UK PwC US centre of excellence webcast

Market and quality update

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November 2022

Welcome

Introduction to today's speakers

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Agenda

1

What's going on at the SEC?

SEC adopts executive incentive compensation clawback rules

Final rules on recovery of erroneously awarded incentive compensation from current and former executive officers.

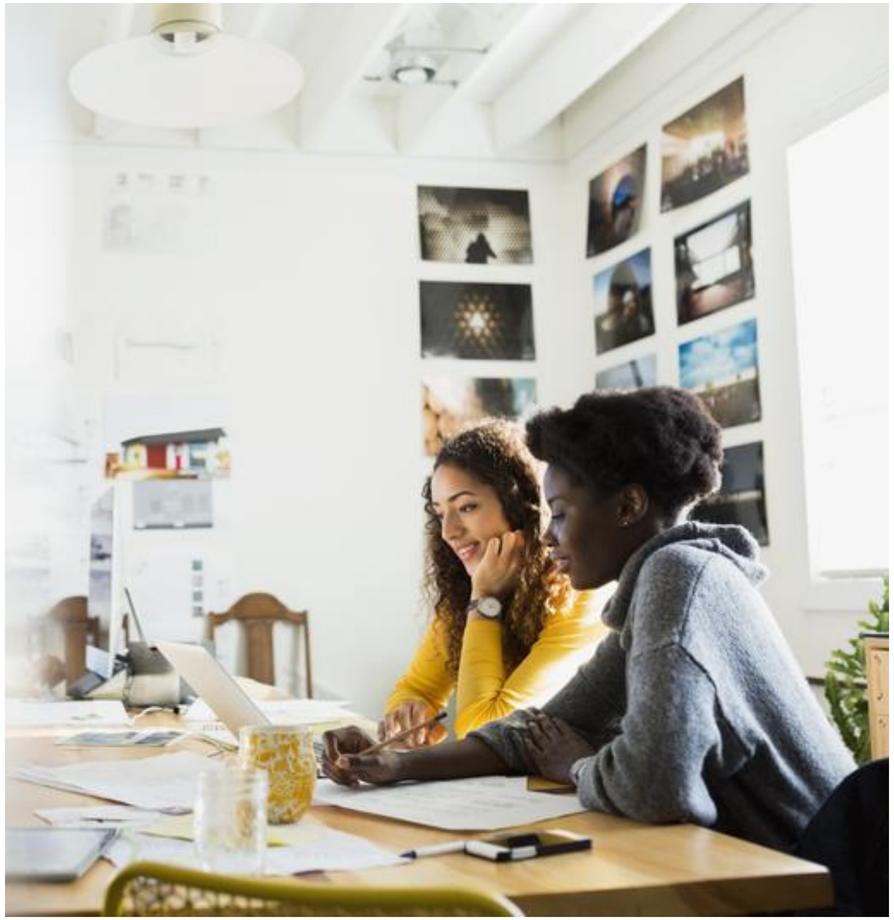
The rule was mandated following the 2007-2009 financial crisis but was left unfinished.

US securities exchanges will need to adopt standards to require most listed issuers to develop and implement a policy providing for the recovery of incentive compensation received by current and former executive officers (over a three-year look-back period) in the event of a required accounting restatement when that compensation was based on erroneously reported financial information.

Will apply to compensation paid in the three years leading up to the restatement.

The exchanges must file proposed listing standards to implement the SEC's directive no later than 90 days after the SEC's final rules are published in the Federal Register, effective no later than one year following that publication date.

Affected issuers will be required to adopt a recovery policy no later than 60 days after the listing standards become effective.



Enforcement activity and trends

2021 Enforcement activity

- Commission filed 434 new enforcement actions in the year ended September 30, 2021 - an increase of 7% as compared to FY 2020.
- Total enforcement actions in FY 2021 was 697. In addition to the 434 new actions, 120 actions were against issuers delinquent in making required filings with the SEC and 143 administrative proceedings seeking bars against individuals based on criminal convictions, civil injunctions and other orders.
- Fiscal 2021 was a record year in whistleblower awards which totalled over $564 million to 108 whistleblowers.
- The total whistleblower awards has surpassed $1 billion over its lifetime.

