

QUARTERLY ACCOUNTING UPDATE WEBCAST – SUMMER 2022



July 14, 2022

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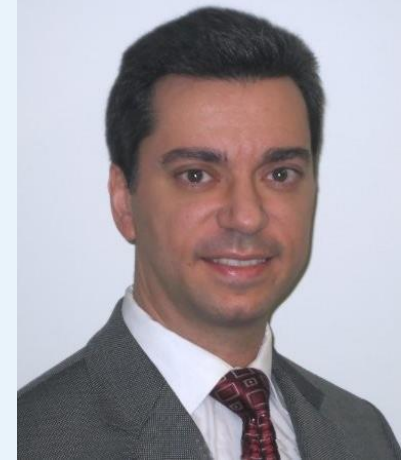
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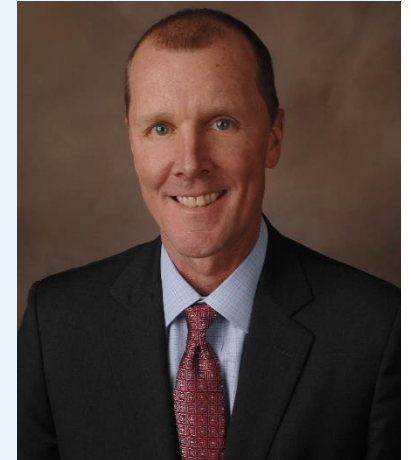
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Agenda

Topic	Minutes
FASB standard-setting activity	15
Practice issues	15
SEC activity	30

FASB Standard-Setting Activity

Recently issued FASB guidance

ASU No.	Final ASU	PBE effective date*	Non-PBE effective date*
2022-03	Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions	2024	2025

***Note:** Effective dates are for calendar year-end companies.

Proposed ASU	Issued date	Comments due
Reference Rate Reform (Topic 848) and Derivatives and Hedging (Topic 815)	4/20/22	6/6/22
Accounting for Government Grants by Business Entities	6/13/22	9/12/22

Fair value measurement of equity securities subject to contractual sale restrictions

Issue: Should the contractual restrictions on the sales of an equity security be reflected in the investor's financial statements

- View 1 - Apply a discount to the price of an identical equity security that is not subject to a contractual sale restriction when determining fair value
- View 2 – It is inappropriate under ASC 820 to apply such a discount when determining fair value

Fair value measurement of equity securities subject to contractual sale restrictions

Main provisions and impact of the ASU

- Applies to all equity securities subject to contractual sale restrictions
- A contractual sale restriction on the sale of an equity security would **not** be:
 - Considered a characteristic of the asset
 - Incorporated into measurement of the fair value of the security
 - Recognizing and measuring the contractual sale restriction as a separate unit of account is also prohibited
- Anticipated impact:
 - Increase comparability of financial information across reporting entities
 - Reduce complexity of financial reporting

Fair value measurement of equity securities subject to contractual sale restrictions

New disclosures

- Nature and remaining duration of the sales restriction(s)
- Circumstances that could cause a lapse in the sales restriction(s)
- Fair value of equity securities subject to contractual sale restrictions reflected on the balance sheet

Note: Entities need to consider ASC 820-10-50-1D including, the level of detail and the degree of aggregation or disaggregation necessary

ASU 2022-03 effective date and transition

Entity	Effective for fiscal years...
PBEs	Beginning after December 15, 2023, and interim periods within those fiscal years
Other entities	Beginning after December 15, 2024, and interim periods within those fiscal years

Early adoption is permitted

Transition

- All entities, except for investment companies (ICs) under ASC 946, would apply the proposed ASU prospectively with any adjustment recognized in earnings upon adoption
- ICs only would apply the proposed ASU to investments in equity securities in which the lock-up agreement is executed on or after adoption

Fair value measurement of equity securities subject to contractual sale restrictions

Key takeaways

- A contractual sale restriction on the sale of an equity security would not be incorporated into measuring the fair value of the security
- Recognizing and measuring the contractual sale restriction as a separate unit of account would be prohibited
- Entities need to consider ASC 820-10-50-1D including, the level of detail and the degree of aggregation or disaggregation necessary
- Applies to all entities – not limited to any particular industry
- Does not change guidance in ASC 718

