

# The quarter close

March 20, 2024

## A look at this quarter's financial reporting matters

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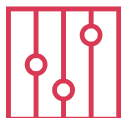
### Introduction

The SEC's final climate rule may be the headline news; however, companies shouldn't lose sight of other requirements impacting first quarter reporting. As we kick-off a new year, use our "cheat sheet" summary to keep track of new accounting guidance effective in 2024. In addition, Pillar Two tax legislation is now effective in several jurisdictions around the world – in [Ask the National Office](#), we discuss the implications.

Marking a significant milestone in sustainability reporting, the SEC voted on March 6 to finalize its long-awaited climate disclosure rules. Head straight to [Regulatory developments](#) for more details and links to the resources you need to get up to speed on the final requirements. The SEC's rule is just one of the sustainability reporting requirements that may impact you. This quarter we launched the first chapter of our new global [Sustainability Reporting Guidance](#) – use it as a one-stop shop for guidance on the major required sustainability reporting frameworks around the globe.

After issuing three significant new standards in the fourth quarter of 2023, the FASB continues to make progress on the remaining projects on its technical agenda. We provide a preview of what to expect in standard setting in 2024.

In this edition of *The quarter close*, we highlight these and other relevant accounting and reporting topics you should consider as you close out the first quarter of 2024.



# Accounting and reporting hot topics

## New accounting guidance effective in 2024

### Effective for interim and annual periods beginning in 2024

Accounting standard	Key impacts	PwC publication
Fair value measurements of equity securities subject to restrictions ( <a href="#">ASU 2022-03</a> )	Clarifies that a contractual restriction on the sale of an equity security (e.g., an underwriter lock-up agreement) is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The standard also introduces new disclosure requirements.	<a href="#">Section 20.2</a> of our <i>Financial statement presentation</i> guide
Leases: Common control arrangements ( <a href="#">ASU 2023-01</a> )	Applies to leases between entities under common control and includes a requirement that lessees amortize leasehold improvements over an asset's useful life to the common control group regardless of the lease term.	<a href="#">Section 8.11.1</a> of our <i>Leases</i> guide
Accounting for tax credit investments ( <a href="#">ASU 2023-02</a> )	Expands the use of an approach described as the proportional amortization method (PAM) to account for equity investments in tax credit structures that meet certain criteria.	<a href="#">FASB changes accounting for tax credit investments</a>

### Effective for the 2024 annual period

Accounting standard	Key impacts	PwC publication
Segment reporting ( <a href="#">ASU 2023-07</a> )	Requires incremental disclosures about a public entity's reportable segments, including significant segment expenses that are (1) regularly provided to the chief operating decision maker and (2) included in the reported measure of segment profit or loss.	<a href="#">FASB updates segments guidance</a>
Supplier finance programs ( <a href="#">ASU 2022-04</a> )	Beginning in 2023, calendar year-end companies were required to provide certain new disclosures about supplier finance programs. Beginning in the 2024 annual period, companies will be required to disclose a rollforward of annual activity.	<a href="#">Section 11.3.1.5</a> of our <i>Financial statement presentation</i> guide

### Not required in 2024, but can be early adopted

Accounting standard	Key impacts	PwC publication
Joint ventures ( <a href="#">ASU 2023-05</a> )	Requires an entity that meets the accounting definition of a joint venture to initially measure all contributions received upon its formation at fair value.	<a href="#">FASB issues guidance on accounting for joint venture formations</a>
Crypto assets ( <a href="#">ASU 2023-08</a> )	Provides accounting and disclosure guidance for certain crypto assets.	<a href="#">FASB issues guidance on accounting for crypto assets</a>
Income tax disclosures ( <a href="#">ASU 2023-09</a> )	Requires disaggregated information about a company's effective tax rate reconciliation as well as information about income taxes paid.	<a href="#">FASB issues guidance on income tax disclosures</a>



For a complete list of recently issued accounting standards and their effective dates, including links to PwC resources, refer to the [Guidance effective for calendar year-end public companies](#) and [Guidance effective for calendar year-end nonpublic companies](#) pages on Viewpoint.

### Ask the National Office: What Pillar Two means for first quarter reporting



**Jennifer Spang**

Partner, PwC National Office

The Pillar Two Model Rules released by the Organisation for Economic Cooperation and Development (OECD) established a global framework of minimum taxation. In several jurisdictions around the world, aspects of Pillar Two legislation became effective for tax years beginning in January 2024. We asked Jennifer Spang, PwC National Office partner and income tax specialist, about the first quarter implications. For more background on Pillar Two, see our publication, [OECD Pillar Two: Time to act on the global minimum tax](#).