Enforcement actions in FY21 resulted in judgements or orders for nearly $2.4 billion in disgorgement and more than $1.4 billion in penalties.

Enforcement activity and trends (continued)

FY 2021 Enforcement resulted in a number of 'first-in-kind' actions and actions spanning the securities market

- The SEC filed enforcement actions that spanned the securities market. Actions related to:
  - Violating anti fraud, reporting, disclosure controls, and accounting controls provisions of the securities law.
  - A year-long expense management scheme.
  - A registrant allegedly defrauding its investors about its financial condition.

"This year has seen a number of critically important and first-of-their-kind enforcement actions, as well as record-breaking achievements for our whistleblower program, which we expect will lead to even more successful actions in the future. Undeterred by the challenges of the pandemic, the dedicated public servants in the Enforcement Division have continued to overcome obstacles to bring these cases that protect investors and promote market integrity."

Gurbir S. Grewal,

Director of the SEC's Division of Enforcement

Enforcement focus areas

Enforcement focus areas

- Holding individuals accountable.
- Ensuring gatekeepers live up to their obligations.
- Rooting out misconduct in crypto.
- Policing financial fraud and issuer disclosure.
- Enforcing the Foreign Corrupt Practices Act.
- Guarding against public finance abuse.
- Pursuing wrongdoing in securities offerings.

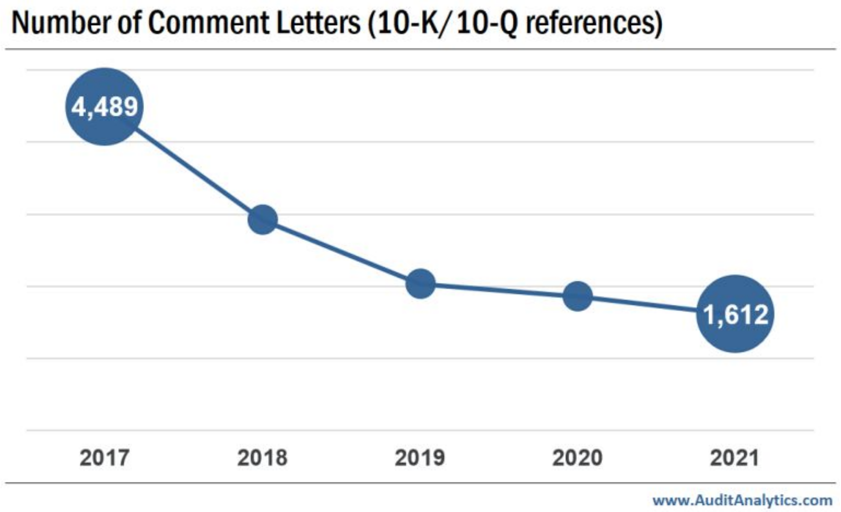
Division of Enforcement continues to employ risk-based data analytics to identify potential violations.

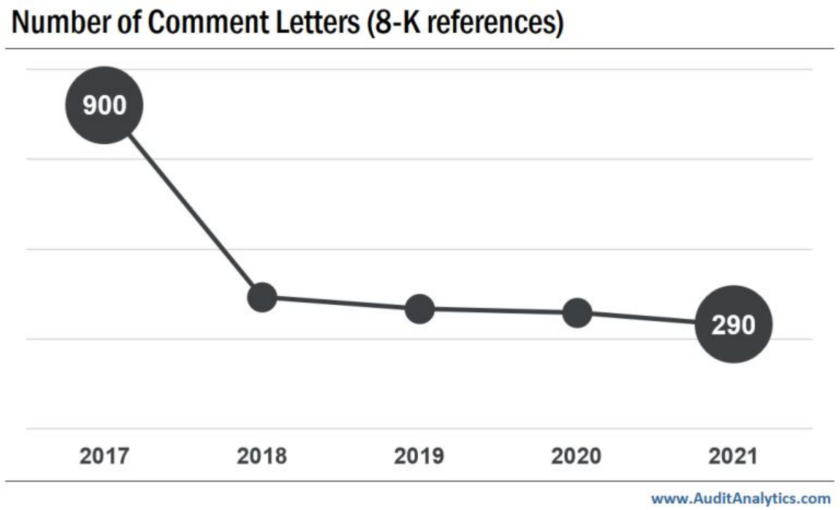
SEC comment letter trends

Overall decline in the number of comment letters

- General decline in the number of SEC registrants
- Principle-based approach to issuing comments

