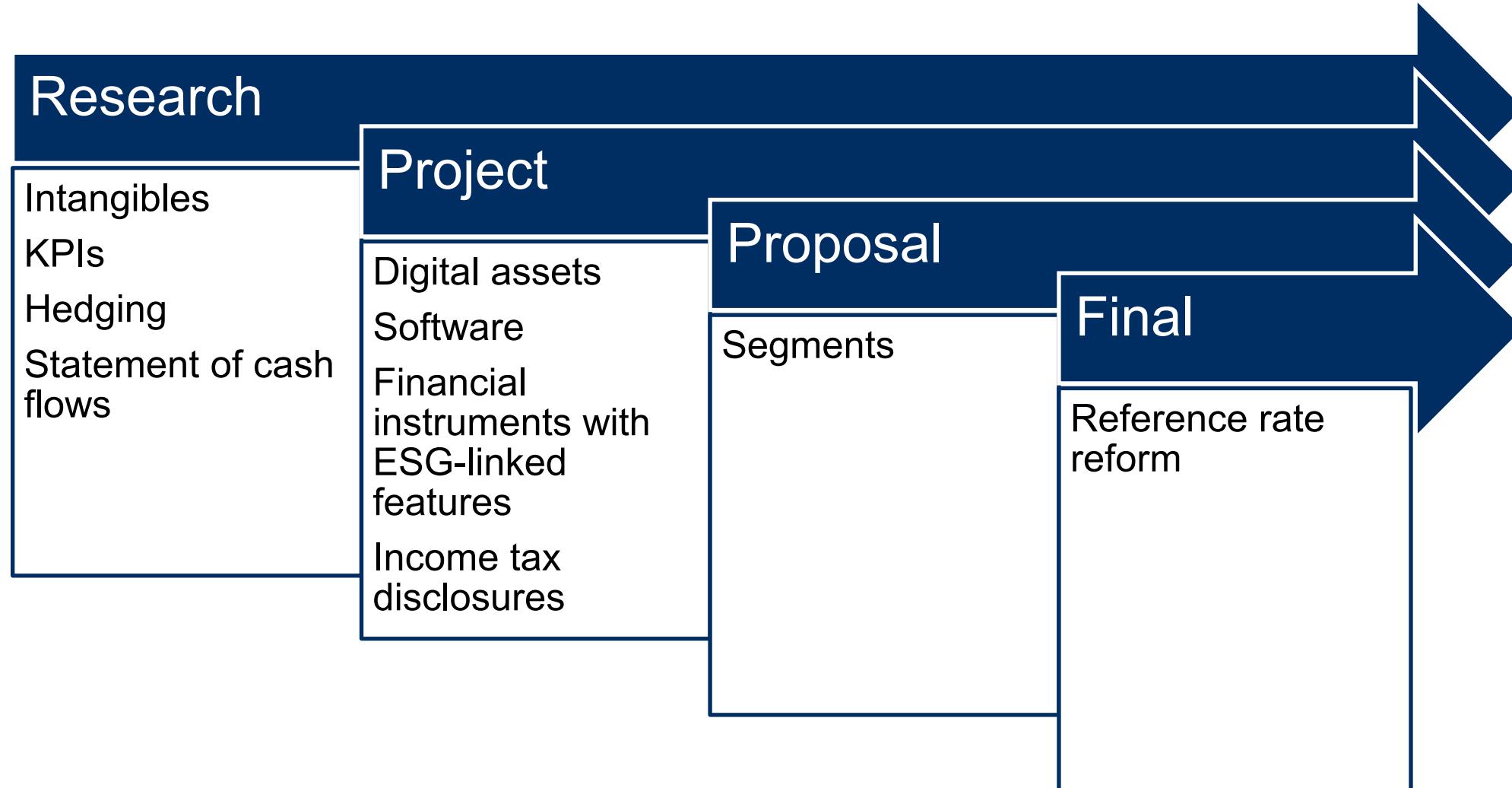
Example 1:

- \$10MM investment with a wrapper protecting 10% decline, and investments drop in value to \$9.5MM;
- With the wrapper, the investment could be surrendered for \$10MM (no adjustment required)

Example 2:

- Same, but investments drop in value to \$8.5MM;
- With the wrapper, the investment could be surrendered for \$9.5MM (write asset down to \$9.5MM)

Other FASB items of interest



FASB project: Segments

Principle requires disclosure of significant segment expense categories that are:

