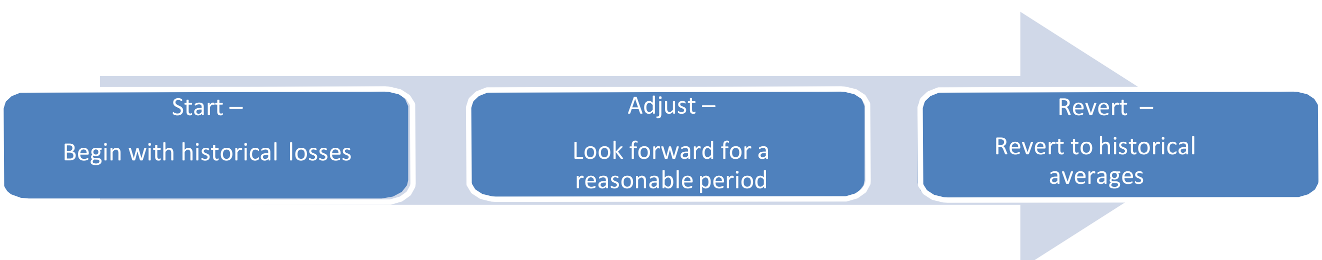
# Q1 2024 Quarterly Perspectives Recap

In the "Quarterly Perspectives: Financial Reporting & Beyond / Q1 2024" webinar from **FORVIS**, we looked back on what happened in the accounting world for the quarter, discussed what we're seeing now, and looked ahead to what we may see in the future. Read our webinar recap below and be sure to sign up for our 2024 webinars and subscribe to our **FORsights**™ for more timely insights.

## A. Looking Back

### CECL

Many private companies transitioned their focus from lease accounting to credit loss accounting with the adoption of the CECL approach in 2023. While the biggest impact has been on financial institutions holding loans and debt securities, many companies and nonprofit (NFP) organizations have been affected as the guidance's scope also covers trade receivables, among other financial assets. Some changes for receivables are subtle, and long-dated receivables are subject to new disclosure. CECL is a forward-looking model, not an incurred loss model.




Many companies were working through the adoption of the standard given that the scope includes:

- Financing receivables
- Held-to-maturity debt
- Receivables that result from revenue transactions
- Receivables on repurchase and securities lending agreements
- Net investments in leases recognized by lessors
- Loan commitments, guarantees, and standby letters of credit
- Lease receivables
- Reinsurance recoverables

CECL required new disclosures on the face of the balance sheet and in the notes. Under CECL, entities also are required to discuss the method of reversion to historical credit loss experience for future periods for which the entity is unable to make or obtain reasonable and supportable forecasts. In addition, for long-dated trade receivables, entities are required to provide quantitative and qualitative information by class of financing receivable and include a description of the credit quality indicator. Entities using internal-risk ratings must provide qualitative information on how those ratings relate to the likelihood of loss. Trade receivables due in one year or less are exempt from disclosing credit quality indicators.

## Statement of Cash Flows

For many companies, there has been incremental focus on the statement of cash flows recently. In a speech on December 4, 2023, SEC Chief Accountant Paul Munter highlighted the importance of the statement of cash flows to investors. Munter said:

> "… we believe issuers could further disaggregate amounts currently reported in the statement of cash flows, disclose additional information to better enable investors to understand the relationships between amounts reported in the statement of cash flows and those in the statement of financial position, and consider reporting operating cash flows under the direct method."

The statement of cash flows should have the same level of quality, rigor, and effective internal controls as the income statement and balance sheet. Preparers should carefully evaluate if a classification restatement is material. Companies should consider direct controls over the classification of cash flows and disclosure of noncash items.

# B. Here & Now

## SEC Climate Disclosure Rule

After much anticipation, on March 6, 2024, the SEC released a long-awaited final rule standardizing climate-related disclosures in SEC registration and financial statement filings. The final rule requires information about a registrant's climate-related risks that materially[1] impacted or are reasonably likely[2] to have a material impact on its strategy, results of operations, or financial condition. The rules would apply to all SEC reporting companies (including business development companies, real estate investment trusts, and issuers of non-variable insurance contracts), even those with no publicly listed securities.