Origination year	Conversations	Average of # of letters	Average length of conversations
2017	1,215	4.02	50.8
2018	821	3.86	50.0
2019	570	3.90	43.7
2020	569	3.67	38.9
2021	449	4.10	48.9





SEC comment letter trends

Top 10 comment letter themes

1. Non-GAAP measures
2. Management's discussion and analysis
3. Segment reporting
4. Risk factors – climate change matters
5. Revenue recognition
6. Fair value measurement
7. Disclosure controls and ICFR
8. Inventory and cost of sales
9. Form compliance and exhibits
10. Business combinations

This analysis was performed based on topical areas assigned by research firm Audit Analytics for comment letters publicly issued in the 12 months ended June 30, 2022 ("Current Period") in relation to Form 10-K and Form 10-Q filings. The arrows represent relative change in number of letters in the Current Period compared to and the 12 months ended June 30, 2021 ("Prior Period"). Total comment letters evaluated during the Current Period and Prior Period were approximately 775 and 815, respectively.

SEC comment letter trends

Non-GAAP measures

‘You disclose non-GAAP measures without presenting the comparable GAAP measures with equal or greater prominence. Please ensure any discussion regarding non-GAAP measures is preceded by an equal or more prominent discussion of the comparable GAAP measure.’

‘Please explain to us in detail why you believe the adjustment for ‘transaction costs’ used in calculating Adjusted EBITDA is appropriate in light of any growth strategy you may have. Please refer to question 100.01 of the SEC Staff's compliance and disclosure Interpretations on Non-GAAP financial measures.’

‘We note that you disclose non-GAAP adjusted net income excluding the impact of ‘qualitative factors adjustment’ as a result of sustained favorable macroeconomic conditions. It appears that this adjustment represents a tailored accounting principle prohibited by Rule 100(b) of Regulation G, as discussed in question 100.04 of the Non-GAAP financial measures compliance and Disclosure Interpretations (CD&Is). Please remove this adjustment from future filings. Alternatively, tell us how you comply with the guidance.’

SEC comment letter trends (continued)

Management's discussion and analysis

‘Where a material change in a line item is attributed to two or more factors, including any offsetting factors, the contribution of each identified factor should be described in quantified terms, if reasonably practicable. Please revise your disclosures in future filings accordingly. Similar revisions should be considered throughout your results of operations disclosures, such as in your discussion of the change in research and development and selling, general and administrative expenses.’

‘Please provide more specific and prominent discussion and analysis of the supply shortages, including quantified data and analysis of the impact on your operations, as well as known and anticipated events and trends that may impact your future operations. Discuss your response for managing these events. Please also address the expected impact on your liquidity and capital resources.’

SEC comment letter trends (continued)

Risk factors – climate change matters

‘Please explain, in detail, how you determined that transition risks related to climate change are not expected to materially affect your business, financial condition, and results of operations. In your response, tell us about the specific transition risks you considered, including those noted in our prior comment.’

‘We note that you provided more expansive disclosure in your CSR report than you provided in your SEC filings. Please advise us what consideration you gave to providing the same type of climate-related disclosure in your SEC filings as you provided in your CSR report.’

‘As it relates to providing tailored disclosure, please explain in greater detail how the nature of your business supports your conclusion that pending or existing climate change-related legislation, regulations, and international accords will not have a material impact and the process through which existing or pending climate change-related legislation, regulations and international accords are evaluated. In addition, tell us how you considered addressing difficulties in assessing the timing and effect of pending legislation or regulation.’

2

ESG reporting landscape

ESG landscape

- After years of increasingly vocal demand for enhanced transparency about ESG matters from investors and other stakeholders, regulators, and standard setters in various jurisdictions issued definitive proposals to transform ESG reporting in 2022.
- In 2022, ESG proposals were released around the globe:
  - The European Union (EU) as part of the Corporate Sustainability Reporting Directive (CSRD).
  - Internationally by the International Sustainability Standards Board (ISSB).
  - In the US by the Securities and Exchange Commission.
- These 'big three' proposals would each require expansive sustainability disclosures — although their proposed scopes and other details vary.
- All three proposals were subject to public comment periods that have now closed.

