QUARTERLY ACCOUNTING UPDATE WEBCAST – WINTER 2023

Jan. 12, 2023

Today’s presenters

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Agenda

Topic	Minutes
FASB standard-setting activity	20
Effective guidance reminders	20
Financial reporting considerations in the current economic environment, including highlights from the AICPA SEC/PCAOB Conference	20

FASB STANDARD-SETTING ACTIVITY

Recent FASB accounting standards updates (ASU) issued

ASU No.	Title	PBE effective date*	Non-PBE effective date*
2022-05	Insurance (Topic 944): Transition for sold contracts	2023	2024
2022-06	Reference rate reform - deferral of the sunset date of topic 848	Upon issuance	Upon issuance

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

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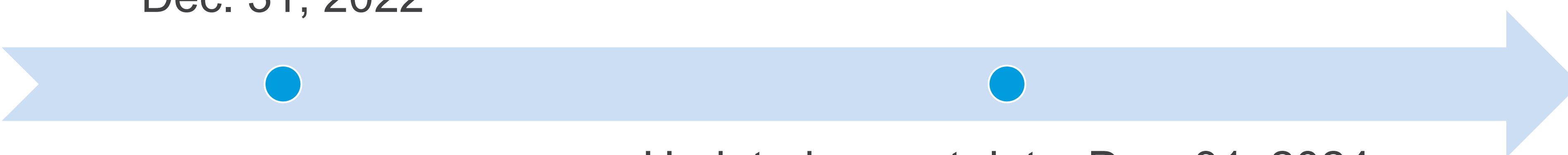
Reference rate reform (Topic 848)

FASB defers sunset date of topic 848

Original sunset date:
Dec. 31, 2022



Updated sunset date: Dec. 31, 2024

ASU 2022-06

Recently proposed FASB accounting standards updates (ASU)

Proposed ASU	Issued date	Comments due
Segment reporting (Topic 280)	10/06/22	12/20/22
Business combinations—Joint venture formations (Subtopic 805-60)	10/27/22	12/27/22
Leases (Topic 842): Common control arrangements	11/30/22	1/16/23

Segment reporting (Topic 280)

Key proposed changes include:

- Additional disclosures for each reportable segment for:
  - Significant segment expenses under the significant expense principle
  - Amount and description of composition of other segment items
- Expansion of interim disclosures to include all currently required annual disclosures about a reportable segment's profit or loss and assets
- All segment disclosure requirements would apply to entities with a single reportable segment
- Clarify that in addition to the measure that is most consistent with GAAP measurement principles, a public entity is not precluded from reporting additional measures of a segment's profit or loss

Proposed

Proposed

Segment reporting (Topic 280) – continued

Significant expense principle

- Segment expense categories should be disclosed if all the following criteria are met:
  - Regularly provided to the chief operating decision-maker (CODM),
  - Within the segment's reported measure of profit or loss, and
  - Determined to be significant

Other notable aspects of principle

- Significant expense amounts expressed in a form other than an actual amount should be disclosed as an amount if easily computed from information provided to the CODM
- Significant expense categories disclosed can be different between reportable segments
- Other segment disclosures would be required if the reportable segment has no significant expenses to disclose
- Significant expense categories do not need to be reconciled to the corresponding consolidated expense amount

Proposed

Proposed

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Joint venture formations

Proposal would establish new guidance for the accounting for JV formations, which would require:

- Determining the formation date
- Recognizing and measuring the identifiable assets, liabilities, and any noncontrolling interest (NCI) in the net assets recognized by the joint venture at fair value generally in accordance with Subtopic 805-20 at the formation date
- Recognizing and measuring goodwill using the fair value of the joint venture entity as a whole immediately after formation

Proposed

Proposed

Joint venture formations (continued)

Formation date	• Formation date is the date that the entity initially meets the definition of a joint venture as defined in the ASC master glossary
Recognition and measurement	• Recognize and measure identifiable assets, liabilities and NCI at fair value in accordance with Subtopic 805-20 with some notable differences
Goodwill	• Calculated as the excess of the fair value of the joint venture as a whole less the fair value of the identifiable net assets

Proposed

Proposed

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Leases (Topic 842): Common control arrangements

Would provide private companies (i.e., entities within the scope of ASC 842-10-65-1(b)) a practical expedient to use written terms and conditions for:

