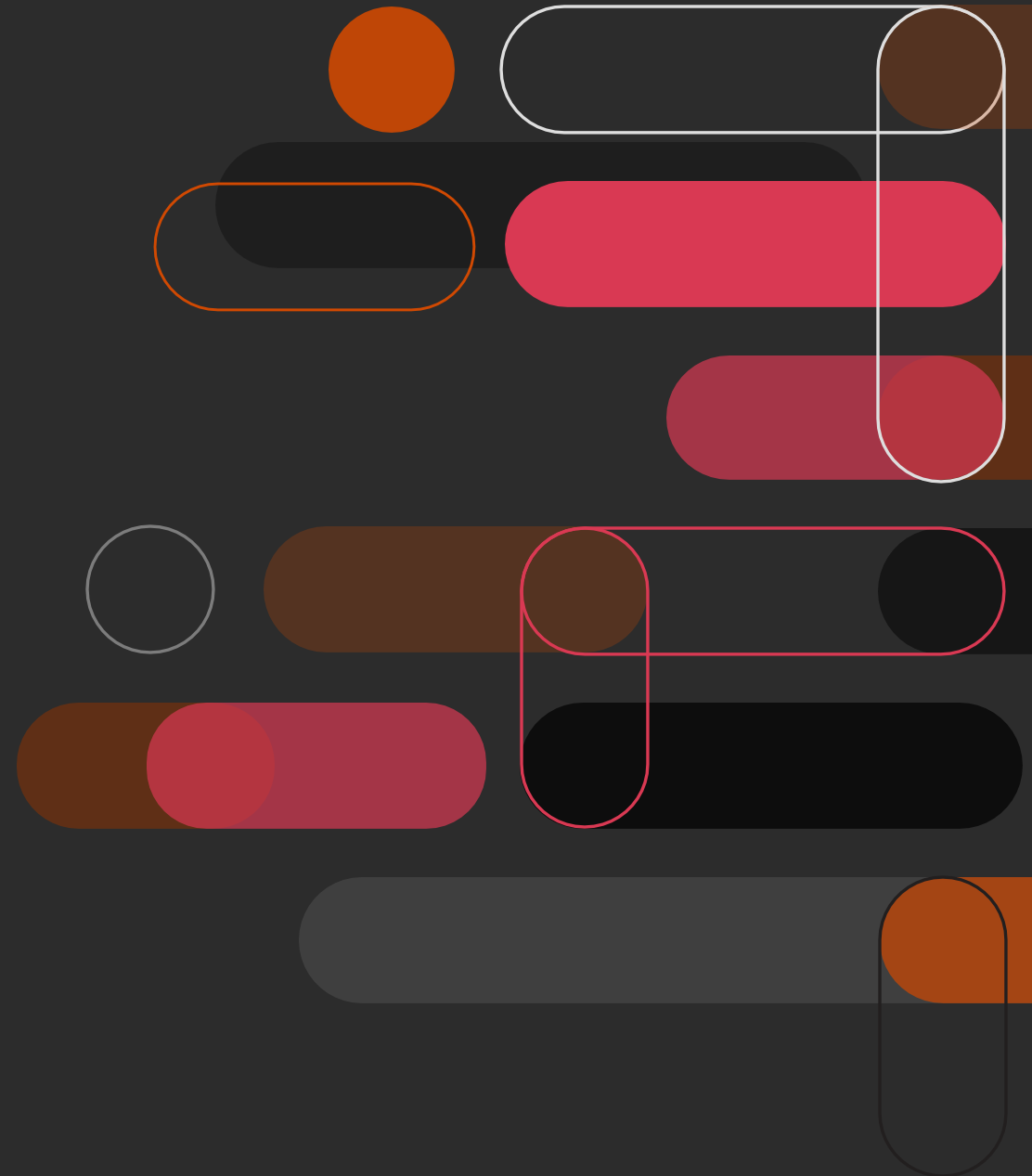


National Office

Quarterly accounting webcast

Third quarter 2023



Administrative matters

To view the presentation in full-screen mode, click the F11 button on your keyboard.



For better viewing experience, close all other applications.

For better sound quality, use headphones.

To enable **closed captioning**, click on the icon located at the bottom of your screen. Once activated, the icon will be red.

Submit **questions** any time during the session using the Q&A window on the left side of the Action Center.