‘Big three’ ESG reporting frameworks

EFRAG
European Financial Reporting Advisory Group

EFRAG

- Proposed standards span environmental, social, and governance topics
- Sector-specific standards are in development
- Disclosure would be included within a dedicated section of the management report (similar to US annual report)
- No financial statement footnote disclosure would be required

IFRS™

ISSB

- Proposed standards address climate and other sustainability risks
- Would require industry-based climate disclosures based on the SASB’s standards
- Disclosure would be included as part of general purpose financial reporting
- No financial statement footnote disclosure would currently be required

SEC

- Proposed rule addresses climate-related risks
- Additional proposed rules on human capital are expected
- Industry-specific disclosures are not required
- Disclosure would be provided:
  - In a separate section of the annual report or registration statement
  - In a financial statement footnote

3

Accounting reminder

Rising inflation and interest rates

Business impacts
Costs and pricing decisions
Customer behaviour and credit risk
Contract negotiations
Investment and financing decisions

Accounting impacts
Measurement of assets and liabilities (fair value, cash flow estimates, discount rates)
Impairment indicators and test
Disclosures

Rising inflation and interest rates – some examples

Measurement of assets and liabilities	Defined benefit pension liabilities and other employee benefits
	Provisions, contingent liabilities and assets
	Fair value measurement
Impairments	Impairment indicators and test
	Financial asset expected credit losses
Disclosures	Sources of significant estimation uncertainty
	Financial instrument liquidity and sensitivity

Inflation – effects on cash flow forecasts in impairment models

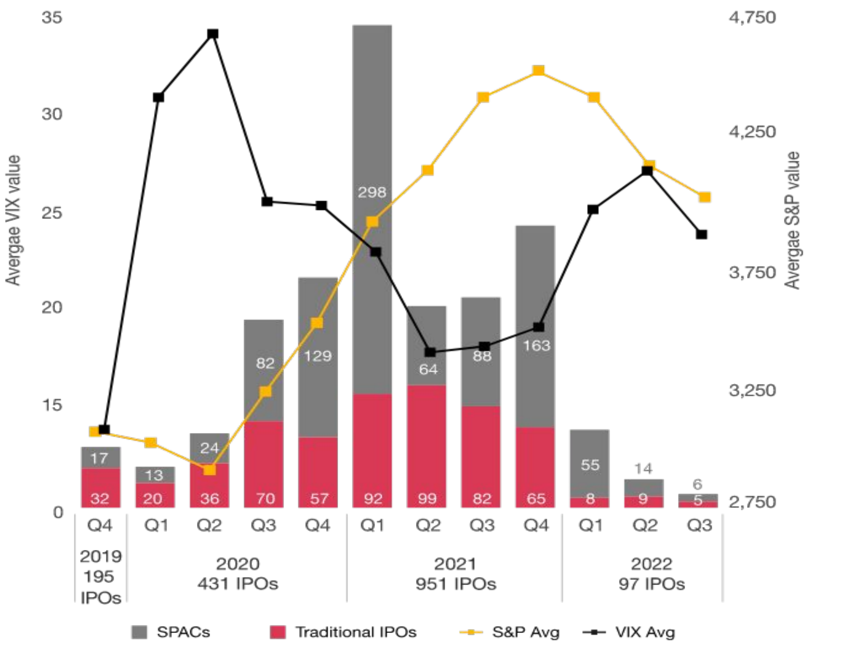
- Indicators of impairment
- Sustainability of sales forecasts
- Costs - different rates may apply
- Capex - depreciation no longer a proxy
- Terminal value
- Discount rate consistency
- Incorporating uncertainty
- FVLCTS implications
- Disclosures

