



Quarterly close

*Keep up on accounting trends
and topics*

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Smart decisions. Lasting value.™



Disclaimer

The information provided herein is educational in nature and is based on authorities that are subject to change.

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Agenda

- Introduction
- Standard-setting update
- Restatement trends
- Questions & answers





Polling question #1

Which best describes your organization?

- a. Private company
- b. Public company
- c. Auditor/consultant
- d. Other

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Shifting landscape at the FASB

Projects removed from technical agenda

Goodwill accounting (6/15)

Asset acquisition vs. business combination (6/15)

Consolidation reorganization, liabilities vs. equity – phase 2, lease modifications

Projects added to technical agenda

Digital assets (5/11)

Capitalization of software costs (6/22)

Environmental credit programs (5/25)

ESG-linked features and regulatory credits

Financial instruments with ESG-linked features

- Staff continuing research

Environmental credit programs

- Current diversity in practice in accounting
- Substantive feedback from various stakeholders in the FASB's invitation to comment
- Project added to technical agenda

Digital assets

FASB added project to technical agenda to improve accounting for exchange-traded digital assets

- ITC feedback
- Perceived challenges with current accounting model
- Board will consider potential scope alternatives for digital assets at a future meeting

Other digital asset developments

SAB 121 – safeguarding of crypto assets

SAB 121 issued March 31, 2022:

Guidance for entities that provide crypto asset “safeguarding” services for third parties

Addresses three questions:

- How should an entity account for its obligations to safeguard crypto assets held for platform users?
- What disclosures would the staff expect an entity to provide regarding its safeguarding obligations for crypto assets held for its platform users?
- How and when should an entity initially apply the guidance in this topic in its financial statements?

