Introduction

2021 began with President Biden stepping into office and the Democratic Party effectively taking control of Congress, paving the way for expected changes to tax, trade, and regulatory policy. This quarter, we will share some of the changes that we foresee as a result of the new administration, and discuss some recent trends that seem to be continuing unabated. For example, the pace of corporate transactions continues to rise since the depth of the pandemic, and special purpose acquisition companies (SPACs) are continuing to generate a lot of traction both in their initial public offerings (IPO) and subsequent mergers with non-public entities.

In addition, the start of a new reporting cycle usually means adopting various amendments from the FASB and this year is no different. Income tax simplification and equity investments are top of mind. Amendments to the SEC’s disclosure rules for business acquisitions and dispositions and changes to Regulation S-K disclosure requirements are effective this year as well, and companies are continuing to prepare for the impacts of reference rate reform.

In this edition of The quarter close, we highlight these and other relevant accounting and reporting topics you should consider as we close out the first quarter of the year.
President Biden has laid out his administration’s top priorities for the near-term with a focus on four key areas: the COVID-19 pandemic, the economic fallout resulting from the pandemic, climate change, and racial equity. In addition to changes in the White House and Congress, confirmation hearings have already begun for Gary Gensler, President Biden’s pick to lead the SEC. He is expected to be confirmed as early as this month.

With the potential for broad changes to tax, trade, and regulatory policy, it will be important to understand and manage the related opportunities and challenges. Listen to our Forecast 2021: What to expect from the new administration podcast to hear PwC’s Public Policy Leader, Roz Brooks, discuss the latest in Washington and provide advice to CFOs on what to expect from the new administration. For more insights on how companies can prepare for policy shifts, including those related to cyber and privacy, trade, and environmental, social, and governance (ESG), see our Top Policy Trends 2021. And for more information on President Biden’s first 100 days, refer to PwC’s summary of the administration’s top priorities.

Finally, there is no doubt that economic challenges stemming from these political changes and the pandemic will leave their mark on tax legislation. Read our 2021 Tax Policy Outlook to find out what this might mean for your business.

Leading companies view ESG as a business imperative as it provides a window into a company’s future. ESG reporting and metrics are an important indicator of a company’s overall health and can lay the foundation for a compelling story about the company’s impact on the world. The SEC, under the new administration, promises to play a larger role in guiding companies in this area. The Division of Corporation Finance recently announced that it will enhance its focus on climate-related disclosure, while updating its 2010 guidance, and the Division of Enforcement established a Climate and ESG Task Force to scrutinize any material gaps or misstatements under the existing rules.

To get you grounded in this expanding area, we’ve taken a deep dive into each of the ESG components and share insights on addressing stakeholders’ ESG interests. Listen to our Forecast 2021: The “E” in ESG, spotlight on achieving net zero, Forecast 2021: The “S” in ESG, spotlight on societal investments, and Forecast 2021: The “G” in ESG, spotlight on governance podcasts for more information impacting environmental, social, and governance considerations.

After high-profile investments made headlines in February, Bitcoin is gaining wider acceptance and companies are more deeply evaluating their cryptocurrency strategy. In particular, CFOs are determining whether they are permitted to make investments in digital assets under their company’s investment policies and also thinking through the potential accounting implications given the volatile changes in fair value of these assets.

Listen to our Cryptocurrency? Digital asset? What’s the accounting? podcast as we discuss the emerging asset class of cryptocurrencies and what it means for your financial statements. For more, see our Point of view, Cryptocurrencies: Time to consider plan B.
Here are some of the technical accounting trends we’re seeing during the first quarter of 2021:

Gaining traction: Special purpose acquisition company (SPAC) mergers

The trend continues: Special purpose acquisition company (SPAC) mergers continue to gain traction. We’ve seen an active IPO market since 2020 and SPACs are taking their fair share of that market. Quoting data from Dealogic, the Wall Street Journal noted that SPACs have raised more money and have outnumbered traditional IPOs, raising $38.3 billion since the start of 2021 compared to $19.8 billion for traditional IPOs.¹

SPACs provide an alternative way for management teams and sponsors to take companies public. Sometimes referred to as “blank check” company, a SPAC raises capital through an IPO with the intention of acquiring a private operating company. When a private company is legally acquired by a publicly traded SPAC, it effectively becomes a public company without executing its own IPO.

After its IPO, the SPAC typically has 18-24 months to identify and complete a merger with a target company, sometimes referred to as “de-SPACing.” If the SPAC does not complete a merger within the specified time frame, absent an extension, the SPAC will liquidate and return the remaining IPO proceeds to its shareholders.