- Determining whether a lease exists and, if so,
- How to classify and account for that lease

All entities would amortize leasehold improvements associated with leases between entities under common control over the useful life of the improvements, provided the lessee continues to use the underlying asset

- When lessee stops using underlying asset, treat as a transfer between entities under common control

Proposed

Proposed

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FASB GUIDANCE EFFECTIVE 2022

FASB ASUs effective for private companies in 2022

ASU No.	Title
2016-02	Leases (Topic 842)
2019-12	Income taxes (Topic 740): Simplifying the accounting for income taxes
2020-01	Clarifying the interactions between Topic 321, Topic 323, and Topic 815 (a consensus of the FASB emerging issues task force)
2020-07	Not-for-profit entities (Topic 958): Presentation and disclosures by not-for-profit entities for contributed nonfinancial assets
2021-01	Reference rate reform (Topic 848): Scope
2021-04	Issuer's accounting for certain modifications or exchanges of freestanding equity-classified written call options (a consensus of the FASB emerging issues task force)
2021-07	Compensation—Stock compensation (Topic 718): Determining the current price of an underlying share for equity-classified share-based awards (a consensus of the private company council)
2021-10	Government assistance (Topic 832): Disclosures by business entities about government assistance

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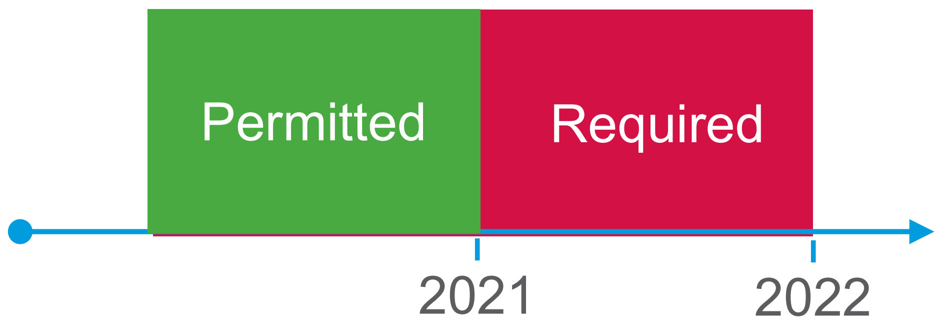
ASU 2019-12—Simplifying the accounting for income taxes

Effective date for non-public entities with calendar year-ends



ASU 2019-12—Simplifying the accounting for income taxes (cont'd)

ASU 2019-12 removes the following exceptions:

- Incremental approach for intra-period tax allocation when there is a loss from continuing operations and income or gain from other items
- Requirement to recognize a deferred tax liability (DTL) for equity method investments when a foreign subsidiary becomes an equity method investment
- Ability not to recognize a DTL for a foreign subsidiary when a foreign equity method investment becomes a subsidiary
- General methodology for calculating income taxes in an interim period when a YTD loss exceeds the anticipated loss for the year

ASU 2019-12—Simplifying the accounting for income taxes (cont'd)

Other amendments resulting from ASU 2019-12

- Requires that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax
- Requires that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction
- Specifies that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements

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ASU 2019-12—Simplifying the accounting for income taxes (cont'd)

Other amendments (continued)

- Requires that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date
- Makes minor Codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method

UPCOMING EFFECTIVE FASB GUIDANCE

FASB ASUs effective in 2023

ASU No.	Title	Public (other than SRCs)	Non-public
2016-13	Financial instruments—Credit losses (Topic 326): Measurement of credit losses on financial instruments		X
2017-04	Intangibles—Goodwill and other (Topic 350): Simplifying the test for goodwill impairment		X
2018-12	Financial services—Insurance (Topic 944): Targeted improvements to the accounting for long-duration contracts	X	
2021-08	Business combinations (Topic 805): Accounting for contract assets and contract liabilities from contracts with customers	X	
2022-01	Derivatives and hedging (Topic 815): Fair value hedging—portfolio layer method	X	
2022-02	Financial instruments—Credit losses (Topic 326): Troubled debt restructurings and vintage disclosures	X	X
2022-04	Liabilities—Supplier finance programs (Subtopic 405-50): Disclosure of supplier finance program obligations	X	X

*All ASUs effective for public companies may be early adopted by non-public companies