SAB 121 – safeguarding of crypto assets

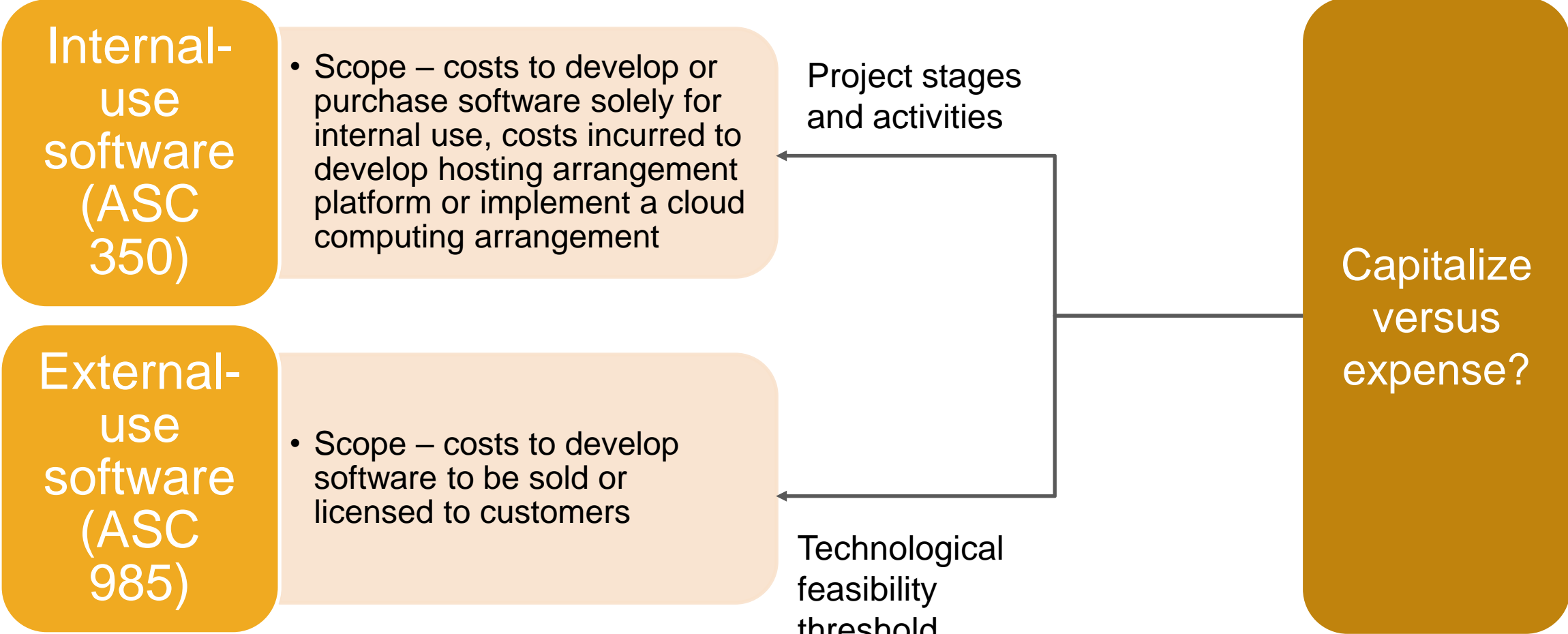
Scoping considerations

- Applies to entities who have an obligation to “safeguard” crypto assets of others
- Only applies to entities that do **not** control the underlying crypto asset
- Same safeguarding obligation may be recognized by multiple parties (e.g., custodian and sub-custodian)

Key accounting conclusions

- Entities in the scope of SAB 121 must record a safeguarding liability equal to the fair value of the underlying crypto assets
- Entities must also record a corresponding asset measured on the same basis as the safeguarding liability
- The nature and amounts under the arrangements, along with certain risks and uncertainties must be disclosed

Software capitalization



Certain ITC matters voted “off the island”

Not added to agenda at this time:

- Financial key performance indicators
- Balance sheet classification
- Materiality considerations for disclosures
- Debt modifications
- Fair value measurement disclosures
- Backwards tracing for income taxes
- Accounting for the sale of a business
- Recognition and measurement of market risk benefits
- Equity method of accounting
- Stock buybacks
- Definition of participating interest in transfers and servicing of financial assets

The rationale for the agenda decisions includes the need to focus FASB resources on higher-priority projects.



Polling question #2

How do you feel about the FASB's decision to "pause" the goodwill amortization project?

- a. I can't believe it! I was really waiting for that one.
- b. Indifferent. It would have had its own complexities – e.g., determining the appropriate amortization period, etc.
- c. Thank heavens! I can't imagine the FASB and the IASB having misaligned models on such an important topic.
- d. Not a big deal. We really don't have any material goodwill balances.
- e. N/A

Upcoming “attractions”

Proposal	Summary
Segment reporting – significant expenses	<ul style="list-style-type: none">• Would require public companies to provide disclosure of significant segment-level expenses
Investments in tax credits – EITF consensus for exposure	<ul style="list-style-type: none">• Would expand the proportional amortization method to all tax credit investments that meet the qualifying criteria
Reference rate reform – sunset period and benchmark interest rate	<ul style="list-style-type: none">• Would extend the sunset period of the Topic 848 practical expedients to Dec. 31, 2024• Would add term SOFR as an eligible benchmark interest rate
Accounting for grants by for-profit entities – IAS 20	<ul style="list-style-type: none">• ITC explores the possibility of incorporating aspects of IAS 20 into U.S. GAAP for for-profit entities• Requests stakeholder feedback on understandability, operability, and decision-usefulness of IAS accounting model

Government grants

FASB issues ITC to request stakeholder feedback on IAS 20 accounting model

- Questions focus on understandability, operability, and decision-usefulness of the IAS 20 model
- Stakeholders asked to share practice issues that have arisen under IAS 20 guidance
- Board will consider feedback in determining if new technical project is warranted

Comments due by Sept. 12, 2022

Soon-to-be-issued Accounting Standards Updates (ASUs)

Standard	Summary	Effective date, non-public business entities
Equity securities with contractual sale restrictions	<ul style="list-style-type: none">• Requires entities to ignore the contractual sale restriction when determining the fair value of the equity security• Introduces new disclosure requirements	<ul style="list-style-type: none">• Periods beginning after 12/15/2023
Disclosure of supplier finance program obligations	<ul style="list-style-type: none">• Requires disclosure of key terms related to supplier finance programs	<ul style="list-style-type: none">• TBD



Polling question #3

Which of the following FASB projects are you most interested in?