Reference rate reform – Potential accounting impact

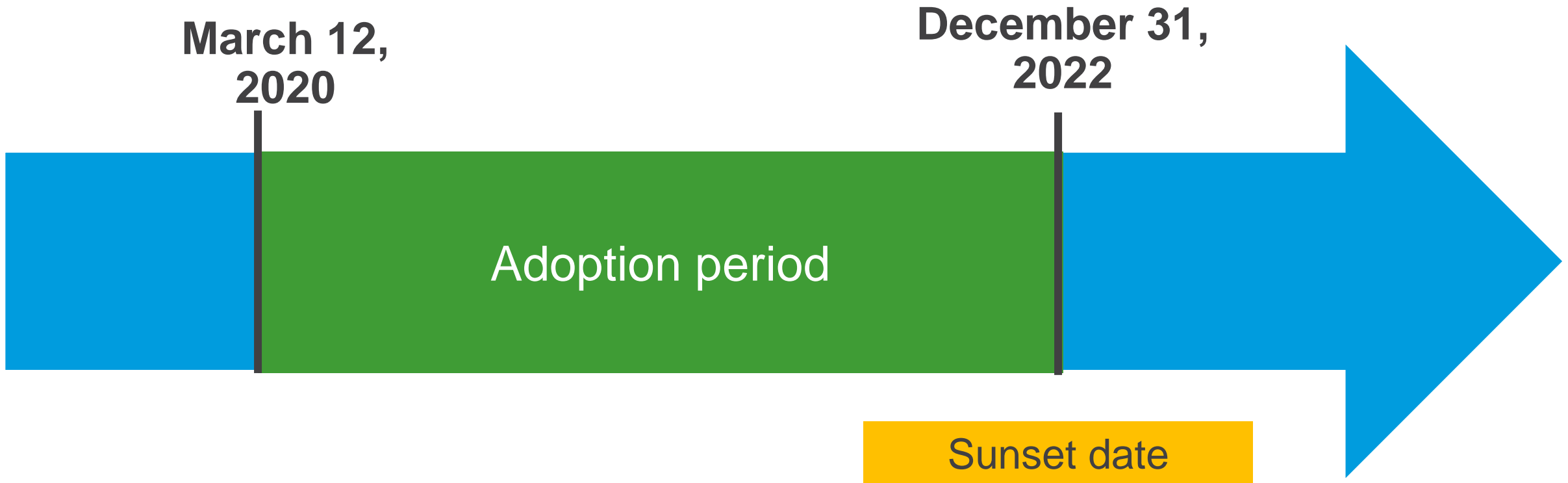
Scope

- Applies to all entities
- Applies to contracts that reference LIBOR or an interest rate that has been discontinued or is anticipated to be discontinued
- Guidance is elective

Main provisions

- Optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met
- Continued application of hedge accounting for hedge relationships that are impacted by reference rate reform yet remain highly effective
- One-time election to transfer or sell HTM securities

Reference rate reform adoption period



ASU 2020-04

Proposed ASU

Sunset date

- Defer the sunset date from December 31, 2022 to December 31, 2024

Definition of SOFR Swap Rate

- Amend the definition of SOFR Swap Rate to include SOFR term as a US Benchmark interest rate

Practice Issues

Accounting for revenue contracts acquired in a business combination

ASU 2021-08: Recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASC 606

Assess how the acquiree applied ASC 606

- Generally, results in consistent revenue recognition and measurement between acquirer and acquiree

May need to apply ASC 606 to the acquired contract if:

- Acquiree financial statements not in accordance with U.S GAAP.
- Errors identified in the acquiree's accounting.
- Changes needed to conform with the acquirer's accounting policies.

Accounting for revenue contracts acquired in a business combination

Indirect effects on the recognition of off-market intangible assets and liabilities

Prior to ASU 2021-08

Fair value included in the contract liability

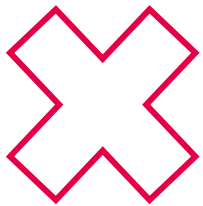
After adoption of ASU 2021-08

Contract liability no longer at fair value, therefore off-market contract asset or liability should be recognized

Non-ASC 606 customer-contract-related assets and liabilities



ASU 2021-08 applies to contract assets and contract liabilities from other contracts to which the provisions of ASC 606 apply



Does not affect the accounting for other assets or liabilities that may arise from revenue contracts acquired in a business combination

Fair value considerations related to non-ASC 606 customer-contract-related assets and liabilities

When estimating the fair value of certain non-ASC 606 customer contract-related assets recognized in the accounting for a business combination, the buyer should consider whether:

1

All appropriate future (i.e., post-acquisition) cash flows have been taken into consideration in estimating the fair value of non-ASC 606 customer-contract-related assets and

2

No future cash flows have been double counted in the overall accounting for the business combination.

Example: Customer contract for software and PCS that includes both upfront and ongoing payments

Facts

- On November 30, 20X3, Target enters a three-year contract with Customer
- Customer has the right to use Target's software and receive post-contract customer support (PCS) from Target for three years.
- Customer is obligated to pay Target \$1 million on November 30, 20X3 and \$200,000 on November 30, 20X4 and November 30, 20X5.
- On November 30, 20X3, Target provides the software to Customer and Customer pays \$1 million to Target.
- In addition, on November 30, 20X4, Customer pays \$200,000 to Target.
- Target is acquired by Buyer on December 1, 20X4.
- Buyer determines that Target's contract with Customer is at market (neither favorable nor unfavorable) as of the acquisition date.
- Customer pays \$200,000 to Buyer on November 30, 20X5.