- Included in any profit and loss measures regularly provided to chief operating decision maker (CODM)

Additional observations:

- Annual and interim disclosure
- Not required to reconcile expense categories to consolidated totals or map to income statement lines
- Incremental to expense disclosures currently required in ASC 280
- Disclose “other items” amount to total to profit and loss measure, including description of composition
- Disclosure nature of any substantial change in expense allocation and related impact on segment
- Restate prior period information to conform to current period expense categories, unless impracticable
- If disclose net interest revenue, disclose gross interest expense if meets requirements above

Proposed ASU issued Oct. 6 – Comments due Dec. 20

FASB project: Intangibles and Goodwill

Amortize

- Amortize goodwill straight-line
- Default amortization period of 10 years unless entity elects and justifies different period, shorter or longer subject to cap of 25 years
- No reassessment of amortization period

Impairment

- Triggering event basis (rather than annual requirement) performed no later than the end of the reporting period
- Would remain at the reporting unit level

Intangibles

- Including certain intangible asset balances in goodwill
- Required to include contractual and noncontractual customer relationships in goodwill if they are not separable

May 4, 2022 – Board provided leaning to present amortization in same income statement line as impairment, not OCI

June 15, 2022 – project “paused”

Crowe resources – FASB proposals



FASB proposal improves accounting for income tax credits

Julie Collins, Kevin Powers
Take Into Account | 8/29/2022



<https://www.crowe.com/insights/take-into-account/fasb-proposal-improves-accounting-for-income-tax-credits>

FASB proposes changing segment reporting requirements

Sean C. Prince, Chris Behof
Take Into Account | 10/10/2022



<https://www.crowe.com/insights/take-into-account/fasb-proposes-changing-segment-reporting-requirements>

From the SEC

The SEC Speaks in 2022

Themes

- Crypto and Environmental, Social, and Governance (ESG) topics

OCA matters

- Independence
- SEC Staff Accounting Bulletin (SAB) 121

Corp Fin matters

- Impact of current events
- Climate
- Governance disclosures under Rule 4-07(h) of Regulation S-K
- Crypto
- Non-GAAP

Acting Chief Accountant Statements



High quality independent audits and role of audit committees

Oct. 26, 2021

- Independence responsibilities (AC, mgmt. and audit firms)
- AC oversight of auditors

Materiality: evaluating errors & reasonable investor

March 9, 2022

- Analyze errors with lens of “reasonable investor”
- Evaluate total mix of info

High quality financial reporting in a complex environment

Dec. 6, 2021

- OCA's 2021 accomplishments & role
- Key areas for each stakeholder to produce high quality information for investors

Auditor independence

June 8, 2022

- General standard
- Independence consultation themes

FASB agenda

Feb. 22, 2022

- Importance of investors to standard-setting
- FASB's agenda consultation

Auditor responsibility - fraud detection

October 11, 2022

- Heightened environment for uncertainty
- Audit procedures should be tailored to ever-evolving business environments

Recent remarks in public forums

Acting Chief Accountant Paul Munter (June 8, 2022):

The Critical
Importance of
the General
Standard of
Auditor
Independence
and an Ethical
Culture for the
Accounting
Profession

- General independence standard – Rule 2-01 of Regulation S-X
- OCA's approach to independence consultations
- Recurring consultation themes

SEC cybersecurity disclosure proposal



Disclose cybersecurity risk management, strategy and governance, including whether the Board has a cybersecurity expert



Disclose material cybersecurity incidents on Form 8-K within four business days of determining that the incident is material



Update status of material breaches in periodic reports

Comment period closed May 9: <https://www.sec.gov/rules/proposed/2022/33-11038.pdf>

Public comments on recent rule proposals



Climate Change

- Very broad range of views
- Thousands of comment letters submitted
- Key comment topics:
 - Greenhouse gas (GHG) emissions disclosure
 - 1 percent footnote disclosure threshold
 - Transition

Cybersecurity

- General support from most stakeholders (with suggestions for improvement)
- Concerns include:
 - Timing of disclosure
 - Aggregation of immaterial incidents
 - Definitions
 - Disclosure of Board expertise

Comment period reopened through Nov. 1

Final rule – pay versus performance disclosure Crowe

Why?

- Dodd-Frank mandate

Who?

- SRCs have certain accommodations
- EGCs and FPIs are exempt
- New registrants do not have to provide information prior to the year in which they become a registrant

Where?

- Proxy or information statements

When?