Technical support is available any time during the session using the technical support icon in the middle of the Action Center.



To **download today's presentation**, click the Action Center and select the additional content icon.



CPE details



You will have **2 minutes** to answer each timed polling question.
You do not need to get the question correct to get CPE.

Monitor CPE progress by clicking on the CPE icon at the lower-right of your screen:



Prior to meeting the requirements, the CPE icon will initiate progress notes.



Cybersecurity

In July 2023, the SEC adopted a final rule related to cybersecurity risk management, strategy, governance, and incident disclosures. There are two main provisions: **cyber incident disclosure requirements** and **annual disclosures** pertaining to cyber risk management, strategy, and governance.

Incident Disclosure Highlights



Timing and materiality

- Disclose information in new Item 1.05 in Form 8-K⁽¹⁾ about a **material cybersecurity incident**, which includes **a series of related incidents**, within **four business days** after the cyber incident is determined to be material
- Registrants must determine the materiality of an incident **without unreasonable delay** following discovery
- Disclosure can be delayed through a series of extensions if the US Attorney General determines that immediate disclosure would be a matter of national security or public safety and communicates that in writing to the SEC



Disclosure requirements

- The 8-K is required to describe the material aspects of the **nature, scope, and timing** of the incident, and the material impact or reasonably likely material impact on the registrant, including its financial condition and results of operations
- If information required to be disclosed is not determinable or unavailable at the time of the required filing, then state as such in the initial 8-K; file an **amendment** within **four business days** after such information becomes available
- A registrant is not required to disclose specific or technical information about its planned response to the incident or its systems in such detail as would impede its response or remediation of the incident

All registrants⁽²⁾ will be required to comply with 8-K incident reporting starting **December 18, 2023**

⁽¹⁾ FPIs filing on FPI forms would be required to furnish information regarding material cyber incidents on a Form 6-K, assuming the other criteria outlined in the instructions to Form 6-K are met.

⁽²⁾ Smaller Reporting Companies have until June 15, 2024 to comply with the incident disclosure requirements

Cybersecurity

Annual Disclosure Requirements



Disclosure of Risk Management and Strategy

- Describe **processes**, if any, **for assessing, identifying, and managing material risks from cybersecurity threats**, including the following:
 - Whether and how such processes have been integrated into the registrant's overall risk management system or processes
 - Whether the registrant engages assessors, consultants, auditors or other third parties in connection with any such processes
 - Whether the registrant has processes to oversee and identify such risks from cyber threats associated with its use of any-third party service provider
- Describe whether and how any **risks from cyber threats**, including **as a result of any previous cyber incidents**, have materially affected (or are reasonably likely to materially affect) the registrant including business strategy, results of operations, or financial condition



Disclosure of Governance

- Disclose information about the **board of directors' oversight of cybersecurity risks**, including:
 - Description of the board's oversight of risks from cyber threats
 - If applicable, identify of any board committee or subcommittee responsible for the oversight of risks from cyber threats and how it is informed about such risks
- Disclose information about **management's oversight of cyber risks**, including:
 - Whether and which management positions or committees are responsible for assessing and managing such risks, and the relevant expertise of persons or members
 - The processes by which such persons or committee are informed about and monitor the prevention, detection, mitigation and remediation of cyber incidents
 - Whether such persons or committees report information about such risks to the board of directors or a committee or subcommittee of the board of directors

Required disclosure for annual reports on Form 10-K or 20-F for fiscal years ending on or after **December 15, 2023**

Recent trends in revenue recognition



Principal vs. agent

- Example: An online retail marketplace with a platform to connect sellers of products with potential buyers would need to assess whether it is the principal or agent in transferring the product to the buyer
- **Reminder!** The framework applies to revenue arrangements that **involve three or more parties** and is evaluated from the **intermediary's** (i.e., reseller's) **perspective**



"Everything as a service" arrangements

- Companies shifting business model & strategy from selling products to providing services or a "solution" to customers
- Evaluate the nature of the goods or services to determine the Company's obligation to the customer
- Consider **whether the arrangement includes a lease** to the customer

For more information:

- [PwC's Revenue from contracts with customers guide](#)
- [Podcast: Revenue recognition: What's trending](#)



Payments to a customer

- Examples include (not limited to): cash, coupons, incentives or credits, equity, settlements, etc.
- **Reminder!** Consideration payable to a customer is evaluated based on the ASC 606 framework



Contract modifications

- Contract modifications that **reduce scope** must be carefully evaluated to determine the appropriate accounting
 - If remaining goods or services **are distinct**: **Prospective**
 - If remaining goods or services **are not distinct**: **Cumulative catch-up**

California climate disclosure bills

SB 253 requires greenhouse gas (GHG) emissions reporting in compliance with the Greenhouse Gas Protocol (GHG Protocol) for companies with total annual revenues in excess of \$1 billion that do business in California.

