In brief

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2022 AICPA & CIMA Conference on Current SEC and PCAOB Developments

At a glance

Representatives from the SEC, PCAOB, FASB, IASB, and other market participants spoke this week at the 2022 AICPA & CIMA Conference on Current SEC and PCAOB Developments. Speakers discussed various accounting and reporting, auditing, and regulatory hot topics. This In brief *provides highlights from the Conference.*

What happened?

The 2022 AICPA & CIMA Conference on Current SEC and PCAOB Developments (the Conference) took place from December 12-14. Communicating with investors and enhancing quality, especially in times of uncertainty or when dealing with unique transactions, were common themes throughout the Conference.

Speakers noted that financial reporting is a communication tool, not just a compliance exercise. The need for transparency, including the impact of uncertainty on judgments and estimates in the financial statements, was echoed by various speakers. The SEC's proposals on climate disclosures and cybersecurity were discussed by multiple participants, but there were no updates provided on the expected timing of issuance or potential changes between the proposals and the final rules.

On enhancing quality, speakers emphasized that the financial reporting ecosystem — including preparers, auditors, and audit committee members — has a greater responsibility to provide investors with decision-useful information in light of the challenging economic environment. This may include consideration of elevated fraud risk.

Other topics addressed by multiple participants during the Conference included crypto assets, non-GAAP measures, auditor independence, and attracting and retaining talent in the accounting profession.

Accounting and reporting matters

Representatives from the SEC discussed the following accounting and reporting topics:

- **Geopolitical environment and macroeconomic conditions** – Paul Munter, Acting Chief Accountant in the SEC's Office of the Chief Accountant (OCA), and OCA staff emphasized the heightened need for transparency in light of the challenging economic environment, including robust disclosure of how changes or uncertainties may affect the assumptions and estimates used to prepare financial reports and the extent to which material events or uncertainties may impact the predictive value of historical financial information. Munter referred to the International Organization of Securities Commission's recent statement on financial reporting and disclosure during economic uncertainty. Throughout the Conference, the staff also referenced the sample letters and disclosure guidance issued by the SEC's Division of Corporation Finance (Corp Fin), such as guidance on the impact of developments in the crypto asset markets and Russia's invasion of Ukraine. For more information on accounting considerations in the current environment, refer to PwC's In depth, *FAQ on accounting in uncertain economic times*.

- **Disaggregation** – Munter discussed feedback from investors requesting additional disaggregation of financial information and noted that various FASB projects are addressing the same feedback. He encouraged companies to voluntarily provide additional information that is decision-useful to investors such as additional disaggregation of expenses, direct method cash flow information (e.g., cash collected from customers, cash paid to employees, cash paid to suppliers, and cash paid for materials), and segment information without electing to aggregate operating segments.
- **Crypto assets –** Multiple sessions of the Conference included a discussion of crypto asset transactions, emphasizing the unique nature of these transactions and the related risks and uncertainties.

  Accounting for crypto asset transactions

  OCA staff noted two types of crypto transactions they have discussed with registrants: crypto safeguarding and crypto lending. With regard to crypto safeguarding, the staff pointed to the guidance provided in SAB 121, issued in March 2022. For more details, refer to PwC's In depth, *Perspectives on SAB 121 and safeguarding crypto assets*.

  On crypto lending, the staff described an example of a basic crypto lending transaction and the staff's views on the related accounting and disclosure. In the example, the lender loans crypto assets for a fee and the borrower has the ability to use the assets at its sole discretion, including the ability to sell or pledge the crypto assets. As the lender does not have the economic benefits of the crypto assets until they are returned by the borrower, the lender should derecognize the loaned crypto assets and recognize an asset that is reflective of its right to receive a crypto asset. That asset would be measured at inception and subsequently at fair value of the loaned crypto assets through the income statement, potentially resulting in a day one gain or loss. The gain or loss should not be presented as revenue but as an other gain or loss. Further, because the lender is exposed to credit risk of the borrower, the lender should recognize an allowance for credit losses using principles in ASC 326, *Credit Losses*. Related disclosures should provide information about the key terms and risks associated with the arrangement. This would include terms of any collateral provided, rights in the event of borrower default, and how the lender monitors credit risk. Disclosures should also address concentration of credit risk and related party transactions, if applicable.