#### Now that Pillar Two legislation is effective in several jurisdictions, how will it impact companies in the first quarter?

Pillar Two taxes modeled after the OECD's Model Rules are considered alternative minimum taxes under US GAAP. Accordingly, the tax is accounted for as a period cost impacting the effective tax rate in the year the Pillar Two tax obligation arises. This means beginning in the first interim period a Pillar Two tax is effective (the first quarter of 2024 for calendar year companies), a company must include an estimate of its full-year Pillar Two taxes in its estimated annual effective tax rate. Consistent with general interim provision rules, this estimated tax rate will be updated at each interim reporting date.

#### How does Pillar Two work?

The objective of the Pillar Two model is that companies pay a minimum of 15% tax in each jurisdiction where they operate. The Pillar Two model is based on a company's financial statement results (book income) by jurisdiction and before intra-group eliminations, with certain modifications. Pillar Two taxes are based on a comparison between a calculated jurisdictional effective tax rate (ETR) and the 15% minimum tax.

The complexity of a global minimum tax based on book income should not be underestimated. Many factors including, but not limited to, book income adjustments, transfer pricing, tax incentives and credits, permanent book-tax differences, and "push down" entries may result in ETRs

below 15% despite the statutory rate exceeding 15%.

Accordingly, companies will need to assess their potential exposure to Pillar Two even if they operate entirely in jurisdictions with statutory rates greater than 15%. Also, due to the jurisdictional nature of Pillar Two, companies operating in jurisdictions with a low ETR may be subject to Pillar Two taxes, regardless of the presence of other jurisdictions with high-taxed earnings.

Historical transactions may require special consideration when determining the interim effects of Pillar Two. For example, intercompany restructurings or business combinations in prior years may require adjustments to either book income or taxes included in the Pillar Two jurisdictional ETR.

The OECD has published guidance, which has been enacted by countries, with respect to certain temporary or transitional safe harbors to reduce the burden of Pillar Two. Companies will need to carefully assess whether they qualify for relief, which can present additional challenges.

#### What happens if additional jurisdictions enact Pillar Two legislation or if additional guidance is issued?

The OECD is likely to continue publishing new guidance related to Pillar Two; however, the OECD is not a legislative body. Each jurisdiction must enact its own domestic Pillar Two legislation, including determining whether and how they adopt guidance that is released by the OECD.

As the legislative landscape evolves, companies will need to monitor changes and update their Pillar Two estimates. ASC 740 requires recognition of the tax effects of changes in tax laws in the period the law is enacted. When addressing new guidance, companies will need to consider when information impacting their estimates was readily accessible. A change in accounting estimate results from new information since a previous financial reporting date, while an error reflects the misapplication or omission of information that was available at a previous financial statement reporting date.



## Accounting and reporting hot topics

### What disclosures should companies consider?

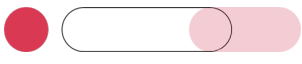
There are no incremental Pillar Two disclosures specifically required for US GAAP reporters. However, certain existing disclosures will be affected, such as the ETR reconciliation and uncertain tax position disclosures. An SEC registrant's MD&A will also likely be impacted. Companies should provide transparent disclosures to address their ongoing evaluation of the impact of Pillar Two. For IFRS reporters, the IASB introduced new required disclosures in their amendments to IAS 12 to address Pillar Two taxes.

### What else should companies keep in mind?

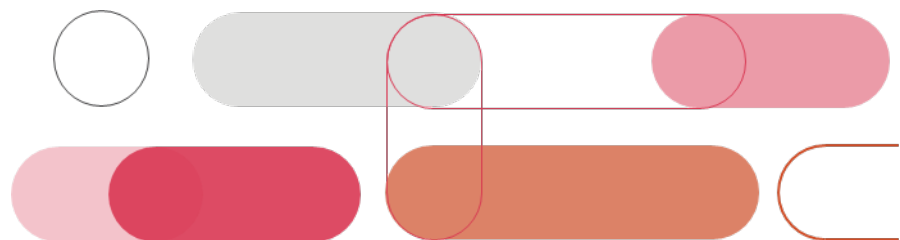
Pillar Two has the potential to be one of the most complex tax challenges ever faced. Compliance with Pillar Two will not only require an extensive knowledge of each individual jurisdiction's newly enacted and evolving tax laws but will also require a deep understanding of book income. As a result, it will require a cross-functional effort well beyond the tax function.