SB 261 requires climate-related financial risk reporting in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) for companies with total annual revenues in excess of \$500 million that do business in California.

Look for updates in our weekly newsletter at viewpoint.pwc.com.

California Senate Bill No. 261, Fact Sheet, May 2023

"California is primed to lead the way in requiring companies to disclose their climate risk by setting the bar on TCFD-aligned disclosure, filling in the gaps from proposed SEC rules, and providing a blueprint for other US states to drive disclosure from non-SEC regulated entities."

California climate disclosure bills

	SB 253 Climate Corporate Data Accountability Act	SB 261 Greenhouse gases: climate-related financial risk
Primary disclosure topic	Scope 1, scope 2, and scope 3 greenhouse gas emissions for the prior fiscal year	Climate-related financial risks (inclusive of greenhouse gas emissions metrics)
Referenced framework	Greenhouse Gas Protocol	Task Force on Climate-Related Financial Disclosures
Scope	Business entities with annual revenue over \$1 billion that do business in California	Business entities with annual revenue over \$500 million that do business in California
Exemptions	None specified	Insurance companies
Assurance	Yes	No
Compliance date	Starting in 2026 (on a date to be determined by the State Air Resources Board) and annually thereafter	On or before January 1, 2026 and biennially thereafter

“Big three” ESG reporting frameworks

European Union - Corporate Sustainability Reporting Directive (CSRD)

- Final [standards](#) span environmental, social, and governance topics
- Sector-specific standards will be developed
- 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

International Sustainability Standards Board (ISSB)

- Final [standards](#) released that address climate and other sustainability risks
- Requirement to “refer to and consider” the applicability of the disclosure topics in SASB standards
- Disclosure included as part of general purpose financial reporting
- No financial statement footnote disclosure required

US Securities and Exchange Commission (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

For more information:

- [In the loop: Navigating the ESG landscape](#)

The European Sustainability Reporting Standards (ESRS)

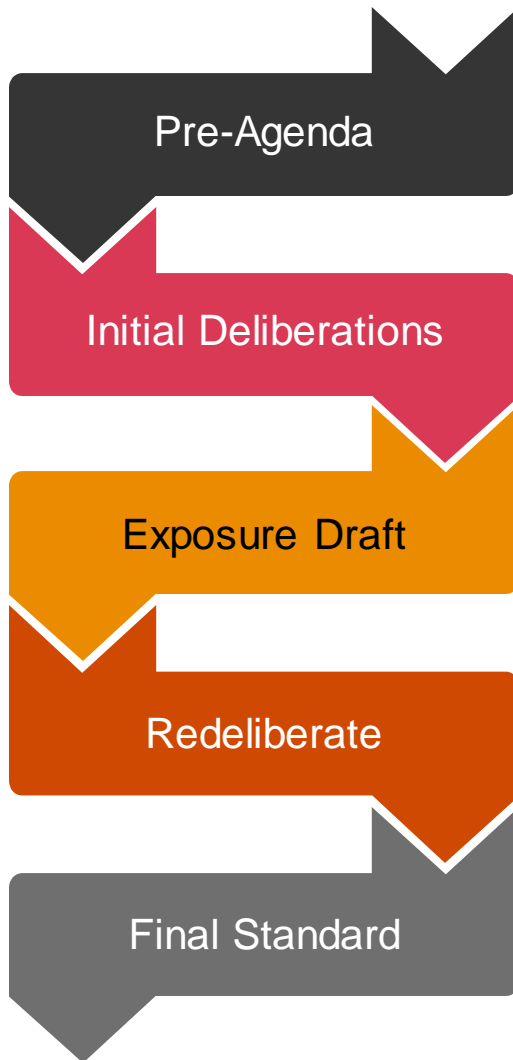


Structure of the standards:

Sector-agnostic standards				Sector-specific standards (coming later)
Cross-cutting standards	Environment	Social	Governance	
ESRS 1 General requirements	ESRS E1 Climate change	ESRS S1 Own workforce	ESRS G1 Business conduct	SME-proportionate standards (coming later)
ESRS 2 General disclosures	ESRS E2 Pollution	ESRS S2 Workers in the value chain		
	ESRS E3 Water and marine resources	ESRS S3 Affected communities		Standards for non-EU reporting (coming later)
	ESRS E4 Biodiversity and ecosystems	ESRS S4 Consumers and end-users		
	ESRS E5 Resource use and circular economy			

EFRAG is developing implementation guidance, currently focused on two key areas: the value chain and the materiality assessment.

FASB process and key projects



- Definition of a Derivative
 - Accounting for and Disclosure of Intangibles
 - Statement of Cash Flows
 - Key Performance Indicators
 - Accounting for Government Grants
-
- Software Costs
 - Environmental Credit Programs
-
- Disaggregation – Income Statement Expenses (comments due October 30, 2023)
-
- Credit Losses: Purchased Financial Assets (ED comment period closed August 28, 2023)
 - Scope Application of Profits Interest Awards (ED comment period closed July 10, 2023)
 - Segment Reporting (approved for issuance)
 - Income Tax Disclosures (approved for issuance)
 - Crypto Assets (approved for issuance)
-
- ASU 2023-01: Common Control Leases
 - ASU 2023-02: Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method
 - ASU 2023-05: Joint Venture Formations
-

Segments



Objective

- FASB undertook this project to make certain improvements to the segment guidance in order to provide users with more decision-useful information about the reportable segments of a public entity



Status

- FASB decided in July 2023 to proceed with issuing a final standard, expected by the end of 2023
- Will be effective for annual periods in calendar 2024, and interim periods in calendar 2025, on a retrospective basis. Early adoption will be allowed



Impact

- The planned ASU will not change the approach to determining or aggregating segments
- Significant changes include the following additional disclosure requirements:

1

Significant segment expenses that are 1) regularly provided to the CODM and 2) used in the measure of segment profit or loss

2

A total for “other segment items”, representing segment revenue less significant segment expenses less segment measure of profit/loss, along with a qualitative description of expenses included in this category

3

Disclosures apply to companies with a single reportable segment

4

Certain annual disclosures now also required on an interim basis

5

Allows companies to report more than one measure of segment profit or loss, if used to allocate resources and assess performance. At least one measure should be the one most consistent with GAAP amounts.

Disaggregation - income statement expenses



Background:

- The FASB received feedback from investors during its agenda consultation that further disaggregation of expenses should be a high priority.
- The FASB's revised objective of its existing “financial performance reporting” project is to focus on improving the decision usefulness of business entities’ income statements through the disaggregation of certain expense captions.



Current status:

- The FASB has proposed new footnote disclosures that include:
 1. Disaggregation of each expense line item presented in the income statement (e.g., cost of sales, SG&A, R&D) based on the following categories: (1) employee compensation, (2) inventory and manufacturing expense, (3) depreciation, and (4) amortization of intangibles. Qualitative description of remaining costs.
 2. Further disaggregation of inventory and manufacturing expenses incurred during the period by: (1) purchases of inventory, (2) employee compensation, (3) depreciation, and (4) amortization of intangibles. Qualitative description of remaining costs.
 3. Disclosure of “selling expenses” and, on an annual basis, a company's description of “selling expenses.”
- An ED was issued July 31st with comments due October 30th
- Public roundtable to be held on December 13th

Disaggregation - income statement expenses example for COGS

Example Existing Expense Presentation on Income Statement

Operating Expenses:

Costs of Goods Sold	\$74,351
SG&A	18,872
Interest	4,213
Total Operating Expenses	\$97,436

Other key disclosures not illustrated on this slide:

1. Include within the table other “by nature” expenses currently disclosed separately
2. Separately disclose selling expenses

New Disclosures Based on Proposal

	Costs of Goods Sold	SG&A
Inventory and Manufacturing Expense	\$61,738	-
Employee Compensation	\$9,481	\$11,379
Depreciation	\$765	\$1,755
Intangible Asset Amortization	\$670	\$596
Other (subject to qualitative disclosure)	\$1,697	\$5,142
Total	\$74,351	\$18,872