4

Capital markets update

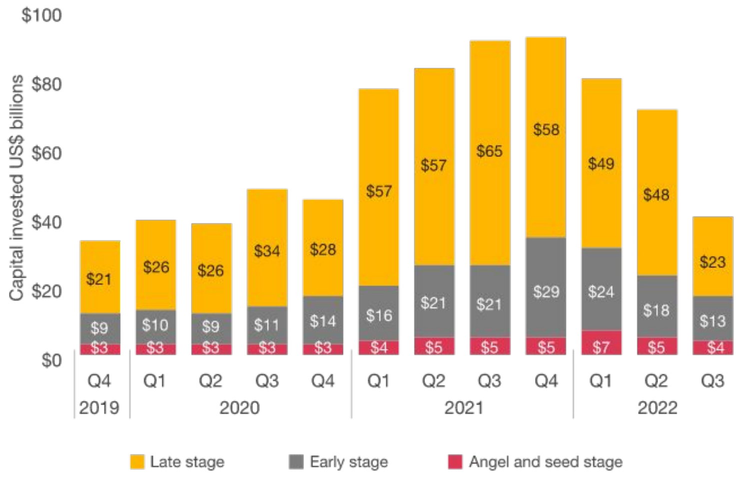
Capital markets take a breather - but for how long?

Number of US IPO's and proceeds



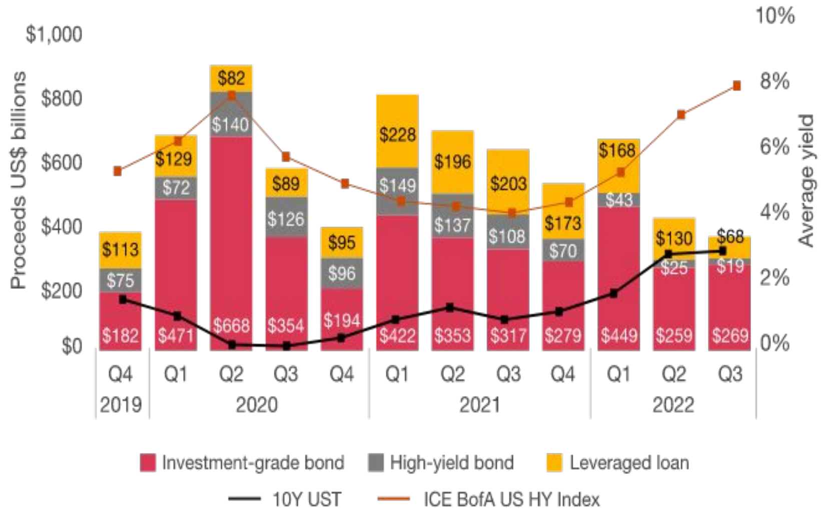
IPOs are somewhat correlated with strong market performance and low volatility.
PwC analysis, Dealogic and CapIQ as of 9/26/22

Venture capital deal value



PwC analysis, PitchBook Data, Inc. as of 9/26/22

Debt capital market issuance



PwC analysis, PitchBook Leveraged Commentary & Data (LCD), Refinitiv as of 9/26/22