- Fiscal years ending on or after Dec. 16, 2022

What?

- Data for 5 years (3 years in year of adoption, adding subsequent years) for applicable non-SRC registrants
- SRCs provide 3 years (2 years in year of adoption)

Final rule – pay versus performance disclosure

Year	Summary comp for Principal Executive Officer (PEO)	Comp actually paid to PEO	Avg summary comp for other Named Executive Officers (NEOs)	Avg comp actually paid to other NEOs	Value of initial \$100 fixed investment based on:			[Company selected measure]*
	Total shareholder return (TSR)	TSR of peer group*	Net income					
X1								
X2								
X3								
X4*					Either from CD&A or from performance graph	“most important” financial performance measure		
X5*								

*: Not required for SRCs

From summary compensation table (SCT)

SCT adjusted for certain items

Additionally, disclose a list* of the three to seven “most important” financial or non-financial performance measures used to link compensation to performance.

SEC rule inflation adjustments

- JOBS Act - EGC revenue threshold

Prior threshold	New threshold
\$1,070,000,000	\$1,235,000,000

Exceed the revenue threshold and entity loses:

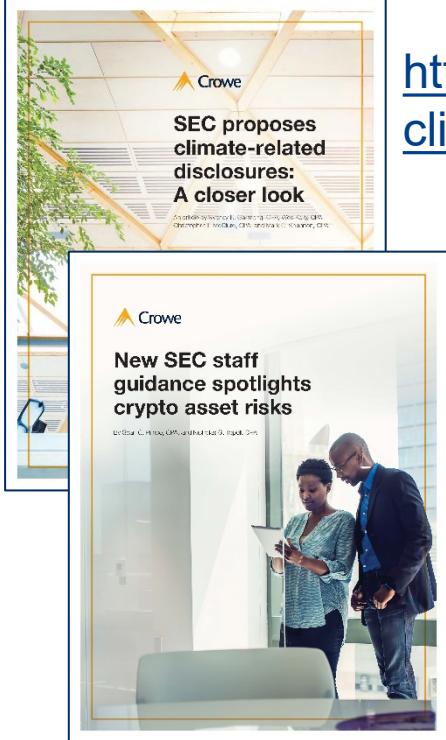
- EGC status
- Ability to use deferred effective dates
- 404(b) exemption

- Regulation Crowdfunding (Reg. CF) - offering size adjustments

Reg. CF Rule	Prior maximum	Inflation adjusted maximum	Auditor involvement required
201(t)(1)	\$107,000	\$124,000	None
201(t)(2)	\$535,000	\$618,000	Review
201(t)(3)	\$1,070,000	\$1,235,000	Audit

- Overall maximum Reg. CF limit remains at \$5,000,000

Crowe resources – SEC matters

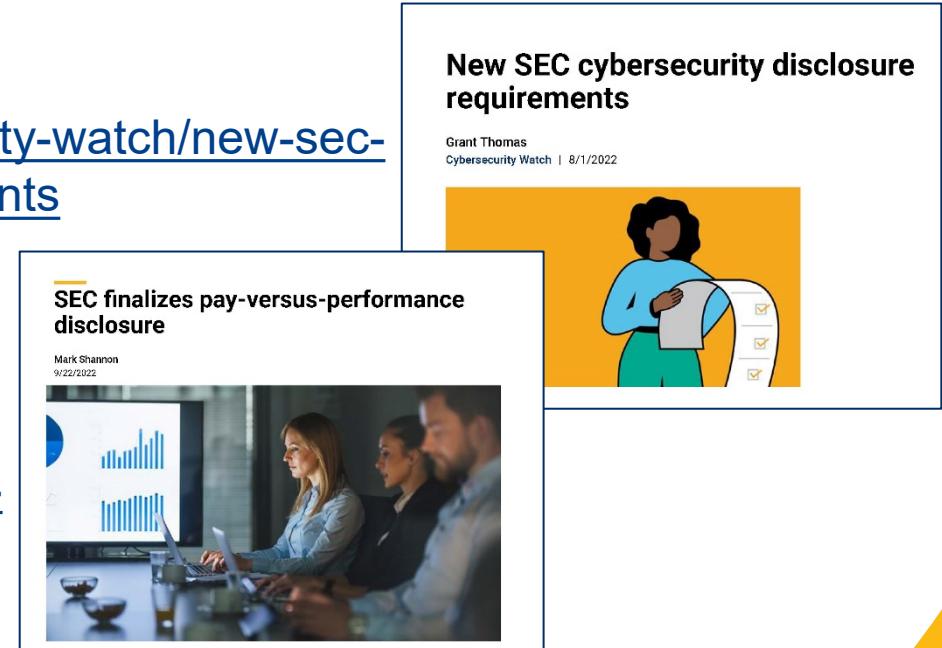


<https://www.crowe.com/insights/asset/s/sec-proposes-climate-related-disclosures-a-closer-look>