For private companies, benefits of a SPAC transaction include access to capital, the potential to sell a bigger stake in the company, greater market certainty, flexible deal terms, and access to experienced managers with the potential to share resources. The SPAC merger presents its challenges, though, including possible increased costs and potential loss of control. The company also needs to have policies and processes in place in order to perform as a public company, and should be prepared for the various accounting and financial reporting challenges, as well as SEC filing requirements, that come along with the transaction.

For more information on the benefits and challenges associated with SPACs, read our In the loop, What’s behind the SPAC-tacular boom of 2020? and listen to our Special purpose acquisition company (SPAC) mergers: Why are companies looking to them when going public? podcast.

For accounting and financial reporting considerations related to SPACs, read our In depth, Domestic SPAC mergers - financial reporting and accounting considerations, which highlights several key accounting issues for SPAC mergers, including the determination of which entity involved in the transaction is the accounting acquirer, whether the transaction is considered a reverse merger, and how to account for earnout provisions used to facilitate the issuance of additional shares. We also answer frequently asked questions on the SPAC merger process, “Super 8-K” reporting, and the ongoing reporting requirements subsequent to the SPAC merger.

Typical SPAC process

Reminders when accounting for payments to customers or from vendors

In the current economic environment, it is not uncommon for companies to make payments to retain existing customers or establish new customer-vendor relationships. Reasons for these payments include upfront payments to cover a customer’s termination penalty when displacing another vendor, or payments to secure favorable product placement at a customer’s retail store. Payments are often made in cash, but can also be in the form of equity, coupons, or rebates.

To determine the appropriate accounting for these payments, it is important to understand the relationship between the parties involved. A company making a payment to another party that is its customer should account for the payment as a reduction of revenue under ASC 606, unless the payment is in exchange for a distinct good or service. Payments that reduce revenue are effectively a discount on the transaction price and, therefore, reduce the amount of revenue recognized as the company transfers goods or services to its customer. If the payment relates to a past revenue transaction, it should be recognized as a reduction of revenue immediately. If the payment is made in exchange for a distinct good or service, the payment is accounted for in the same way as any other purchase from a vendor; however, if the payment amount exceeds fair value of the good or service, the excess is a reduction of revenue.

Conversely, if a company receives a payment from a vendor, the accounting model (outlined in ASC 705-20) largely mirrors that for payments to customers. That is, consideration received from a vendor is generally accounted for as a reduction of the purchase price of the goods or services acquired from the vendor. If payments are received in exchange for a distinct good or service, the payment is recognized as revenue (the same as any other revenue transaction) as long as the amount does not exceed the standalone selling price of the good or service being provided to the vendor.

There are two exceptions to the general model discussed in ASC 705-20: (1) reimbursements of costs to sell the vendor’s products (presented as a reduction of those costs), and (2) reimbursement for sales incentives offered to end customers by the vendor (presented as revenue if certain criteria are met). In other less common situations, a payment may be unrelated to the customer-vendor relationship and subject to other guidance, such as guidance for contingent gains.

The accounting model can generally be summarized as follows:

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<tr>
<th>Payment made in exchange for a distinct good or service?</th>
<th>Payments made by the company to a customer</th>
<th>Payments received by the company from a vendor</th>
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<tbody>
<tr>
<td>No</td>
<td>Reduction of revenue for the related goods or services transferred to the customer</td>
<td>Reduction of the purchase price of the goods or services acquired from the vendor</td>
</tr>
<tr>
<td>Yes*</td>
<td>Expense (or asset)</td>
<td>Revenue</td>
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</tbody>
</table>

* Assumes the amount of the payment does not exceed the fair value/standalone selling price of the good or service.

The above highlights only touch the surface of considerations when accounting for payments made to customers or received from vendors. For further insights, check out our Payments to customers? Receipts from vendors? Help! podcast, and for more on payments to customers, read Chapter 4 of our Revenue guide.
In December 2019, the FASB issued guidance that simplifies the accounting for income taxes as part of the Board's overall initiative to reduce complexity in accounting standards. The guidance is required to be adopted by public filers for years beginning after December 15, 2020 (and after December 15, 2021 for other entities). The amendments include the removal of certain exceptions to the general principles of ASC 740, *Income taxes*, and simplification in several other areas. Upon adoption, organizations will no longer be required to consider:

- the exception to intraperiod tax allocation when there is a loss in continuing operations and income in other components;
- the exception in interim period income tax accounting that limits the benefit for year-to-date losses that exceed anticipated losses for the year; and
- exceptions to accounting for outside basis differences of equity method investments and foreign subsidiaries.