[1] As defined by the SEC and consistent with U.S. Supreme Court precedent, a matter is **material** if there is a substantial likelihood that a reasonable investor would consider it important when determining whether to buy or sell securities or how to vote or such a reasonable investor would view omission of the disclosure as having significantly altered the total mix of information made available. Materiality is fact specific and requires both qualitative and quantitative considerations.

[2] "**Reasonably likely**" is consistent with other management's discussion and analysis (MD&A) disclosures on known trends, events, and uncertainties and is grounded in whether disclosure of the climate-related risk would be material to investors and requires that management evaluate the consequences of the risk as it would any known trend, demand, commitment, event, or uncertainty.

| Registrant Type | Disclosure & Attestation Compliance Dates (Assuming December 31 Fiscal Year-End) | | | | |
|---|---|---|---|---|---|
| | Disclosures | | | Attestation – Scope 1 & 2 GHG Emissions | |
| | Reg. S-K & S-X | Material Expenditures & Impacts Item 1502(d)(2), Item 1502(e)(2), Item 1504(c)(2) | Scope 1 & 2 Emissions | Limited Assurance | Reasonable Assurance |
| Large Accelerated (LAF) | Fiscal year 2025 | Fiscal year 2026 | Fiscal year 2026 | 2Q 2029 | 2Q 2033 |
| Accelerated (AF) | Fiscal year 2026 | Fiscal year 2027 | Fiscal year 2028 | 2Q 2031 | Exempted |
| Non-Accelerated | Fiscal year 2027 | Fiscal year 2028 | Exempted | Exempted | Exempted |
| SRC | Fiscal year 2027 | Fiscal year 2028 | Exempted | Exempted | Exempted |
| EGC | Fiscal year 2027 | Fiscal year 2028 | Exempted | Exempted | Exempted |
| In a change from the proposal—and to not discourage business combinations—the final rules will not apply to private companies that are parties to business combination transactions, as defined by Securities Act Rule 165(f), 2481 involving a securities offering registered on Forms S-4 and F-4. | | | | | |

While the SEC scaled back on many of the proposal's mandates, added several materiality thresholds, and lengthened and staggered compliance dates, these changes will significantly increase reporting costs and complexity. Requirements will include data collection as well as development of significant internal processes and controls. Not surprisingly, several lawsuits have already been filed to challenge the new guidance in multiple circuit courts.

FORVIS will continue to monitor these legal developments. Given the implementation time frame, companies should begin to educate themselves on these new requirements and begin a gap analysis against existing voluntary climate reporting disclosures.

*We asked our audience, "How are the new SEC climate disclosure rules expected to affect your company?"*

*Twenty-four percent of webinar participants were public companies that will be directly affected. Twenty-four percent of participants were private companies that felt they would be likely to be asked for information externally and another 11% felt they may feel some pressure to provide similar information externally. For details on what companies are covered by the rules' scope, see our white paper below.*

**Resource:** Key Details on SEC's New Climate Disclosure Rule

## ASC 842 Lease Accounting Year Two

While the adoption of CECL was top of mind this year, supplanting the adoption of Accounting Standards Codification (ASC) 842 on leases for private companies, that did not mean that lease accounting was overlooked! Some companies that did not have leases at the initial effective date do now and realized that certain transition electives did not apply after initial adoption.

Now that companies have completed the heavy lift of initial lease implementation, they should not forget some potential year-two issues, most notably contract modifications/reassessments and impairment.

With rising interest rates, sale/leaseback arrangements could make sense in certain circumstances. The accounting guidance has been updated with the issuance of ASC 842 and ASC 606.