Example: Customer contract for software and PCS that includes both upfront and ongoing payments (continued)

How does Target account for the contract with Customer prior to its acquisition?

- Software and PCS are separate performance obligations
- Transaction price is \$1.4 million
- Transaction price allocated based on respective stand-alone selling prices (\$800,000 to software and \$600,000 to the PCS)
- Software considered a right to use intellectual property, which is a performance obligation satisfied at the point in time the software is provided to Customer
- PCS considered a performance obligation ratably satisfied over the three-year term of the contract

Example: Customer contract for software and PCS that includes both upfront and ongoing payments (continued)

After its adoption of ASU 2021-08, how does Buyer account for Target's contract with Customer in its accounting for the business combination?

- Buyer reviews Target's accounting for its contract with Customer under ASC 606
- Concludes it should recognize a contract liability of \$200,000

Example: Customer contract for software and PCS that includes both upfront and ongoing payments (continued)

What if Buyer determines as of the acquisition date that Target's contract with Customer is favorable compared to market by an amount of \$10,000 (and Buyer has not elected the private company intangible asset alternative)?

- Recognize a contract liability of \$200,000
- Separately recognize an off-market contract intangible asset of \$10,000 for the favorable position of the contract, derecognized ratably over the remaining two years of the contract with Customer.

SEC Activity



Cybersecurity

SEC proposed cybersecurity rules: Current reporting

On Form 8-K within four business days after the registrant determines it has experienced a material cybersecurity incident

- When incident was discovered and whether it is ongoing
- A brief description of the nature and scope of the incident
- Whether any data was stolen, altered, accessed or used for any other unauthorized purpose
- Effect of incident on operations
- Whether registrant has remediated or is remediating the incident

On Form 10-Q and Form 10-K

- Updated disclosures about previously reported incidents

SEC proposed cybersecurity rules: Annual reporting

- Annual reporting in Form 10-K to provide disclosure about
 - The registrant’s policies and procedures, if any, for the identification and management of risks from cybersecurity threats, including, among other matters, whether the registrant considers cybersecurity as part of its business strategy, financial planning and capital allocation
 - The registrant’s cybersecurity governance, including the board of directors’ oversight role regarding cybersecurity risks
 - Management’s role, and relevant expertise, in assessing and managing cybersecurity-related risks and implementing related policies, procedures and strategies
- Annual reporting or proxy disclosure about the board of directors’ cybersecurity expertise

If you have a cybersecurity incident...

- Evaluate issues in a timely manner
- Discuss with your auditor as soon as possible
 - A cyber incident or business email compromise may have a significant impact on how your auditor
 - Executes its responsibilities to test and evaluate the integrity of the audit evidence
 - Evaluates potential internal control deficiencies
 - Assess potential accruals and disclosures
 - Your auditor likely will require a consultation with a subject matter expert, which may require some time, so plan accordingly



SPAC transactions

SEC proposes rules related to SPAC transactions and disclosures

- If finalized, proposed rules would:
 - Include specific disclosure requirements in new Regulation S-K 1600 for
 - Initial public offerings by special purpose acquisition companies (SPACs)
 - Subsequent business combination transactions between SPACs and private operating companies
 - Align disclosures provided in de-SPAC transactions more closely with those in traditional IPOs. Most notably, if finalized, the proposal would require presentation of two years of audited statements of comprehensive income, changes in stockholders' equity and cash flows. Under existing guidance, some de-SPAC transactions were required to present three years of these financial statements.

SEC proposes rules related to SPAC transactions and disclosures

- If finalized, proposed rules would:
 - Amend various regulations applicable to transactions involving shell companies, such as by more closely aligning the financial statement reporting requirements in business combinations involving a shell company and a private operating company with those in traditional IPOs
 - Amend requirements for the presentation of projections by companies with no history of operations and provide that the guidance also applies to projections for persons other than the registrant, such as the target
 - Subject to liability under Section 11 of the Securities Act:
 - A private operating company in a de-SPAC transaction
 - The underwriter for a registered de-SPAC transaction



ESG reporting

Proposed climate-related metrics to be disclosed in the audited financial statements

- Proposed disclosure of the following for all fiscal years included in the consolidated financial statements in the filing:
 - Impact on financial statement line items related to severe weather events and other natural conditions and transition activities if impact exceeds 1% of the related line item
 - Expenditures expensed and capitalized to
 - Mitigate the risks of severe weather events and other natural conditions
 - Reduce GHG emissions or otherwise mitigate exposure to transition risks
 - How severe weather events and other natural conditions and transition activities affected estimates and assumptions the registrant used to produce the consolidated financial statements