- a. Digital assets
- b. Capitalization of software costs
- c. Environmental credit programs
- d. Segment reporting
- e. Investments in tax credits
- f. Other

Recent developments at the SEC

Confirmation of two new commissioners

- Jaime Lizárraga (D)
- Mark Uyeda (R)

Updated regulatory flexibility agenda posted

- Additional potential ESG-related items migrating through agenda
- Potential changes to definition of “securities held of record”

<https://www.reginfo.gov/public/do/eAgendaMain>

SEC's 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's recent remarks in public forums



Impact of current events on MD&A



SAB 74 disclosures



ESG matters



Consultation themes



Polling question #4

Did your organization comment on the SEC's climate change proposal?

- a. Yes
- b. I'm not sure
- c. No – we are not public
- d. No – we are public but opted not to comment

Public comments on recent SEC rule proposals

Climate Change

~10,400

letters submitted
via **28** templated
letter formats

~4,200+

unique letters
submitted through
June 17, 2022

~60

individual
meetings or calls
with SEC officials

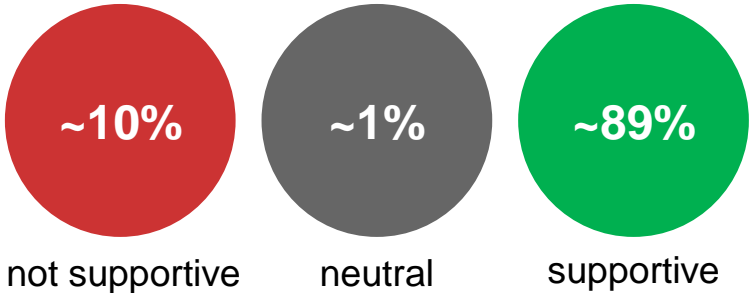
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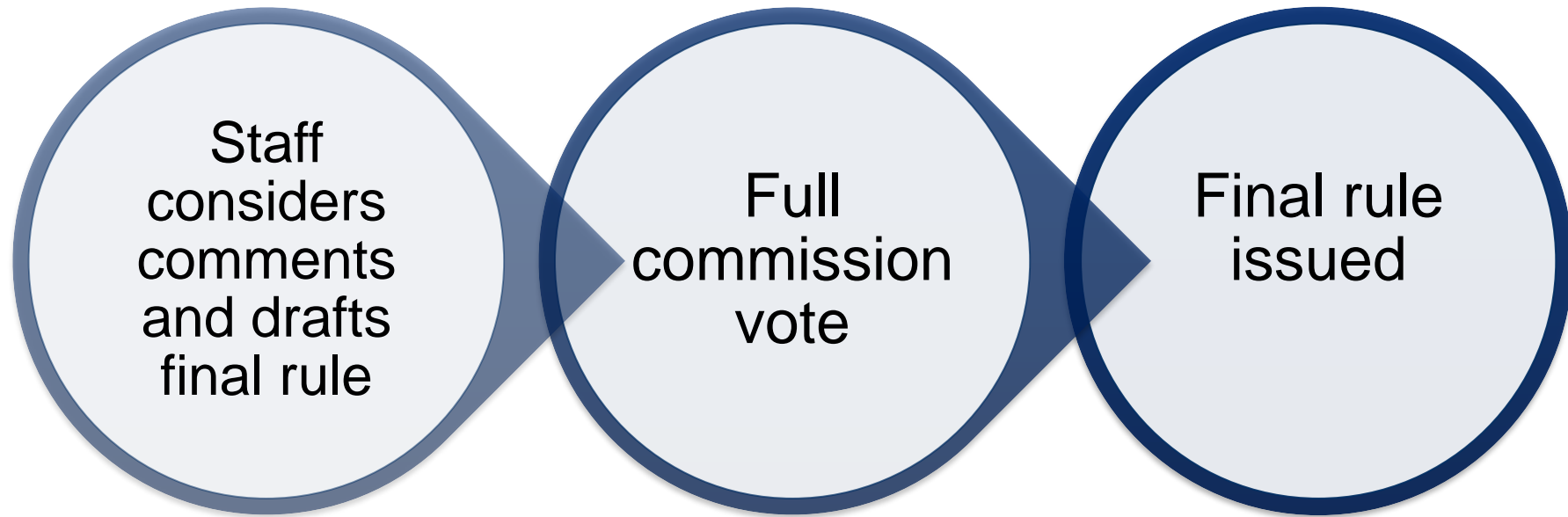


