



FOCUS ON BUSINESS VALUE  
2022 Crowe Financial Services Conference

# Accounting and Financial Reporting Developments Part II

November & December 2022

Presented by:

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# Your presenters



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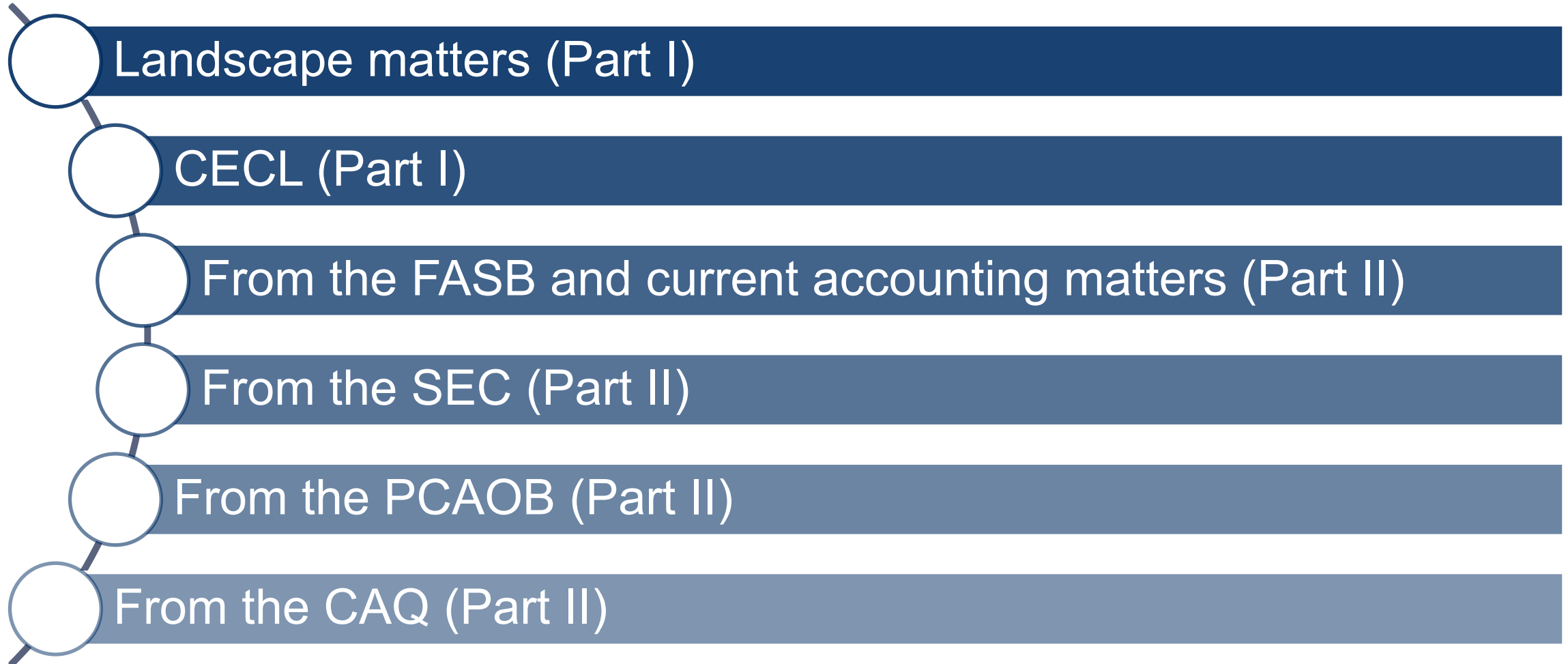
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# Agenda



# 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)



# 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 & Mutuels	Credit Unions
<b>Form</b>	Senior preferred stock	Senior subordinated debt	Senior subordinated debt
<b>Regulatory Capital Treatment</b>	Tier 1	Tier 2	Secondary capital (for low-income credit unions only)
<b>Dividends (interest) payable</b>	None for first 24 months; quarterly thereafter	None for first 24 months; quarterly thereafter	None for first 24 months; quarterly thereafter
<b>Dividend (interest) rate</b>	Based on increase in Qualified Lending over Baseline	Based on increase in Qualified Lending over Baseline	Based on increase in Qualified Lending over Baseline
<b>Reporting required</b>	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)