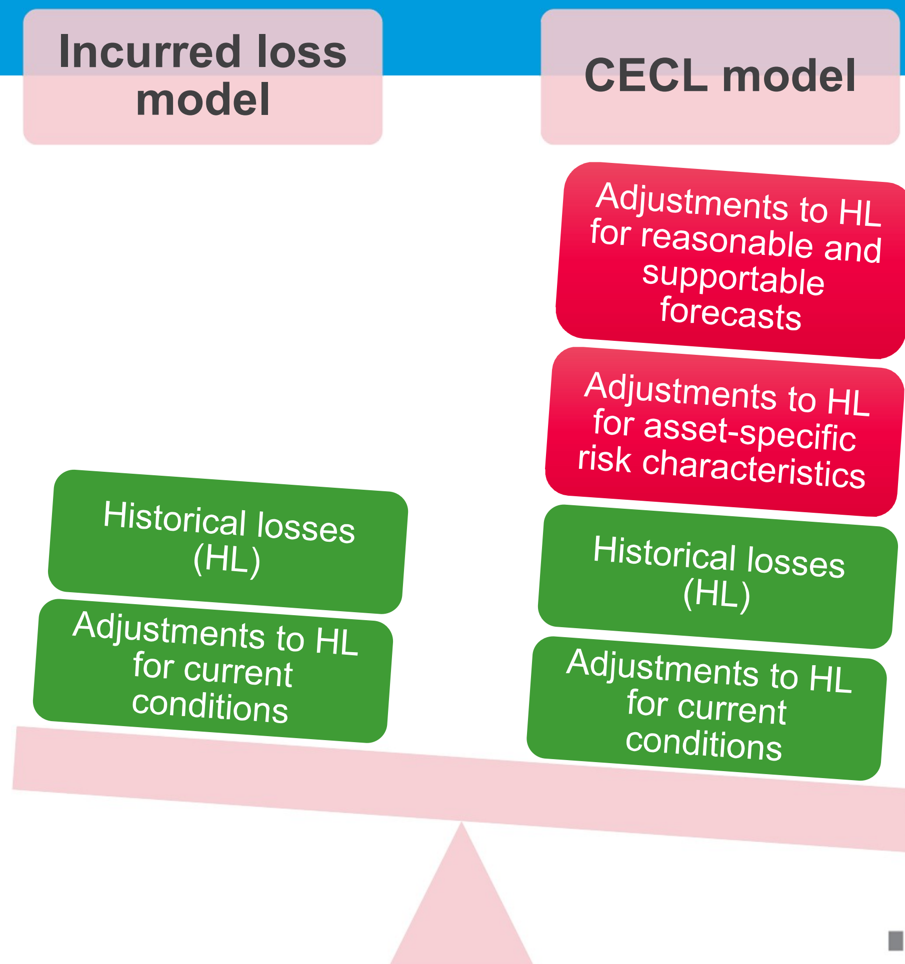
Topic 326 effective date

Reporting entity	Effective date
For public business entities that meet the definition of a Securities and Exchange Commission (SEC) filer, excluding entities eligible to be smaller reporting companies as defined by the SEC	Fiscal years beginning after Dec. 15, 2019, including interim periods within those fiscal years
For all other entities	Fiscal years beginning after Dec. 15, 2022, including interim periods within those fiscal years

- Early application is permitted
- See paragraph 250-10-S99-6 on disclosure of the impact that recently issued accounting standards will have on the financial statements of a registrant

Topic 326 key changes

- Legacy GAAP = incurred loss method
  - Recognize credit losses when probable and estimable
- New guidance = Current expected credit loss (CECL)
  - Recognize expected credit losses at the time of origination/purchase of the financial asset
  - Through allowance for recognized financial assets
  - Changes in the allowance (plus and minus) are recorded immediately through an allowance for credit losses



Topic 326 credit loss assessment reminders

Collectively assess

Financial assets with similar risk characteristic

Individually assess

Financial asset that do not share similar risk characteristics with other financial assets

With the exception of U.S. Government and agency securities, nearly all financial assets will have an allowance for credit losses

Topic 326 practical expedients and policy elections

- Collateral dependent financial assets
- Collateral maintenance provisions
- Allowance for accrued interest receivable (AIR)
- Write offs of AIR
- Disclosure of AIR and associated allowance
- AIR and cost basis disclosures