Given the anticipated data requirements, companies may need to modify existing systems, processes, governance, and controls. The data required will often be at a more granular level than previously necessary for financial reporting purposes. Additionally, clear communication with both internal and external stakeholders about the implications of Pillar Two will be critical.

For more information and resources, refer to our [Income tax accounting](#) landing page on Viewpoint.



**Pillar Two has the potential to be one of the most complex tax challenges ever faced.**



## Accounting and reporting hot topics

### Discontinued operations: Revisiting the presentation and reporting requirements

Companies reevaluating their portfolio of businesses in the current economic environment may consider disposing of businesses or long-lived assets by sale, abandonment, spin-off, or otherwise. Disposal of a component, entity, or group of components is reported in discontinued operations if it represents a strategic shift that has (or will have) a major effect on the entity's operations and financial results. When the criteria are met, presentation as discontinued operations is required for all periods presented. The key impacts on each primary financial statement are summarized below:

#### Income statement

- Report results of discontinued operations, net of income taxes, as a separate component of income after continuing operations for all periods presented.
- Include direct operating expenses that are reasonably separable from the ongoing company in discontinued operations. Costs expected to continue after the disposal should be included in continuing operations.
- Include interest on debt that is assumed by the buyer or is required to be repaid in discontinued operations. Allocation of other consolidated interest is permitted, but not required.
- Reflect income and expenses associated with transition service agreements in continuing operations. Income related to these services should be recorded in other income unless they meet the definition of revenue.
- Allocate income taxes between continuing and discontinued operations following the intraperiod allocation rules in ASC 740.
- Calculate earnings per share for each component of net income, including income from continuing operations and income from discontinued operations.

#### Balance sheet

- Separately present current and noncurrent assets and liabilities of the discontinued operation as "held for sale."
- Separately present major classes of assets and liabilities of the discontinued operation on the balance sheet or disclose in a footnote. If disclosed in a footnote, the amounts must be reconciled to the total assets and liabilities of the discontinued operation presented on the balance sheet.
- Only include debt in discontinued operations if it will be legally assumed by the buyer in the transaction.

#### Cash flow statement

Present discontinued operations in the statement of cash flows or disclose in a footnote and include:

- Total operating and investing cash flows for discontinued operations, or
- Depreciation, amortization, capital expenditures, and significant noncash operating and investing activities related to discontinued operations.

### SEC reporting reminders

SEC registrants are required to report on Form 8-K all significant dispositions, as defined by the Form 8-K instructions, within four business days of completion of the disposition. This requirement applies to all dispositions, not just those that meet the criteria to be reported as discontinued operations. For significant business dispositions, as defined by Article 11 of Regulation S-X, the Form 8-K is also required to include pro forma financial information.

SEC registrants filing a new or amended registration statement may need to recast prior period annual financial statements to reflect the discontinued operation on a comparable basis. This requirement applies if the registrant has reported discontinued operations in issued financial statements (e.g., in a Form 10-Q), but not yet reflected the discontinued operations in annual financial statements. In addition, the registrant would need to consider updating pro forma financial information reflecting the significant business disposition. To recast previously issued financial statements, an SEC registrant typically files a Form 8-K. This Form 8-K cannot be filed until financial statements have been issued for the period in which the event triggering discontinued operations occurred.

### For more information

For more guidance on discontinued operations, refer to [Chapter 27](#) of our *Financial statement presentation* guide and listen to our new podcast, [Presenting discontinued operations](#).



# Regulatory developments

## SEC issues landmark climate disclosure rules

On March 6, the SEC adopted final rules designed to enhance public company disclosures related to the risks and impacts of climate-related matters. The new rules include disclosures relating to climate-related risks and risk management as well as the board and management’s governance of such risks. In addition, the rules include requirements to disclose the financial effects of severe weather events and other natural conditions in the audited financial statements. Larger registrants will also be required to disclose information about greenhouse gas emissions, which will be subject to a phased-in assurance requirement.

The final rules differ in several respects from the initial proposal, most significantly in changes to the financial statement footnote disclosures as well as reductions to the scope of and number of registrants subject to the greenhouse gas emission disclosures.