Public comments on recent SEC rule proposals

Cybersecurity

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

SEC rule proposals – what's next



Materiality revisited

Reminder from last quarter

- March 9, 2022 – Acting Chief Accountant Paul Munter issues statement.

Big “R”

- Determined to be material to historical financial statements (F/S)
- Requires restatement of those F/S

Little “r”

- Not material to historical F/S but material to current period F/S
- Comparative information in current period F/S revised; error disclosed

- Reminders
 - Analyze through lens of the “reasonable investor”
 - Thoroughly and objectively evaluate total mix of information (quantitative and qualitative)
 - Assess each error individually first, then aggregate



Polling question #5

Which SEC activity is of most interest to you?

- a. ESG / Climate Change
- b. Cybersecurity
- c. Materiality
- d. Something else

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Polling question #6

What is your familiarity with the guidance on assessing financial reporting errors?

- a. I am familiar with the guidance applicable to SEC issuers
- b. I am familiar with the guidance applicable to non-SEC issuers
- c. Both a and b
- d. I am not familiar with either

What is a restatement?

- A restatement is the correction of an error in previously issued financial statements.
- This is defined by U.S. GAAP, but the SEC provides further clarification.

FASB ASC 250-10-20 Error in Previously Issued Financial Statements

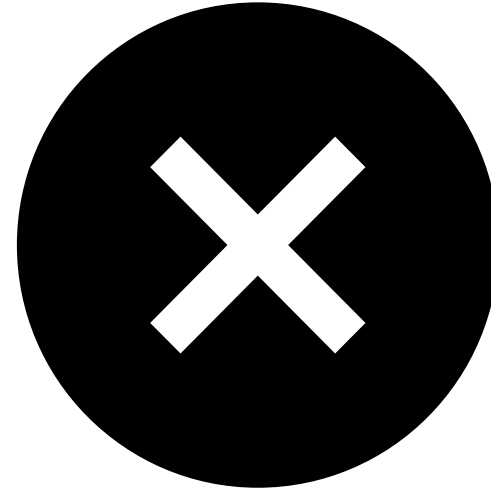
An error in recognition, measurement, presentation, or disclosure in financial statements resulting from mathematic mistakes, mistakes in the application of...(GAAP), or oversight or misuse of facts that existed at the time the finance statements were prepared. A change from an accounting principle that is not generally accepted to one that is generally accepted is a correction of an error.

Materiality matters

- A restatement is the correction of a material error
- ASC 105-10-05-6 states, “The provisions of the Codification need not be applied to immaterial items.”
- Materiality is based on the estimated impact of the error on the full year

What is a NOT restatement?

- Change in accounting principle
- Change in accounting estimate
- Change in reporting entity
- Reclassification
- Correction of an immaterial item



2022 restatement picture

- After 2021, many people expected the number of restatements to decrease in 2022.
- Not so fast...
- In March 2022, Acting Chief Accountant Paul Munter released SEC Statement “Assessing Materiality: Focusing on the Reasonable Investor When Evaluating Errors”
 - The focus on the “total mix” of information available to the investor did not change
 - Focus on a “holistic and objective assessment from a reasonable investor’s perspective”
 - Theme of not applying analyses “in reverse”
- “From the time I get up in the morning till the time I go to bed at night, I’m trying to think about what are things that we can do to improve the decision-usefulness of information that investors are receiving.”
 - Paul Munter, Baruch College Financial Reporting Conference, May 4, 2022

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Thank you

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