  Other crypto asset topics

  – Initial coin offerings – Linsday McCord, Corp Fin Chief Accountant, shared perspectives on the accounting for crypto assets in initial coin offerings, noting that companies should have a comprehensive accounting analysis that considers all of the terms of the arrangement, including the rights of the holder and obligations of the issuer (which may be implied).

  – Disclosures – Corp Fin staff referred to their recently issued sample letter addressing comments the staff expects to issue related to developments in the crypto asset market.

  – Audit risks – OCA staff discussed the audit risks present in crypto transactions, including consideration of (1) whether management or auditors need specialized skills, (2) possible misappropriation of assets, (3) possible management override of controls, (4) the role of third party service providers, and (5) related party transactions.

  – Regulation – SEC Commissioner Hester Peirce noted in her remarks that she expects future regulation in the crypto space. In her view, regulation would need to balance effectiveness without creating a barrier to entry into the market.
- **Climate accounting** – OCA staff noted that issuers currently have responsibilities to consider climate-related financial risks, both inside and outside of the financial statements. Some of the key accounting areas impacted by ESG were noted in the FASB staff's 2021 educational paper. Refer to further discussion of ESG reporting in the "ESG reporting" section of this *In brief*.

SEC reporting

Corp Fin representatives highlighted areas of focus in financial statement reviews and recent SEC rulemaking:

- **Non-GAAP measures** – The staff announced that they have updated their Compliance & Disclosure Interpretations (C&DIs) relating to non-GAAP financial measures. McCord noted that the updates are intended to memorialize existing staff views provided through public statements or comment letters. A key focus of the updates is to provide further guidance on what is considered "misleading," including guidance on operating expenses that are "normal and recurring," labeling of non-GAAP measures and adjustments, and measures that represent a tailored accounting principle. McCord also noted that when the staff objects to a non-GAAP measure because it is misleading, it should be removed in the next filing or public disclosure. That is, there is no transition period for misleading non-GAAP measures.
- **MD&A disclosures** – Multiple speakers reiterated that MD&A disclosures should address trends and uncertainties resulting from the geopolitical environment and macroeconomic conditions, and evolve over time as the impact to the company changes. McCord noted that the impact of different factors should be discussed separately so investors can identify which issue has a greater impact on the company's business, and companies should quantify each material factor that caused or contributed to a change.
- **Critical accounting estimates** – Critical accounting estimate (CAE) disclosures are based on the objective of informing investors by providing qualitative and quantitative information to understand estimation uncertainty and the impact the CAE has had or is reasonably likely to have on financial condition or results of operations, particularly in the current macroeconomic environment. McCord noted that she expects the disclosure to clearly address why the estimate is critical, not just identify it as a CAE. She also noted that analysis and related disclosures should become more robust, including sensitivity analyses, when a potential effect becomes more likely or increases in magnitude.
- **Clawback rules** – The staff discussed new rules related to the recovery of erroneously awarded executive compensation and highlighted that the rules also require notification on the cover page of certain SEC filings when prior period financial statement amounts are adjusted through restatement or revision (including voluntary, immaterial revisions), except when retrospectively applying accounting standards or providing further disaggregation. However, the staff clarified that a recovery analysis under the clawback rules would not be required for restatements that are not required (i.e., a voluntary revision for an error that is immaterial to all reporting periods). For more information, refer to PwC's In depth, *SEC adopts executive incentive compensation clawback rules*.
- **Pay versus performance rules** – The staff discussed new rules requiring additional disclosures related to executive compensation in proxy statements. McCord addressed the requirement to remeasure the fair value of stock-based compensation awards on a recurring basis for purposes of the calculation of "compensation actually paid," noting that generally the determination of fair value should be based on the principles in ASC 718, *Stock Compensation*. She also highlighted that disclosure is required of material differences in assumptions used in fair value measurements for purposes of the executive compensation disclosure as compared to grant-date fair value measurements completed for financial statement purposes. For more information, refer to PwC's In brief, *SEC adopts pay versus performance disclosure rules*.
- **Segments** – The staff reminded registrants that identification of the operating segment is a determination with a pervasive impact on subsequent accounting and reporting conclusions. The staff noted that they review segments holistically, including considering information outside of the SEC filing such as earnings releases, earnings calls, and websites. The staff also provided examples of fact patterns when they objected to a registrant's determination that it had a single operating segment.