The new rules call for a dramatic change in the nature and extent of disclosures companies are required to make about the impact of climate change. The gathering and reporting of these incremental disclosures may require significant changes to a registrant’s systems, processes, and controls and effective adoption will require cross-functional coordination among finance, financial reporting, legal, investor relations and others.

The earliest effective dates start with reporting on 2025 information in 2026. Initial compliance dates are based on the year the registrant’s fiscal year begins and vary depending on the particular provisions and type of filer:

Registrant type	Disclosure and financial statement effects <sup>(1)</sup>	GHG emissions and related assurance		
	Disclosures, other than GHG emissions <sup>(2)</sup>	Scope 1 and scope 2 GHG emissions	Limited assurance	Reasonable assurance
Large accelerated filers	FYB 2025	FYB 2026	FYB 2029	FYB 2033
Accelerated filers (other than SRCs and EGCs)	FYB 2026	FYB 2028	FYB 2031	Not applicable
SRCs, EGCs, and non-accelerated filers	FYB 2027	Not applicable	Not applicable	Not applicable

<sup>(1)</sup> As used in this chart, “FYB” refers to any fiscal year beginning in the calendar year listed. Information for prior periods is only required to the extent it was previously disclosed in an SEC filing.

<sup>(2)</sup> There are three specific Regulation S-K disclosures (Item 1502(d)(2), Item 1502(e)(2), and Item 1504(c)(2)) related to the qualitative and quantitative impact of material expenditures incurred and material impacts on certain financial estimates and assumptions for which the effective date is one year later than listed in this table.

On April 4, the SEC [stayed](#) its climate disclosure rules to “facilitate the orderly judicial resolution” of pending legal challenges.

### For more information

For details on the SEC’s final rules, refer to our publication, [Navigating the SEC climate-related disclosure requirements](#), and listen to our [podcast](#).

“ [The rules will] provide investors with consistent, comparable, and decision-useful information, and issuers with clear reporting requirements. - SEC Chair Gary Gensler ”



## Regulatory developments

### Other developments in sustainability reporting

Significant developments this quarter in sustainability reporting in the EU include finalization of the change in the financial thresholds to be in scope of CSRD and a provisional agreement to postpone adoption of the sector specific and third-country standards. In the US, the new California climate-related reporting requirements are now facing a legal challenge, while other states introduce similar bills.

#### Corporate Sustainability Reporting Directive (CSRD)

A 25% increase to the asset and net turnover (revenue) thresholds used to determine the scope of the CSRD passed the scrutiny period and became law in December 2023. Also in December 2023, EFRAG released draft implementation guidance on double materiality and value chain assessments. The public comment period ended in February 2024 and EFRAG will consider the feedback before issuing final guidance. Further, the Council of the European Union and the European Parliament reached a [provisional agreement](#) on the decision to delay the issuance of the sector specific and third-country standards under the CSRD from June 2024 to June 2026; however, there is no change to the required reporting dates. The provisional agreement will now need to be formally endorsed by both co-legislators. Lastly, EFRAG released the first [set of responses](#) on the ESRS Q&A Platform, which may serve as a useful resource but are non-authoritative in nature. For more details about the CSRD, read our publications, [Take the next step - decide how to report under CSRD](#) and [Worldwide impact of CSRD - are you ready?](#).

#### International Sustainability Standards Board (ISSB)

The ISSB issued [educational material](#) that explains how companies can use the standards by the Sustainability Accounting Standards Board (SASB standards) to meet the requirements in IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1), given that IFRS S1 requires companies to “refer to and consider” the applicability of the disclosure topics in the SASB standards. In addition, we are seeing more territories moving toward adoption of the IFRS® Sustainability Disclosure Standards, with Malaysia’s Advisory Committee on Sustainability Reporting issuing its proposed adoption in February 2024. For more information, read our publication, [IFRS Sustainability Disclosure Standards – Guidance, insights and where to begin](#).