The guidance also simplifies accounting for:

- a franchise tax (or similar tax) that is partially based on income;
- tax rate changes in an interim period;
- the allocation of taxes to separate company financial statements for entities both not subject to tax and disregarded by the taxing authority; and
- when a step-up in the tax basis of goodwill should be considered part of a business combination versus a separate transaction.

For more information on the ASC 740 simplification, refer to our In depth, *FASB simplifies accounting for income taxes*.

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**Applying new guidance for equity investments, now effective**

When an investor signs an agreement to acquire an equity investment that will be accounted for using the equity method, the closing of the transaction may occur at a future date. Many of these arrangements do not meet the definition of a derivative under ASC 815 and, historically, were frequently viewed as executory in nature and were not accounted for prior to closing.

**ASU 2020-01**, *Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*, clarified that forward or option contracts to purchase investments that will be accounted for using the equity method that do not meet the definition of a derivative under ASC 815 are in the scope of ASC 321. Therefore, when the purchase contract is considered a forward or option contract in the scope of this guidance, the investor would account for changes in the contract’s fair value prior to closing through earnings, unless the contract qualifies for the measurement alternative and it is elected. If the measurement alternative is elected, the change in the fair value of the contract would be reflected in earnings upon closing. In addition, if there are observable transactions or impairments before closing, the guidance would require remeasurement of the contract to fair value.

The guidance in ASU 2020-01 also specifies that when applying the measurement alternative in ASC 321, observable transactions include those transactions by the investor that result in the application or discontinuation of the equity method of accounting.

These amendments are effective prospectively on January 1, 2021 for calendar year-end public business entities. Early adoption is permitted for all other companies.
FASB simplifies goodwill triggering event evaluation for private companies and NFPs

The FASB issued guidance aimed at reducing the cost and complexity of evaluating goodwill impairment triggering events for private companies and not-for-profit entities (NFPs). The guidance introduces an accounting alternative allowing private companies and NFPs to forgo the evaluation of goodwill triggering events occurring throughout the reporting period. Instead, those entities electing the accounting alternative are only required to evaluate triggering events as of the end of the reporting period (including as of the end of interim reporting periods for entities issuing interim financial statements). So for companies adopting the alternative that only report annually, goodwill impairment assessments would only be performed at year end.

The guidance is effective prospectively for fiscal years beginning after December 15, 2019. Early adoption is allowed for any financial statements that have not been issued or made available for issuance as of March 30. Entities are provided with an unconditional one-time option to adopt the alternative prospectively without assessing preferability.

For more information on evaluating goodwill impairment triggering events and the new guidance, listen to our The FASB's latest PCC goodwill alternative: What it means for you podcast and read our In brief, FASB issues private company goodwill impairment alternative. We will also be updating Chapter 9 of our Business combinations and noncontrolling interests guide.

Calendar year-end companies can early adopt the FASB’s new guidance on liabilities and equity this quarter

A number of companies are considering early adoption of the FASB’s recently-issued guidance on liabilities and equity. ASU 2020-06 simplifies the accounting for certain financial instruments with characteristics of liabilities and equity by reducing the number of accounting models for convertible debt and convertible preferred stock instruments. In addition, the FASB amended the derivative guidance for the “own stock” scope exception and certain aspects when calculating earnings per share (EPS).

Early adoption is permitted for fiscal years beginning after December 15, 2020 (including interim periods), but only if adopted as of the beginning of the fiscal year. As a result, calendar year reporting entities considering early adoption must do so as of January 1, 2021.

The adoption of ASU 2020-06 may have unexpected consequences related to how certain instruments are reflected on a company’s balance sheet and treated for EPS. Before electing to early adopt the standard, some key areas to consider include:

- **Net cash settlement and balance sheet classification:** Under current guidance, an instrument indexed to a company’s own stock that could require cash settlement outside of the entity’s control is usually required to be reported as an asset or liability. ASU 2020-06 provides exceptions such that three of the conditions necessary for equity classification do not need to be considered in evaluating settlement provisions for instruments indexed to an entity’s own stock. However the guidance did not amend the SEC’s mezzanine equity guidance in ASC 480-10-S99. As a result, the three conditions that no longer need to be evaluated when determining appropriate presentation under ASC 815 still require consideration for determining if the instrument should be classified as mezzanine equity.