ESG reporting

Multiple speakers at the Conference addressed ESG reporting, and their perspectives varied based on their respective roles.

- Commissioner Peirce expressed her concerns related to the SEC's climate disclosure proposal and the potential for importing global requirements that focus not just on what is financially material, but also on the effect of the company's actions on the outside world (i.e., the concept of "double materiality").
- Panels of preparers and assurance providers shared their best practices for providing ESG information and preparing for the final rules from the SEC and other global requirements.
- Investors shared their insights on how they use ESG information, and expressed support for initiatives that provide incremental improvements in comparability and reliability of information. They expressed interest in information on the costs of decarbonization, for example, along with information on current GHG emissions.
- Corp Fin staff highlighted existing requirements to provide disclosures related to climate change, referencing the SEC's 2010 interpretive guidance and the September 2021 sample letter that provides example comments the staff may issue on the topic. For more information, refer to PwC's In the loop, *Don't wait until the SEC asks you about climate change*.

The CAQ shared a review of climate disclosures of S&P 500 companies' Form 10-K filings as of June 2022. It found that the majority of S&P 500 companies mention climate-related information in their 10-Ks, while only 104 companies disclosed their scope 1, scope 2, and/or scope 3 GHG emissions, status, objectives, and/or targets.

For more on the SEC and global proposals, read PwC's In the loop, *Navigating the ESG landscape* and for more on getting ready ahead of final rules, read PwC's In the loop, *ESG reporting: Preparing for tomorrow's rules today*.

Cybersecurity

Cybersecurity specialists discussed transparency on this key issue, noting that disclosures should allow an investor to understand how prepared a company is to respond to an attack, recognizing that there is a fine line between having the appropriate disclosures and divulging too much information that may highlight weaknesses. Once an event has occurred, the SEC has made clear that timely and accurate disclosures are required. The SEC focus on this is demonstrated by recent enforcement actions and its recent proposed rules for enhanced cybersecurity disclosures. For more information on the SEC's cybersecurity proposal, refer to PwC's In brief, *SEC proposes new cybersecurity disclosure requirements*.

FASB and IASB standard-setting updates

Consistent with the theme of transparency, Munter and OCA staff commended the FASB for its efforts at transparency with several recent projects, including the projects to enhance disaggregation in the income statement and disclosures about segments and income taxes.

Several speakers, including Andreas Barckow, IASB Chair, discussed convergence between global and US accounting standards, including ways the boards share information and exchange ideas. While Munter noted that convergence is not currently a standard setting priority, he commented that recent standard setting efforts, such as the supplier finance disclosure projects, resulted in similar guidance.

Rich Jones, FASB Chair, and Hillary Salo, FASB Technical Director, described the FASB's outreach process, including with investors, and its impact on the FASB's technical agenda. The FASB agenda includes several new projects added after the FASB's 2021 agenda consultation. Notably, the FASB indicated that they expect to expose three projects for public comment proposals in the first half of 2023: income tax disclosures, disaggregation - income statement expenses, and accounting for crypto assets.

SEC enforcement update

Representatives from the SEC's Division of Enforcement discussed themes arising from cases brought by the Commission over the past year. The Division highlighted working with a sense of urgency to protect investors, holding wrongdoers accountable, and deterring future misconduct in the financial markets.

PCAOB update

A panel at the Conference featured all members of the new board, which has been in place since the beginning of the year. Board members discussed the PCAOB's strategic plan and standard setting activities. PCAOB representatives in multiple sessions also called for continued focus on audit quality, pointing to a staff Spotlight showing an increase in deficiencies in inspected audits in 2021. In addition, the PCAOB noted they are currently evaluating testing performed by the staff in China and Hong Kong. The day after the Conference, the PCAOB issued a statement announcing they have secured complete access to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong.

Why is this important?

The Conference is an opportunity for regulators and standard setters to highlight their activities and communicate areas of focus. Companies should consider these topics as they prepare their upcoming year-end or quarterly financial statements.

What's next?

A podcast with more discussion of Conference highlights will be available on Tuesday, December 20 at viewpoint.pwc.com or wherever you get your podcasts.

To have a deeper discussion, contact:

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