Subtopic 326-30 recognition of credit losses on AFS debt securities

- The ~~length of time and~~ extent to which fair value is less than amortized cost
- Adverse conditions related to the security (e.g., deterioration in issuer's or underlying obligors' financial condition, deterioration in collateral values), industry or geographic area
- ~~Historical and implied fair value volatility~~
- Payment structure and ability of issuer being able to make payments that increase in the future
- Failure of the issuer to make scheduled payments
- Changes in the rating of the security
- ~~Post balance sheet recoveries or additional declines in fair value~~
- Other

Credit losses are recorded through an allowance account

Credit losses are capped at the total fair value loss

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Topic 326 required disclosures in period of adoption

The nature of the change in accounting principle, including an explanation of the newly adopted accounting principle

The method of applying the change

The effect of the adoption on any line item in the statement of financial position, if material, as of the beginning of the first period for which the content in the standard is effective. Presentation of the effect on the financial statement subtotals is not required.

The cumulative effect of the change on retained earnings or other components of equity in the statement of financial position as of the beginning of the first period for which the content in the standard is effective

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Topic 326 transition guidance

- Generally cumulative-effect adjustment to opening retained earnings
- Prospective application for:
  - PCD assets (accounted for under Subtopic 310-30) and beneficial interests with significant difference between contractual and expected cash flows - allowance is recognized through increase to assets' amortized cost basis
  - Debt securities that had OTTI recognized pre-adoption – improved cashflows previously recognized in OCI continue to be accreted to interest income
- Can adopt fair value option for qualifying assets within scope of Subtopic 326-20 (except HTM securities)

Elimination of troubled debt restructuring (TDR) guidance

Instead of TDR model:

Determine whether a modified loan is a new or a continuation of the existing loan

- All modifications evaluated under the loan refinancing and restructuring guidance

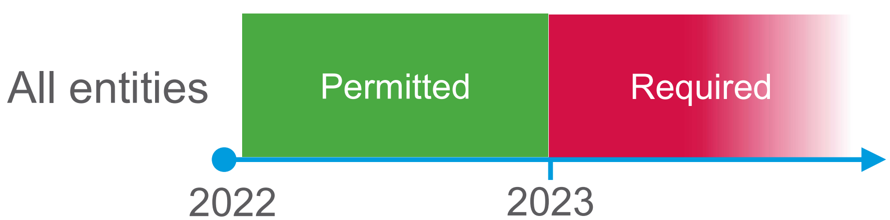
Measure credit losses for modifications over asset's contractual life

- Discounted cash flow model would not be required

Additional disclosure requirements

- Loan refinancing and restructurings
- Vintage disclosures

Effective date for calendar year-ends



ASU 2022-02

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CERTAIN FINANCIAL REPORTING CONSIDERATIONS IN THE CURRENT ECONOMIC ENVIRONMENT

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Effects of inflation, rising interest rates and other macroeconomic factors on financial reporting

Asset impairment

- Long-lived assets
- Goodwill and indefinite-lived intangibles
- Inventory
- Investment securities

Business combinations

- Cash flow projections
- Fair value determination

Revenue recognition

- Contract modifications
- Measures of progress
- Loss contracts

Effects of inflation, rising interest rates and other macroeconomic factors on financial reporting (continued)

Debt modifications and covenant violations	Derivatives and hedge accounting	Foreign currency matters
• Liquidity issues • Accounting for debt modifications	• Fair value measurements • Hedge effectiveness	• Highly inflationary economies • Use of exchange rates • Intercompany transactions of a long-term investment nature

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Effects of inflation, rising interest rates and other macroeconomic factors on financial reporting (continued)

Income taxes	Leases	Share-based payments
• Interest deductibility • Realization of deferred tax assets • Indefinite reinvestment of earnings	• Variable payment streams • Discount rate	• Award modifications • Forfeitures • Award measurement

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Effects of inflation, rising interest rates and other macroeconomic factors on financial reporting (continued)

SEC reporting

- MD&A
  - Discussion of the impact of significant economic changes which materially affect income from continuing operations
  - Known or expected trends or uncertainties which have had or are reasonably expected to have a material effect on revenue, income from continuing operations, liquidity or capital resources
- Risk factors and other disclosures

Non-SEC reporting

- Updated disclosures related to ASC 275, Risks and Uncertainties
  - Significant estimates
  - Concentrations
- Other relevant disclosures