- **Diluted EPS:** The new guidance requires a company to assume share settlement when an instrument can be settled in cash or shares at the company’s option. For some instruments for which the company is asserting cash settlement, the adoption of the guidance may reduce diluted EPS.
• **Income tax accounting implications:** If upon adoption of the ASU, a company recombines the liability and equity components of a convertible debt instrument into a single unit of account, the company may need to adjust or remove the deferred tax liabilities that were initially recorded. Deferred tax liability changes may also affect valuation allowance assessments, as future reversals of the deferred tax liability related to convertible debt may have served as a source of future taxable income. Depending on the facts and circumstances, a company may increase or decrease its valuation allowance as either a direct or indirect effect.

• **Expanded disclosure requirements:** While the FASB concluded that the existing disclosure requirements for convertible instruments and contracts in an entity’s own equity did not need substantial revision, ASU 2020-06 does create some additional disclosure requirements.

• **Other adoption considerations:** Companies should also consider the implications of adoption related to capitalized interest, debt covenants, financial ratios, and conversion versus extinguishment accounting.

For further information, read our In depths, *Adopting the new liability and equity guidance early* and *Accounting for convertible instruments and own equity contracts.*

**SEC amendments to disclosure rules for business acquisitions and dispositions**

SEC amendments to rules around disclosures of acquired or disposed businesses became effective on January 1, 2021. Some of the more significant amendments include:

- conforming the significance threshold and tests for a disposed business to those used for an acquired business;
- reducing the maximum number of years for which financial statements are required to two years (previously three years were required in some cases);
- adding a revenue component to the income test, and revising the investment test to require the use of the registrant’s aggregate worldwide market value, if available, for determining the period of acquiree financial statements that must be provided; and
- amending the pro forma financial information requirements to allow, in some cases, optional “Management’s Adjustments” to depict synergies and dis-synergies of the acquisition or disposition.

For more on these amendments, see our In depth, *SEC amends disclosure rules for acquired and disposed businesses.*

**SEC modernization of SEC Regulation S-K disclosure requirements**

On November 19, 2021 the SEC voted to adopt incremental amendments to Regulation S-K, which include:

- eliminating the five-year Selected Financial Data disclosures;
- replacing the current requirement for quarterly tabular disclosure with a principles-based requirement for material retrospective changes;
- codifying SEC guidance on critical accounting estimates;
- clarifying and simplifying disclosure requirements for results of operations;
- enhancing and clarifying the disclosure requirements for liquidity and capital resources; and
- eliminating the tabular disclosure of contractual obligations.

The amended rules are effective February 10, 2021. Registrants are required to comply with the new rules beginning with the first fiscal year ending on or after August 9, 2021. Registrants may early adopt the amended rules at any time after the effective date (on an item-by-item basis) as long as they provide disclosure responsive to an amended item in its entirety.

For more information on the amendments, read our In depth, *SEC amends MD&A and eliminates selected financial data.*
Question: What should companies be thinking about as they prepare their first quarter income tax provision?

Kassie: First, it is important to understand the overall methodology when accounting for an interim tax provision. For quarterly reporting, companies must use an estimated annual effective tax rate (ETR), based on the full-year forecast of ordinary income and the total tax provision (current and deferred). This estimated annual ETR is then applied to year-to-date ordinary income or loss to determine the year-to-date income tax provision each period.

To the extent a company has any unusual or infrequent transactions in an interim period, it may be appropriate to record the tax effect of these discrete items separate from the year-to-date ordinary provision for income taxes. Certain transactions within ASC 740 are defined as discrete, such as excess tax benefits and tax deficiencies related to stock-based compensation; however, the determination of whether a transaction is unusual or infrequent requires significant judgment. Generally, most items generated by a company’s operations fall within the definition of ordinary income and only a limited number of items are treated as discrete in a given period.

Question: What are some of the more common types of discrete tax items that you see?

Kassie: Some of the more common discrete items that we encounter include changes in an uncertain tax position and the related interest and penalties, changes in tax laws or tax status, changes in a valuation allowance related to beginning-of-year deferred tax assets (DTA), changes in an indefinite reinvestment assertion, and return-to-provision adjustments. It is important to be mindful that certain transactions may have both a discrete and an annual ETR component. For example, if there is a change in a valuation allowance related to temporary differences or carryforwards that originate in ordinary income in the current year, it should be a component of the annual ETR.

Question: Are there any exceptions to this approach for calculating an interim income tax provision?

Kassie: They are very limited, but GAAP does provide two specific exceptions to using the annual ETR: (1) when a jurisdiction is anticipating an ordinary loss for which no tax benefit can be recognized (such as when there is a full valuation allowance), and (2) when an entity is unable to make a reliable estimate of its ordinary income (or loss) and the associated taxes for the fiscal year, which we expect to be uncommon. A company’s assertion that it cannot develop a reliable estimate should be consistent with its other disclosures and communications to investors, creditors, and other financial statement users.