# BOLI / CUOLI examples



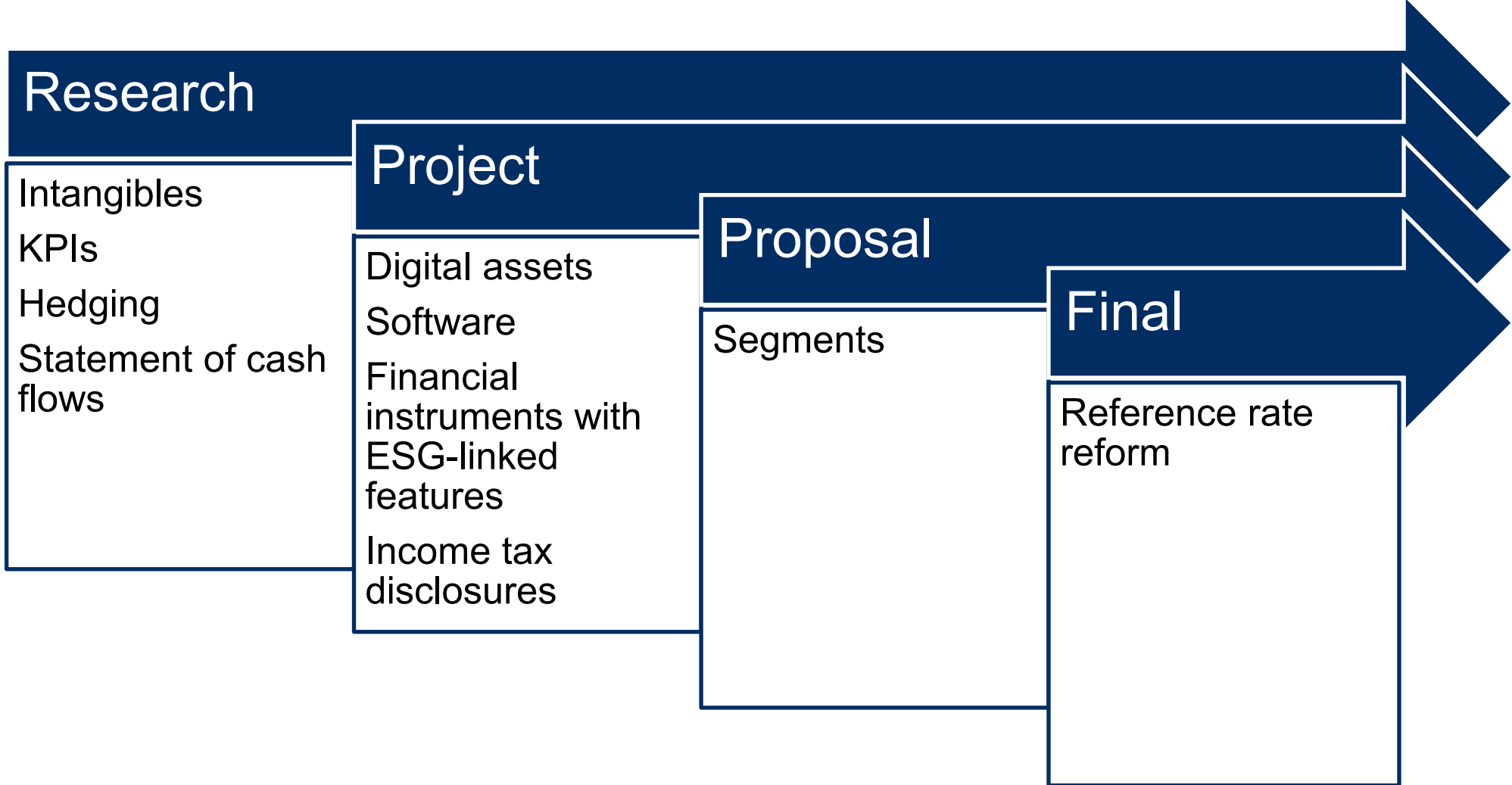
## Example 1:

- \$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

## 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

## FASB agenda

Feb. 22, 2022

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

## Materiality: evaluating errors & reasonable investor

March 9, 2022

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

## Auditor independence

June 8, 2022

- General standard
- Independence consultation themes

## 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 Crowe

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:		Net income	[Company selected measure]*
					Total shareholder return (TSR)	TSR of peer group*		
X1								
X2								
X3								
X4*								
X5*								

\*: Not required for SRCs

From summary compensation table (SCT)

SCT adjusted for certain items

Either from CD&A or from performance graph

“most important” financial performance measure

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

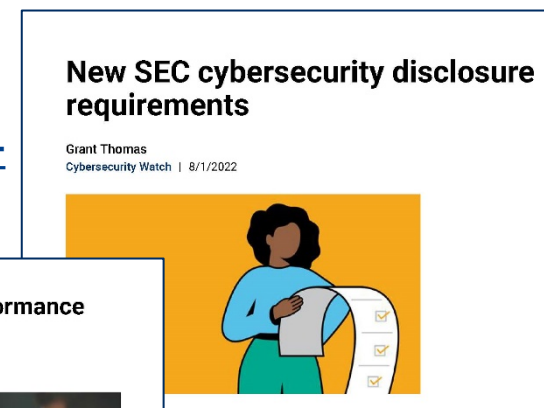


<https://www.crowe.com/insights/asset/s/sec-proposes-climate-related-disclosures-a-closer-look>



<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>



# 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

# CAQ and ESG in the S&P 500

**CAQ** CENTER FOR  
AUDIT QUALITY

“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

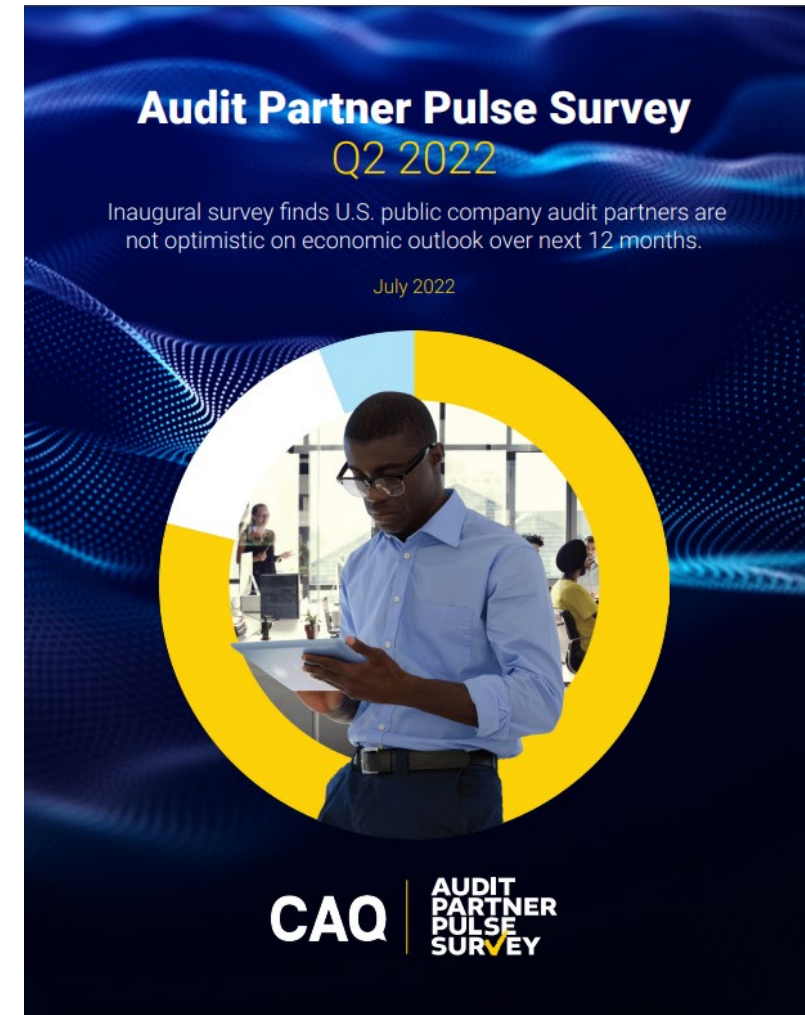
- Issued Oct. 18; using 2020 sustainability reports
- Most published a sustainability report with increasing trend of obtaining assurance

<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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