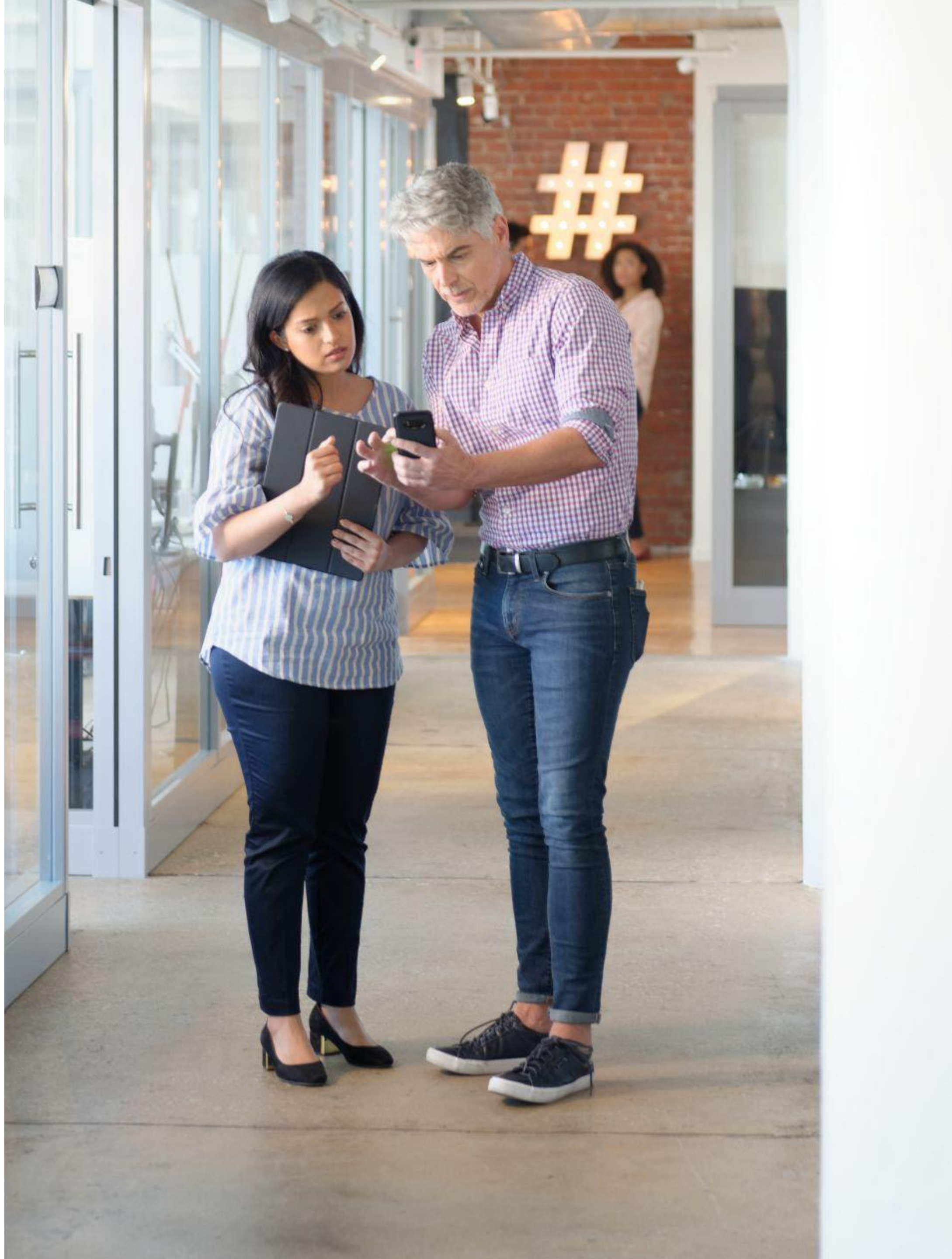
The market downturn puts IPOs on pause, while rising interest rates slow US debt markets as borrowers move to the sidelines. Venture capital investment expected to see strong upcoming quarters with record levels of capital and valuation pullback.

Foreign Private or Domestic Issuer
The Definition

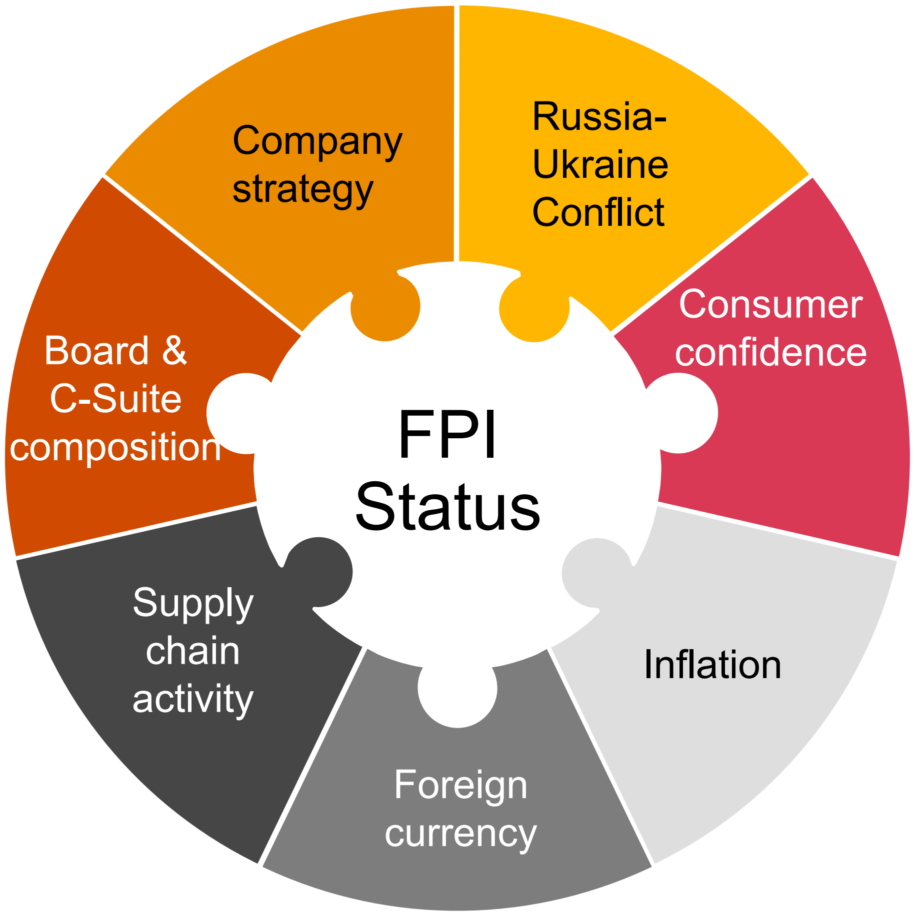
A Foreign Private Issuer is defined as any foreign issuer (other than a foreign government) <u>*except*</u> an issuer meeting the following conditions:

a. *(Shareholder Test)* More than 50% of the outstanding voting securities of such issuer are directly or indirectly owned of record by residents of the United States; ***<u>and</u>***

b. *(Business Contacts Test)* ***<u>Any</u>*** of the following:
   1. The majority of the executive officers or directors are United States citizens or residents;
   2. More than 50% of the assets of the issuer are located in the United States; or
   3. The business of the issuer is administered principally in the United States.



Are you still an FPI?
...are you sure?



What happens if you lose FPI status?

Area	FPI Options	Domestic Filer Requirements
Accounting framework	Choice of IFRS (IASB) or US GAAP financial statements.	Required to report US GAAP.
Reporting currency	Choice of reporting currency for the financial statements.	Required to present financial statements in USD.
Timing and frequency of reporting	20-F and 6-K: Quarterly financial statements generally not required and more time to file annual report (4 months).	10-K and 10-Q: Required to prepare quarterly financial statements (40 days) and less time to file annual (and interim) reports (60 - 75 days).
Disclosures	Compensation disclosures driven by 'home country' (ie issuer-co jurisdiction) rules.	Compensation disclosures driven by US rules - generally more extensive than other territories (e.g. Compensation Discussion & Analysis).
US proxy rules, Regulation FD, other reporting	Exemption from US proxy rules and limited exemption from Regulation FD. Form 6-K used to report material information.	No exemption - more arduous reporting and cost of compliance in various areas (e.g., annual proxy publication, Current Reports on Form 8-K, etc).
SOX	Sarbanes-Oxley CEO/CFO certifications (302/906) required in **annual** filings only.	302/906 certifications required annually and **quarterly**.
Registration statement	Less stringent updating requirements for financial statements in a registration statement.	Financial statement timeliness rules necessitate updating on a more frequent basis (~129-134 days depending on size).
Corporate governance	Permission to use home country corporate governance practice.	Required to follow US corporate governance practice - no SEC or exchange accommodations.

Other matters to consider going into year end

2022 Reporting

- COVID-19
- Russia–Ukraine Conflict - https://www.sec.gov/corpfin/sample-letter-companies-pertaining-to-ukraine
- China - https://www.sec.gov/corpfin/sample-letter-china-based-companies
  - Holding Foreign Companies Accountable Act
- Other geopolitical matters
- Currency movements
- Inflation

2023 Strategic planning

- Acquisitions, divestitures or other business alignment
  - Financial information required: historical track record, pro forma financial information (reporting alignment, valuation/PPA); implication on segment reporting
- Capital raise and debt/equity shelf renewals
  - Regular debt issuance/refinancing, equity follow-on, M&A funding, R&D, general use proceeds
  - Diligence considerations
  - Timetable scenarios and auditor involvement

Q&A

Thank you

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