Greenhouse gas emissions: Proposed disclosures and attestation

- Proposed disclosure of GHG emissions for most recently completed fiscal year and for historical fiscal years in financial statements in the filing to the extent reasonably available
 - Scope 1 (direct GHG emissions)
 - Scope 2 (indirect GHG emissions from the generation of purchased or acquired electricity, steam, heat or cooling that is consumed)
 - Scope 3 emissions (indirect GHG emissions not otherwise included in a registrant's Scope 2 emissions, which occur upstream or downstream) for registrants other than smaller reporting companies
- Proposed requirement for accelerated and large accelerated filers to include attestation report covering Scope 1 and Scope 2 emissions

Other proposed disclosures

- Governance – board and management oversight of climate-related risks
- Climate-related risks reasonably likely to have a material impact on strategy, business model and outlook over the short-, medium- or long-term
- Processes for identifying, assessing and managing climate-related risks
- Climate-related targets and goals a registrant may have, and related progress toward those

Proposed compliance dates if adopted effective December 2022

Registrant filing status	All disclosures, except Scope 3 GHG emissions	Scope 3 GHG emissions
Large accelerated filers	Fiscal year 2023 (filed in 2024)	Fiscal year 2024
Accelerated filers	Fiscal year 2024 (filed in 2025)	Fiscal year 2025
Non-accelerated filers	Fiscal year 2024 (filed in 2025)	Fiscal year 2025
Smaller reporting companies	Fiscal year 2025 (filed in 2026)	Exempt from requirements

Proposed SEC ESG disclosures: Certain investment advisers and investment companies

Funds that consider ESG factors in their investment process

Additional information regarding their strategy

Advisers that consider ESG factors in their significant business strategies or methods of analysis

Generally similar disclosures would be required in their brochures with respect to their consideration of ESG factors

Certain ESG-focused funds (i.e., where ESG factors are significant)

Additional information about their strategy, including the intended impact and key metrics to assess progress

ESG-focused funds that consider environmental factors in their investment strategies

Additional information regarding greenhouse gas emissions associated with their investments (such as the carbon footprint and weighted average carbon intensity of their portfolio)



Disclosures related to Russia's invasion of Ukraine

Disclosure obligations: Direct or indirect impact

- SEC's Division of Corporation Finance believes registrants should provide detailed disclosure, to the extent material or otherwise required, regarding:
 - Direct or indirect exposure to Russia, Belarus or Ukraine through
 - Their operations, employee base or investments
 - Sanctions against Russian or Belarusian individuals or entities
 - Legal or regulatory uncertainty associated with operating in or exiting Russia or Belarus
 - Direct or indirect reliance on goods or services sourced in Russia or Ukraine or, in some cases, in countries supportive of Russia
 - Actual or potential disruptions in the company's supply chain
 - Business relationships, connections to, or assets in Russia, Belarus or Ukraine

Other effects: Financial statements

- As a result of Russia's invasion of Ukraine, registrants' financial statements may need to reflect and (or) disclose
 - Impairment of assets or changes in inventory or deferred tax valuations
 - Disposal or exiting of a business, de-consolidation
 - Changes in exchange rates
 - Changes in contracts with customers or the ability to collect
 - Heightened cybersecurity risks
 - Increased or ongoing supply chain challenges
 - Impacts due to customers affected by the invasion, energy price volatility, and volatility related to trading prices of commodities

Other effects: ICFR

- Consider how these matters affect
 - Management's evaluation of disclosure controls and procedures
 - Management's assessment of the effectiveness of internal control over financial reporting
 - Role of the board of directors in risk oversight of any action or inaction related to Russia's invasion of Ukraine, including consideration of whether to continue or to halt operations or investments in Russia and (or) Belarus
- Evaluate whether they have experienced or been impacted by matters characterized as potential risks and, if so, update disclosures accordingly

Status of select projects on FASB's technical agenda



Additions to FASB Agenda

- Accounting for and disclosure of digital assets
- Accounting for and disclosure of software costs
- Accounting for environmental credit programs
- Accounting for investments in tax credit structures using the proportional amortization method
- Financial Instruments – Insurance (Topic 944): Transition for Sold Contracts



Removals from FASB Agenda

- Distinguishing liabilities from equity phase 2
- Consolidation reorganization and targeted improvements
- Improving the accounting for asset acquisitions and business combinations
- Identifiable intangible assets and subsequent accounting for goodwill
- Lease modifications



Save the date!
Next quarterly
accounting update

QUESTIONS AND CLOSING REMARKS

THANK YOU FOR
YOUR TIME AND
ATTENTION

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