



Quarterly Perspectives: Financial Reporting & Beyond / Q2 2024

July 18, 2024

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Meet the Presenters From Forvis Mazars A&A Professional Standards Group



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Special Guests



Stephanie Jarvis

Director, Consulting – IT Risk & Compliance



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Partner, Assurance Methodology & Innovation

Looking Back



What Has Caught Our Eye

- The volume of disclosures being made continues to increase
- Supreme Court rulings
 - *Relentless v. Department of Commerce & Loper Bright Enterprises v. Raimondo* (overturning *Chevron v. Natural Resources Defense Council*)
 - *SEC v. Jarkesy* (challenging SEC use of Administrative Law Judges in seeking civil penalties in fraud cases)
- Federal Trade Commission issued a final rule banning noncompete agreements

Here & Now



Cybersecurity

Reminder – SEC New Final Rule

"Cybersecurity Risk Management, Strategy, Governance, & Incident Disclosure"

Required disclosures regarding (new Reg S-K Item 106):

- Processes to assess, identify, manage material cybersecurity risks
- Management’s role in assessing & managing material cybersecurity risks
- Board’s oversight of cybersecurity risks
- Required for fiscal years ending on or after December 15, 2023

New 8-K requirement (new Item 1.05):

- Disclose material cybersecurity events & related impact
- To be filed within four business days after determination that an event will have or is reasonably likely to have a material impact
- Required after December 18, 2023 (for Smaller Reporting Companies required after June 15, 2024)

The SEC staff continues to provide additional guidance & perspective both formally (Compliance & Disclosure Interpretations ... “CD&Is”) & informally (speeches & announcements)

What Is a Material Cybersecurity Incident?

In securities law, **materiality** is generally understood to be when there is a substantial likelihood that a reasonable shareholder would consider it important in making an investment decision, or if it would significantly alter the total mix of information made available.

The SEC notes that an accidental occurrence is an unauthorized occurrence, even if there is no confirmed malicious activity. For example, if a customer's data is accidentally exposed, allowing unauthorized access, the data breach would constitute a cybersecurity incident that would require a materiality analysis to determine if disclosure is required.

“Companies should be assessing both qualitative and quantitative factors when assessing materiality.”

SEC Cease & Desist Order as of June 18, 2024 – Excerpt

[R.R. Donnelley & Sons Co. \(sec.gov\)](#)

“This matter concerns violations by RRD of the Exchange Act’s disclosure controls and procedures and internal accounting control provisions relating to its **cybersecurity practices** between **November 2021 and January 2022 (the “Relevant Period”)**. Throughout the Relevant Period, RRD **failed to design effective disclosure controls and procedures** as defined in the Exchange Act rules related to the disclosure of cybersecurity risks and incidents. RRD also **failed to devise and maintain a system of cybersecurity-related internal accounting controls sufficient to provide reasonable assurances that access to RRD’s assets** – its information technology systems and networks, which contained sensitive business and client data – was permitted only with management’s authorization. Due to RRD’s business of storing and transmitting large amounts of data, including sensitive data, information technology and cybersecurity are critically important to RRD. As a result of these internal accounting controls deficiencies, RRD failed to **execute a timely response to a ransomware network intrusion** that occurred between **November 29, 2021 and December 23, 2021**, which culminated in encryption of computers, exfiltration of data, and business service disruptions.

Based on the foregoing conduct, and the conduct described herein below, **RRD violated Exchange Act Section 13(b)(2)(B) and Rule 13a-15(a).**”

SEC Rule's Impact on Organizations

“How has the new cybersecurity rule impacted management’s day to day?”

