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Quarterly Perspectives: Financial Reporting & Beyond / Q4 2022

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Meet the Presenters from the FORVIS A&A Professional Standards Group



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Looking Back

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What Has Caught Our Eye

- Current economic environment effects actually being observed in conversations
- SEC's new incentive-based compensation clawback rule
- Increased interest in hedging in rising interest rate environment

Here and Now

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Current ESG Reporting

- What is required now?
 - 2010 Climate Change Interpretive Release
 - “Dear Issuer” Letter – September 2021
 - 2022 SEC Comment Letter trends – climate change disclosures make the top 10 list!
- Looking forward
 - SEC Proposal – Enhancements and Standardization of Climate-Related Disclosures for Investors

Why should private companies care???

ESG Reporting Alphabet Soup

- Global Reporting Initiative (GRI)
- CDP
- Climate Disclosure Standards Board (CDSB)
- Sustainability Accounting Standards Board (SASB)
- United Nations Sustainable Development Goals
- Task Force on Climate-Related Financial Disclosures (TCFD)
- International Sustainability Standards Board (ISSB)

ASC 326 - CECL

Effective date

- Effective now for all entities beginning January 1, 2023
- An entity shall apply the application of this standard upon adoption as a cumulative-effect adjustment to the opening retained earnings as of the beginning of the first reporting period in which the standard is effective
- If the entity issues interim financial statements, then the disclosures discussed shall be provided in each interim financial statement of the year of change and the annual financial statement of the period of the change

Assets Addressed by CECL

What is in?

- Financing receivables
- Held-to-maturity debt securities
- Receivables that result from revenue transactions
- Reinsurance receivables (ASC 944)
- Net investments in leases by lessor (ASC 842)
- Off-balance-sheet credit exposures not accounted for as insurance

Impact of CECL

- Impact has been mostly felt by financial institutions and other companies with lending portfolios
- Although we have seen some varied results the following trends were present:
 - Most entities had an overall increase in the allowance for credit losses (ACL)
 - Entities with large amounts of acquired loans were more likely to have large increases
 - Many indicators suggesting that the duration of a portfolio has a significant influence on increases or decreases
 - Unfunded commitments ACL increases had a significant effect for many entities
 - Debt securities impact was very minimal thus far

Forecasts Used in CECL

Economic variables being considered vary; however, the following have been most commonly used:

- State/National Unemployment
- State/National GDP
- Real Estate Price Indices (e.g., House Price Index (HPI) and Commercial Property Price Index (CPPI))
- Interest Rates

2022 AICPA & CIMA Conference on Current SEC and PCAOB Developments

SEC staff high-level themes and topics

- High quality financial reporting
- Focus on information investors need/want - transparency
- Ethics in the profession
- Specific topics
 - Macro-economic environment
 - Crypto
 - ESG

Conversations You Should Be Having

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Are We There Yet?

- Most forecasts indicate at least a mild recession for 2023
- With downturns come accounting questions or at least areas to keep an eye on:
 - Consideration of fair value
 - Goodwill valuation and impairment
 - Going concern determinations
 - Collectability of receivables or adequacy of allowances (e.g., how are appraisals holding up?)
 - Inventory valuation and impairment
 - Financial statement disclosures around risk and uncertainties
 - Heightened opportunities for fraud

FASB's Agenda (Selected Projects)

- **Projects in initial deliberations**
 - Accounting for and Disclosure of Crypto Assets
 - Accounting for and Disclosure of Software Costs
 - Accounting for Environmental Credit Programs
 - Accounting for Credit Losses in Acquired Financial Assets
 - Disaggregation of Income Statement Expenses
 - Scope Application of Profits Interests Awards (drafting ED)
 - Improvements to Income Tax Disclosures (drafting ED)

FASB's Agenda (Selected Projects) (Con't)

- Projects in redeliberation
 - Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method
 - Joint Venture Formations
 - Interim Reporting – Narrow-Scope Improvements
 - Segment Reporting
- Projects in exposure
 - Leasing – Common Control Arrangements

Selected FORsights

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- [4Q 2022 ESG Regulation & Financial Statement Updates](#)
- [Changes Coming to Joint Venture Accounting?](#)
- [SEC Finalizes Executive Pay Clawback Rules](#)
- [FASB Proposal Addresses Related-Party Lease Issue](#)
- [Register Now: Quarterly Perspectives: Financial Reporting & Beyond / Q1 2023!](#)

WEBINAR

Thank you!

Please join us again on Thursdays at 11AM (Eastern) for the 2023 Quarterly Perspective webinar series!

April 20, 2023

July 20, 2023

October 19, 2023

January 11, 2024

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