Inventory and Manufacturing Expense

Purchases of Inventory	\$29,712
Employee Compensation	\$16,199
Depreciation	\$8,678
Intangible Asset Amortization	\$4,050
Other Inventory and Manufacturing Costs (subject to qualitative disclosure)	\$1,157
Total Inventory and Manufacturing Costs (expensed or capitalized to inventory)	\$59,796
Other Adjustments and Reconciling Items (subject to qualitative disclosure)	\$438
Changes in Inventories (calculated based on balance sheet amounts)	\$1,504
Total Inventory and Manufacturing Expense	\$61,738

Includes costs incurred that are:
Directly Expensed
OR
Capitalized to Inventory

SEC clawback rule



At a glance:

In October 2022, the SEC adopted a rule requiring securities exchanges to establish standards that require listed issuers to develop and implement a written policy for the recovery, or clawback, of **erroneously awarded incentive-based compensation** received by current and former **executive officers** (over a **three-year look-back period**) in the event of a required **accounting restatement**, without regard to fault or misconduct. Failure to comply with the rule will subject the company to **delisting**. The rule is applicable to **all issuers** (inclusive of Emerging Growth Companies (EGC's), Smaller Reporting Companies (SRC's) and Foreign Private Issuers (FPI's)), with some limited exceptions. The rule also includes new disclosures in annual 10-K and 20-F filings.

Dates:

- October 2, 2023 – effective date of the new listing standards; compensation received on or after this date based on performance for periods including or subsequent to this date are subject to potential clawback.
- December 1, 2023 – deadline to adopt corporate recovery policy
- For calendar year-end companies, new disclosures required for December 31, 2023 Form 10-Ks and 20-Fs

SEC clawback rule



Key considerations and requirements:

- **What is a required accounting restatement as defined by the rule?** Includes both “Big R” restatements and “little r” revisions; however, does not include out-of-period adjustments.
- **What is erroneously awarded incentive-based compensation?** The amount of incentive-based compensation received that exceeds the amount of incentive-based compensation that otherwise would have been received had it been determined based on the restated amounts.
- **How is the clawback recovery amount determined?** Issuers will be required to determine the recovery amount based on the restated amounts. The rules permit issuers to use “reasonable estimates” when calculating recovery amounts for compensation based on total shareholder return or stock price. The calculation is on a pre-tax basis (i.e., without regard to taxes paid by the executive officer).
- **What is required to be disclosed in the Form 10-K or Form 20-F?** Issuers will be required to file their recovery policy as an exhibit to their annual reports; include two new cover page disclosures on the Form 10-K or Form 20-F indicating if financial statements reflect the correction of an error and if the error correction required an incentive compensation recovery analysis; and disclose any actions they have taken pursuant to such recovery policies.
- **How would a clawback of erroneously awarded incentive-based compensation be accounted for?** Existing guidance in ASC 718 would apply to the accounting for any clawback of erroneously awarded incentive-based compensation. The clawback is recognized when the consideration is received.

Division of Corporation Finance — SEC comment letter themes



**Non-GAAP
measures***

1



MD&A

2



**Business
combinations**

3



**Segment
reporting**

4



**Revenue
recognition**

5



**Fair value
measurement**

6



**Debt, Quasi-
debt, Warrants
and Equity**

7



**Inventory and
Cost of Sales**

8



**Climate
change
matters**

9



**Disclosure
Controls and
ICFR**

10

* For more information on Non-GAAP measures, see the recently updated [Compliance & Disclosure Interpretations](#).

For more information on comment letter trends, check out our podcast miniseries on SEC comment letters in our [Podcast library](#) and our [SEC comment letter trends](#) pages.

Register for upcoming CPE-eligible webcasts



- [Q4 Quarterly sustainability webcast | November 9 or 15](#)
- [Q4 Quarterly accounting webcast | December 7, 13, or 19](#)
- [Trust in Action: Why Trustworthy Data Matters to your Business and Brand](#)



Thank you

[pwc.com](https://www.pwc.com)

© 2023 PwC. All rights reserved. PwC refers to the US member firm or one of its subsidiaries or affiliates, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