Increased external audit procedures

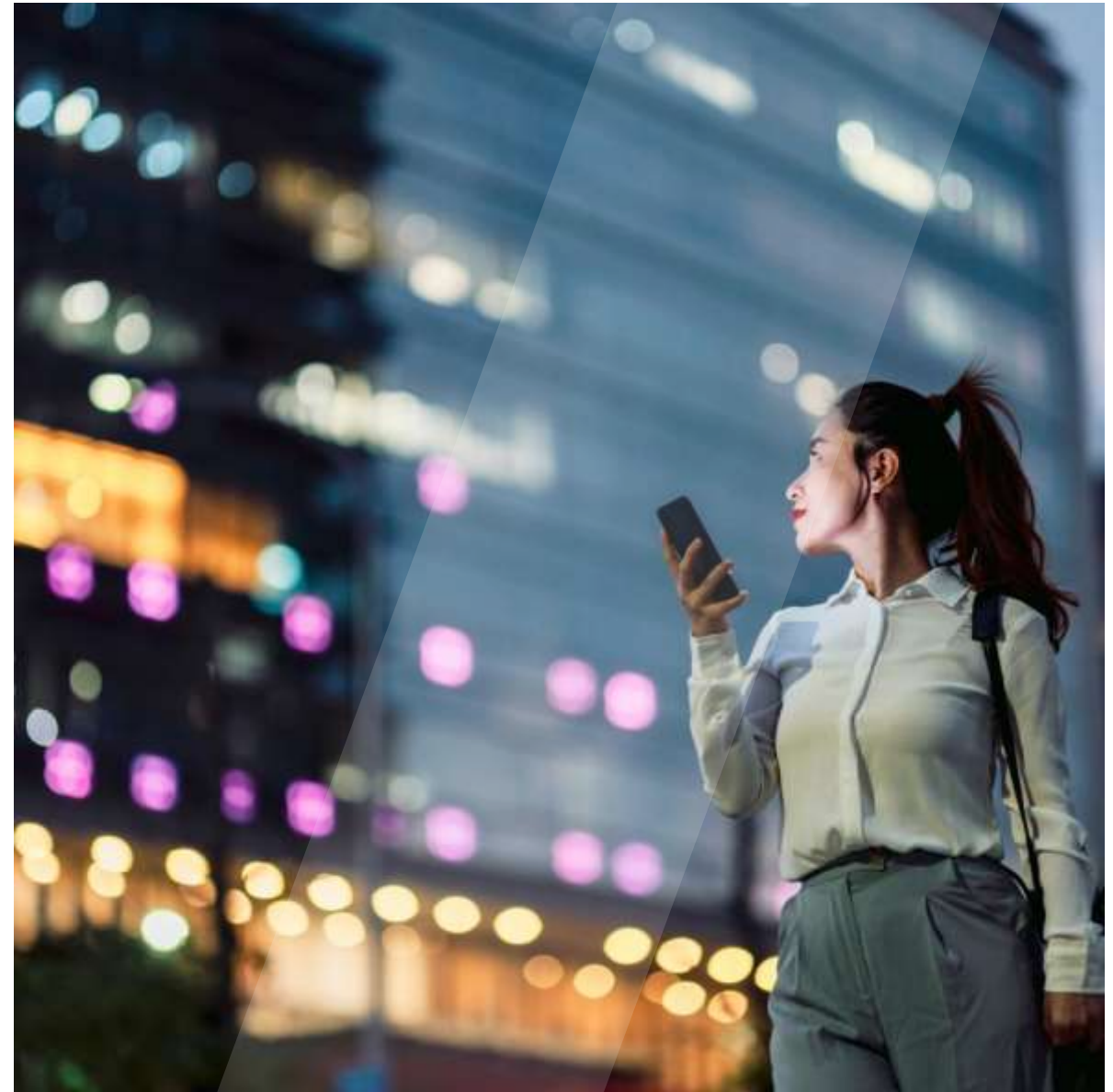
Enhanced cybersecurity & incident management policies & procedures

Documented analysis on materiality evaluation & conclusion

Adoption of tools supporting expedited response time for incidents to allow for timely detection, classification, & disclosure

Increased training needs for management & control owners

Additional third-party system vendor management practices



FASB's Private Company Council Update

Council membership developments

- New chair took over January 1, 2024
- Two members reappointed
- Call for nominations issued, specifically seeking a private company senior executive & private company financial statement preparers

Agenda developments

- Credit losses—short-term trade accounts receivable & contract assets
- Debt modifications & extinguishments
- Presentation of conditional retainage & overbillings as contract assets & liabilities
- Lease accounting simplifications such as practical expedients or accounting alternatives

Leasehold Improvements – Whose Are They?

Answer could impact the determination of the commencement date, the calculation of the lease liability, or tenant improvement allowance

Things to consider:

- Do the improvements have an alternative use to the lessor?
- Is the lessee consuming the majority of the economic life of the asset?

Leasehold Examples

Fact Pattern 1

Facts

- Five-year lease commencing May 1
- \$800,000 of generic upgrades to be paid by lessor
- \$200,000 of generic upgrades to be paid by lessee
- Generic upgrades of drywall & HVAC have 20-year life
- Timing
 - Lease signed January 1
 - Construction starts January 1
 - Property ready one month early on April 1

Questions:

- Who is the accounting owner of the leasehold improvements?
- What do you do with the \$200,000 payment?
- What do you do with the \$800,000 payment?
- When does rent expense start getting recorded?

Leasehold Examples

Fact Pattern 2

Facts

- 10-year lease commencing May 1
- \$800,000 of generic upgrades to be paid by lessor
- \$200,000 of generic upgrades to be paid by lessee
- Custom upgrades have 10-year life
- Timing
 - Lease signed January 1
 - Construction starts January 1
 - Property ready one month early on April 1

Questions

- Who is the accounting owner of the leasehold improvements?
- What do you do with the \$200,000 payment?
- What do you do with the \$800,000 payment?
- When does rent expense start getting recorded?

Conversations You Should Be Having



What's on the Horizon?

- Accounting firms have several new PCAOB/AICPA standards to consider & there are more to come
- Preparing for new accounting standards implementation
 - Segments – effective for this year-end for public companies
- SEC's review focus for 2024 filings – see [SEC Statement](#) by Erik Gelding, Director of Division of Corporation Finance
 - Financial reporting focus
 - SEC disclosure focus

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- [Quarterly Perspectives: FASB 2Q 2024](#)
- [Quarterly Perspectives: SEC 2Q 2024 Registrants](#)
- [Urgent Reminders on Required SEC Cyber Disclosures for Registrants](#)
- [FTC Issues Final Rule Banning Noncompete Agreements With All Workers](#)

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Thank you!

Please join us again on Thursdays at 11 a.m. (Eastern) for the rest of the 2024 Quarterly Perspective webinar series!

October 17, 2024

January 9, 2025

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