#### State climate disclosure bills

On January 1, 2024, the California bill requiring information about certain emissions claims and the sale and use of carbon offsets to be posted to a company’s website (AB 1305) became effective. Also in January, certain business groups filed a lawsuit challenging California bills SB 253 and SB 261. Together, these bills require greenhouse gas emissions and climate-related financial risk reporting. The lawsuit contends that these bills compel speech in violation of the First Amendment and seek to regulate an area that is outside California’s jurisdiction and subject to exclusive federal control by virtue of the Clean Air Act and the federalism principles embodied in the US Constitution. It is unclear if this lawsuit will have any impact on these bills and companies should continue to plan for reporting following the timeline included within these laws. For more details on the California bills, read our publication, [California's not waiting for the SEC's climate disclosure rules](#).

Other states, including Illinois and New York, have introduced climate bills similar to those in California. These bills are in committee review and will need legislative approval and signature by the governor before becoming law.

#### For more information

We are excited to announce the release of the first chapter of our new global [Sustainability Reporting Guidance](#). The initial chapter helps companies navigate the scope of US and global sustainability reporting frameworks. Stay tuned for additional chapters to be released in phases over the course of 2024.



## Regulatory developments

### SEC finalizes new rules for SPACs

In January, the SEC adopted final [rules](#) related to filing and disclosure requirements for special purpose acquisition company (SPAC) initial public offerings (IPOs) as well as the subsequent merger between a SPAC and private operating company (de-SPAC). The rules aim to enhance investor protection by requiring additional disclosure and aligning reporting requirements with traditional IPOs.

#### New requirements

The final rules require additional disclosure in SPAC IPOs related to the SPAC sponsors, affiliates, and promoters, including compensation that has been or will be awarded on completion of a de-SPAC transaction, terms of lock-up agreements, conflicts of interest, and potential sources of dilution. Similarly, new required disclosures in filings for the de-SPAC transaction (e.g., Forms S-4 or F-4 or Schedule 14A) include the compensation received or to be received by the SPAC sponsor, its affiliates, and promoters; tabular presentation of the nature and amounts of each source of potential dilution; and conflicts of interest. The rules also more closely align the financial statement requirements for a de-SPAC transaction with those of a traditional IPO and expand existing rules regarding the use of projections for all reporting entities.

#### Next steps

The final rules will become effective on July 1, 2024. Any filings made on or after the effective date must comply with the final rules. In addition, certain information must be tagged using inline XBRL in filings made on or after June 30, 2025.

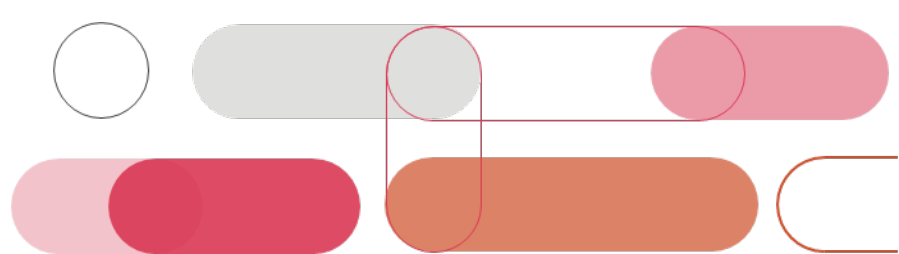
#### For more information

For details on the filing and disclosure requirements, read our publication, [SEC updates rules for SPAC filings](#).



### SEC Chief Accountant calls for commitment to high-quality audits

In February, SEC Chief Accountant Paul Munter issued a [statement](#) emphasizing the importance of professional skepticism in performing high-quality audits. In addition to auditor responsibilities, the statement highlights management's responsibilities in maintaining a financial reporting environment capable of producing reliable financial disclosures, as well as the importance of audit committees in prioritizing and promoting audit quality.







## Standard-setting updates

### What to expect in standard setting in 2024

After bringing a number of projects to conclusion last year, the FASB continues to make progress on the remainder of its technical agenda. In 2024, we expect the FASB to focus on achieving standard-setting milestones on its disaggregation of income statement expenses project as well as other priority projects. Looking forward, FASB Chair Rich Jones has announced plans to launch another agenda consultation in the second half of 2024, an important opportunity for stakeholders to weigh in on the FASB's agenda and future priorities.

#### Disaggregation of income statement expenses

The need for additional disaggregated financial information was a resounding theme from investors providing input on the FASB's 2021 agenda consultation. In response, the FASB issued a proposal last year that would require additional disaggregation of income statement expenses in a new tabular footnote disclosure. In the first quarter of 2024, the Board began discussing the feedback received and reaffirmed its decisions on certain aspects of the proposal, including the requirement to disclose employee compensation, depreciation, and amortization for each income statement line item. However, the Board directed its staff to do more research in other areas, including potential alternatives for the disaggregation of inventory and manufacturing expense.