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HIGHLIGHTS FROM THE AICPA SEC/PCAOB CONFERENCE

Update on proposed rules

- Cybersecurity
- SPAC transactions
- Climate disclosures

“Dear Issuer” letters

Crypto (New in Dec. 2022)

Impact of war in Ukraine

Impacts of COVID-19

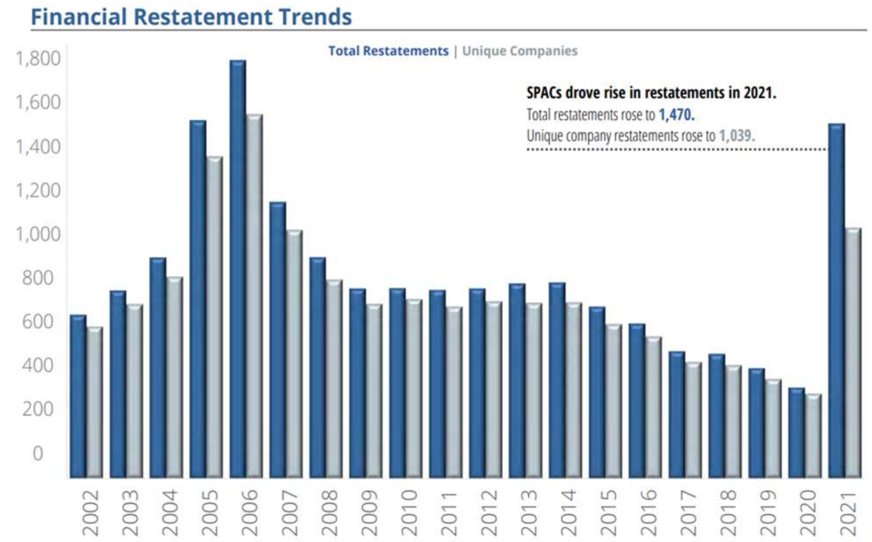
Climate related matters

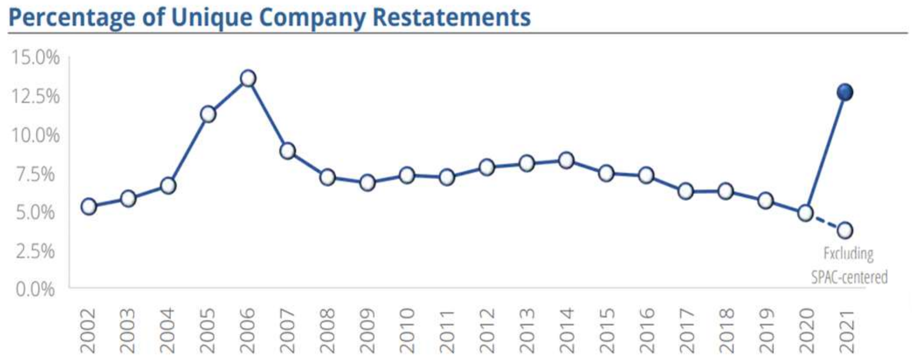
China-based companies

Restatement trends

2021 Highlights:

- Total restatements significantly increased to 1,470 (+289%) due to SPAC restatements
  - 23% non-SPAC related restatements
  - 77% SPAC related restatements
    - 35% redeemable shares
    - 42% warrant liabilities
- Excluding SPACs, total restatements declined 10% year-over-year
- Causes for restatement, excluding SPACs
  - Debt and equity securities (19%)
  - Revenue recognition (12%)
  - Liabilities and accruals (12%)
  - Expenses (11%)
  - Taxes (9%)





Recent SEC staff statements /comments

- Independence
- Accounting for digital assets
- Fraud
  - The auditor is the "gatekeeper"

Other SEC focus areas

- Comment letter themes
  - Management’s discussion and analysis (MD&A)
  - Non-GAAP measures
  - Segment reporting
- Critical accounting estimates
- Current inflationary environment
- Pay versus performance rules (not directly affecting financial statements) and new rules on clawbacks
- Public company accounting oversight board (PCAOB) update
- Likely trends for 2022

Apr
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Save the date!
Next quarterly
accounting update

QUESTIONS AND CLOSING REMARKS

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THANK YOU FOR YOUR TIME AND ATTENTION

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