<https://www.crowe.com/insights/asset/n/new-sec-staff-guidance-spotlights-crypto-asset-risks>

<https://www.crowe.com/cybersecurity-watch/new-sec-cybersecurity-disclosure-requirements>

<https://www.crowe.com/insights/sec-finalizes-pay-versus-performance-disclosure>



New SEC cybersecurity disclosure requirements

Grant Thomas
Cybersecurity Watch | 8/1/2022



SEC finalizes pay-versus-performance disclosure

Mark Shannon
9/22/2022

From the PCAOB

PCAOB Spotlights

Aug. 2022

- Fraud
- M&A
- Audit execution
- Independence
- Audit firm QC systems
- Technology

Aug. 2022

- Fraud
- SPACs / de-SPACs
- Going concern
- Cash and cash equivalents

Audit Committee Resource

Overview for Planned 2022 Inspections

Target Team's 2021 Inspections

2021 Conversations with Audit Committee Chairs

June 2022

- Inspection plan highlights
- Selected areas of focus
- Audit committee outreach

March 2022

- Communications
- Auditor strengths and weaknesses
- Inspection reports
- Audit firm QC
- Technology
- Information outside the F/S

<https://pcaobus.org/resources/staff-publications>

From the CAQ



“Investors have shown increased interest in ESG information.”

Two recent CAQ studies on the S&P 500

10-K disclosures

- Issued Sept. 9; using most recently filed 10-Ks as of June 2022
- Increasing trend of including climate-related disclosures

<https://www.thecaq.org/sp-500-10k/>

Sustainability reports

- Issued Oct. 18; using 2020 sustainability reports
- Most published a sustainability report with increasing trend of obtaining assurance

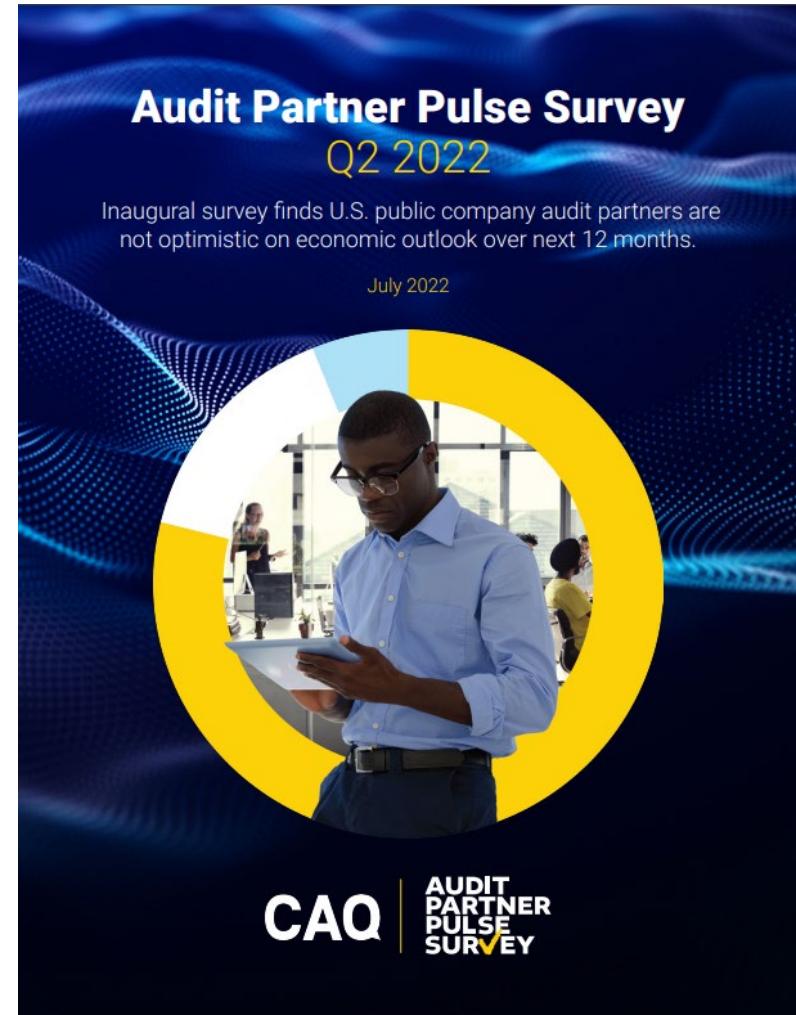
<https://www.thecaq.org/sp-500-and-esg-reporting/>