We expect the Board to make final decisions in the upcoming months and potentially issue a final standard before the end of the year. Given the broad applicability of this project – it is likely to require some level of additional disclosure for all public companies – companies should begin evaluating the potential impact and stay up to date on developments. For more background and key questions to consider now, refer to our publication, [\*Don't roll the DISE on the FASB's expense disaggregation project\*](#).

#### Other priority projects

Projects in the initial deliberation phase that we expect the Board to discuss further in 2024 include:

- **Environmental credit programs:** This project addresses the accounting for environmental credits and related compliance obligations. The Board tentatively decided that an environmental credit asset should only be recognized when it is probable the credit will be used to settle an environmental credit obligation or separately transferred in an exchange transaction. The Board has also reached tentative decisions on recognition and measurement of environmental credit obligations.
- **Software costs:** This project's objective is to modernize the accounting for software costs and enhance transparency. The Board has generally supported an approach that provides a single model for capitalizing software costs, beginning at the point completion of the software project is probable. However, the Board has directed its staff to perform additional investor outreach and consider targeted improvement alternatives.
- **Government grants:** This project is intended to address the accounting for government grants received by business entities, which is not specifically addressed in current US GAAP. The Board has reached tentative decisions about the scope of the project, which would include transfers of monetary and tangible nonmonetary assets, as well as the recognition threshold, measurement, and presentation of government grants.

The FASB also has two active projects related to ASC 815, *Derivatives and Hedging*, focused on (1) refinements to the scope of the derivatives guidance and (2) improvements to hedge accounting.

#### For more information

A complete listing of projects on the FASB's technical agenda can be found on the FASB's [website](#), along with individual project pages that provide a summary, current status, and next steps for each project.



# PwC reference library

## PwC's accounting podcasts

[PwC's accounting podcast series](#) includes a library of podcasts covering today's most compelling accounting, reporting, and business issues. Subscribe to our podcast feed on your platform of choice.

In March, we kicked off our miniseries on property, plant, and equipment. Listen in to hear more about the key judgments and complexities in the lifecycle of an asset, including acquisition, impairment, and disposition.

Some of our most popular podcasts this quarter:

[CSRD spotlight: Updates on the EU's green regulatory landscape](#)

[CSRD spotlight: Navigating challenges in value chain reporting](#)

[Presenting the income statement](#)

[Conquering the statement of cash flows](#)

[Balance sheet classification of debt](#)

## Accounting and reporting webcasts

[PwC's accounting and reporting](#) webcasts keep you informed about emerging accounting, regulatory, and market developments impacting financial reporting. Register [here](#) for our upcoming CPE-eligible webcasts.

## Accounting and reporting publications

[Argentina: Exchange rate and related disclosure considerations](#)

[FASB issues guidance on income tax disclosures](#)

[FASB issues guidance on accounting for crypto assets](#)

[FASB updates segments guidance](#)

[FASB issues guidance on accounting for joint venture formations](#)

[Don't roll the DISE on the FASB's expense disaggregation project](#)

[Global taxation: More than an idea - what it means for you now](#)

[Accounting for Inflation Reduction Act energy incentives](#)

## SEC reporting

[SEC updates rules for SPAC filings](#)

[SEC adopts rules impacting private funds and advisers](#)

[SEC adopts cybersecurity disclosure rules](#)

[To GAAP or to non-GAAP](#)

## Sustainability reporting

[Navigating the SEC climate-related disclosure requirements](#)

[Navigating the ESG landscape](#)

[European Union regulations beyond CSRD](#)

[Worldwide impact of CSRD - are you ready?](#)

[Global investor survey: Highlighting US investor priorities](#)

[Take the next step - decide on how to report under CSRD](#)

[California's not waiting for the SEC's climate disclosure rules](#)

[IFRS Sustainability Disclosure Standards – Guidance, insights and where to begin](#)

## Governance insights

[Trends shaping corporate governance in 2024: Five areas to watch](#)

[US Deals 2024 outlook: signs of a potential rebound in M&A](#)

[Board Central, a PwC product, helps empower boards to effectively oversee cyber risk](#)

[Board effectiveness: A survey of the C-suite](#)

[PwC's 2023 Annual Corporate Directors Survey](#)

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