**Resource:** ASC 842 Refresher: Modifications & Impairment

> *We asked our audience, "How "mature" is your lease accounting knowledge and processes?*
>
> *Forty percent of respondents have the basics nailed down, but another 16% are working though complex transactions. Twenty-four percent of respondents had infrequent leases transactions and are able to navigate ASC 842 accounting guidance.*

## Profits Interest Accounting ASU 2024-01

On March 21, 2024, FASB issued Accounting Standards Update (ASU) 2024-01, *Scope Application of Profits Interest and Similar Awards*, to clarify the accounting guidance on profits interest. This project of FASB's Private Company Council became a full-blown standard applicable to all entities. Due to the current lack of authoritative guidance, diversity in practice has arisen; entities most commonly analogize to treatment as a share-based payment (ASC 718) or a form of deferred compensation (ASC 710). ASU 2024-01 adds an illustrative example (with four fact patterns) to assist entities in determining whether a profits interest award should be accounted for under ASC 718. FASB expects that this clarification may result in more profits interest awards being accounted for in accordance with ASC 718. Companies looking to better understand what a profits interest is may consider reading the Basis for Conclusions to the standard, as it includes some helpful information given the term is not actually defined in GAAP.

**Resource:** FASB Clarifies Profits Interest Accounting

| **Effective Dates**<br>ASU 2024-01<br>Early adoption permitted | **Public Business Entities**<br>Annual & interim periods beginning after December 15, 2024 | **All Others**<br>Annual & interim periods beginning after December 15, 2025 |
|---|---|---|

# C. Conversations You Should Be Having

## Bandwidth Issues With Financial Reporting

Companies continue to be challenged by talent shortages, especially in financial reporting, as evidenced by increases in adjustments and reporting delays. Do not lose sight on internal controls.

**Resource:** Small-to-Midsize Business Talent Strategies

## New Accounting Standards Implementation

Companies are encouraged to keep their eye on upcoming accounting standards to be adopted in the next couple of years. With FASB's trend toward disaggregated data, any current system implementation or improvement projects may want to consider to future data needs. Also, companies may want to capture data now that will be needed with comparative disclosures required in the future.

## Segment Reporting, ASU 2023-07

Highlights:

- For annual and interim reporting, significant segment expenses that are regularly provided to the chief operating decision maker (CODM) and included within each reported measure of segment profit/loss and an amount for other segment items by reportable segment with a description of its composition.
- All annual disclosures about a reportable segment's profit/loss would now be required in interim periods.
- Guidance for multiple measures of a segment's profit or loss.
- Title and position of the individual/committee identified as the CODM.
- A public entity with a single reportable segment would be required to provide all the new disclosures and all existing segment disclosures in ASC 280.

**Effective Dates**
ASU 2023-07

**Public Entities**
Fiscal years beginning after December 15, 2023

**Public Entities**
Interim periods within fiscal years beginning after December 15, 2024

**Resource:** FASB Mandates New Segment Details for Public Companies in 2024

## Income Tax Disclosures, ASU 2023-09

Highlights:

- Public business entities (PBEs) would be required to prepare an annual detailed, tabular tax rate reconciliation. All other entities would be required to provide qualitative disclosure on specific categories and individual jurisdictions that result in significant differences between the statutory and effective tax rates.
- All entities would be required to annually disclose taxes paid disaggregated by federal, state, and foreign taxes, as well as disaggregating taxes by individual jurisdiction if taxes paid exceed 5% of total income taxes paid.
- All entities also must include the income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign, as well as the income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign.

**Effective Dates**
ASU 2023-09
Early adoption permitted

**PBEs**
Annual periods beginning after December 15, 2024

**All Others**
Annual periods beginning after December 15, 2025

**Resource:** FASB Finalizes New Income Tax Disclosures

## Conclusion

FORVIS will continue to cover the latest in the accounting profession at our next Quarterly Perspectives webinar. Register now! If you have any questions, please reach out to a professional at FORVIS or visit **forvis.com**.

## Contributor

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