Audit Partner Pulse Survey



- 700 audit partners from the eight CAQ governing board firms
- 84% are not optimistic on economic outlook over next 12 months
- Top risks: inflation, labor shortages, supply shortages and supply chain disruptions, and cybersecurity threats
- 53% - talent is the most important corporate priority for 2022

<https://www.thecaq.org/news/inaugural-audit-partner-pulse-survey-offers-unique-insights-on-capital-markets-state-of-the-economy/>



ASUs of interest to financial institutions

ASUs for Financial Institutions (PBES)



Major standards and clarifications

- CECL, 2016-13 – CECL (2023 for SRCs)
 - 2018-19 – Operating leases
 - 2019-04 – Clarifications
 - 2019-05 – Fair value option
 - 2019-10 – Deferral of effective dates
 - 2019-11 – Improvements
 - 2020-02 – SEC SAB 119
 - 2020-03 – Lease term measurement, regaining control
 - 2021-05 – Leases with variable lease payments
 - 2022-02 – TDRs and gross write-offs disclosures

ASUs to adopt or consider early adoption

- 2017-04 – Goodwill impairment testing (2023 for SRCs)
- 2021-08 - Customer Contracts in a Business Combination (2023)
- 2022-01 - Portfolio Layer Method of Hedge Accounting (2023)
- 2022-03 – Equity Securities Subject to Contractual Sales Restrictions (2024)

ASUs impacting disclosures

- 2021-10 - Disclosures about Government Assistance (2022)

Other ASUs to adopt

- 2020-06 - Convertible Instruments and Contracts in an Entity's Own Equity (2022, 2024 for SRCs)
- 2021-04 - Freestanding Written Call Options Classified in Equity (2022)

ASUs for Financial Institutions (Non-PBES)



Major standards and clarifications

- Leases, 2016-02 (2022)
 - 2018-01 - Land Easements
 - 2018-10 – Clarifications
 - 2018-11 – Optional transition method
 - 2018-20 – Narrow scope improvements
 - 2019-01 - Clarifications
 - 2019-10 – Deferral of effective dates
 - 2020-02 – Clarification of PBE definition
 - 2020-05 – Further deferral
 - 2021-05 – Leases with variable lease payments
 - 2021-09 – Discount rate for lessees that are not public business entities
 - CECL, 2016-13 – CECL & clarifying ASUs (2023)

ASUs to adopt or consider early adoption

- 2019-12 - Simplifying Accounting for Income Taxes
- 2020-08 – Clarification on Premium Amortization on Purchased Callable Debt (2022)
- 2021-07 - Practical Expedient in Measuring Current Price Input of Equity-Classified Share-Based Awards (2022)
- 2017-04 – Goodwill impairment testing (2023)
- 2021-08 - Customer Contracts in a Business Combination (2024)
- 2022-01 - Portfolio Layer Method of Hedge Accounting (2024)
- 2022-03 – Equity securities subject to contractual sale restrictions (2024)

ASUs impacting disclosures

- 2020-10 – Various ASC improvements (2022)
- 2021-10 - Disclosures about Government Assistance (2022)

Other ASUs to adopt

- 2020-01 – Equity securities: topics 321 and 323; derivatives (2022)
- 2021-04 - Freestanding Written Call Options Classified in Equity (2022)
- 2020-06 - Convertible Instruments and Contracts in an Entity's Own Equity (2024)

Questions?



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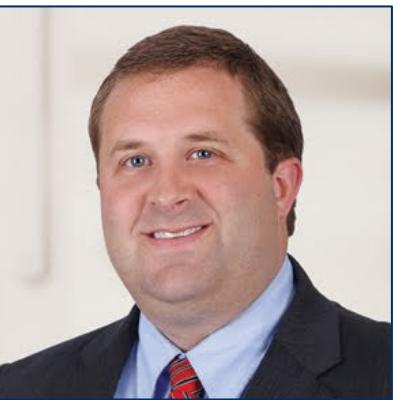
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