Question: Have more companies had difficulty developing a reliable estimate as a result COVID-19?

Kassie: They have. But even though COVID-19 caused unusual fluctuations in profitability in 2020 for many companies and made forecasting more challenging, most companies were able to estimate their annual ETR and compute the tax provision for ordinary income as prescribed in ASC 740. While uncertainty due to COVID-19 remains, we expect companies will be able to make reasonable forecasts for purposes of determining their interim income tax expense.

For more information on accounting for income taxes in interim periods, listen to our Accounting for income taxes in interim periods: back to basics podcast, and read chapter 16 of our Income taxes guide.
Here are standard-setting developments you need to know as we make our way through 2021:

Preparing for the impacts of reference rate reform

There continues to be a significant focus on the discontinuance of LIBOR. One-week and two-month USD LIBOR settings as well as all non-USD LIBOR settings will stop being published on December 31, 2021, while the remaining USD LIBOR settings would be discontinued on June 30, 2023. Companies should ensure that they have the proper processes and controls in place to identify all contracts that will be affected by the cessation of LIBOR and evaluate and execute any necessary contract modifications. Companies also need to ensure that all accounting considerations related to these modifications are understood and assessed.

ASU 2020-04, Reference Rate Reform, provides optional relief from the accounting analysis and impacts that may otherwise be required for modifications to agreements resulting from the discontinuation of LIBOR. Additionally, this guidance provides optional expedients to enable companies to continue to apply hedge accounting to certain hedging relationships impacted by reference rate reform. These relief provisions must be affirmatively elected by companies in order to be applied. In addition to this guidance, the FASB has continued to monitor market developments and issued ASU 2021-01 on January 7 to clarify the scope of the guidance and allow derivatives impacted by the changing of interest rates used for margining, discounting, or contract price alignment to qualify for certain relief.

For more on reference rate reform, including illustrative guidance and interpretations, see our Reference rate reform guide and listen to our Contracts filled with LIBOR references? Now what? podcast.

FASB continues to discuss its proposal for three amendments to the leases standard

At its meeting on February 10, the FASB discussed comment letters received in response to its exposure draft that proposed three amendments to the leases standard. Those amendments related to (1) loss recognition for sales-type leases with variable lease payments, (2) a lessee option to remeasure lease liabilities, and (3) modifications that reduce the scope of a lease contract. Based on comment letter feedback, the FASB decided to remove the amendment related to a lessee option to remeasure lease liabilities from its technical agenda. The Board decided to continue deliberations on the other two proposed amendments. Read what our Leases guide has to say on day one losses recognized in a sales-type lease and lease modifications.

Accounting and disclosure for intangible assets

Both the FASB and IASB plan to take a fresh look at their standard-setting agendas in 2021. The FASB Chair has indicated the Board's intent to issue a request for feedback in mid-2021, while the IASB plans to publish a request for public comment this month. And as both Boards lay the groundwork for future standard setting projects, one area important to reconsider to maintain the relevance of the financial statements is the accounting for intangible assets.

Business models in many industries have evolved in the last decade to increasingly create economic value from investments in intangible assets, such as brands, technology, and customer relationships. Current accounting guidance does not always recognize the value created by intangibles and, as a result, a company's most valuable assets often are not recorded or disclosed in its financial statements.

As our economy becomes more dependent on knowledge-based solutions, investors are seeking further insights into the nature and value created by intangibles. The alternatives for providing decision-useful information range from recognizing all intangible assets at fair value to only disclosing information about key intangible assets.

In our Point of view, The unbalanced balance sheet: Making intangibles count, we begin a discussion about the future of financial reporting and how information about intangible assets could be communicated to stakeholders.
### PwC’s accounting podcasts

**PwC’s Accounting podcast series** includes a library of podcasts covering the most significant accounting and reporting trends relevant for the first quarter close.

In addition, our Thursday podcast series for CFOs, controllers - really, anyone in finance - asks big questions as businesses adapt to the changing environment. This season, our *Forecast 2021* episodes focus on preparing you for the year ahead by offering insights to help you better understand and manage some of the opportunities and challenges that your company might face—think policy, emerging technology, and other big picture topics, but through a finance lens.

Some of the most popular podcasts from this quarter include:

- **Forecast 2021: Emerging tech blends mind + machine in finance**
- **Cryptocurrency? Digital asset? What’s the accounting?**
- **Forecast 2021: Pledging minds + money to solve societal issues**
- **Forecast 2021: What to expect from the new administration**
- **New SEC human capital disclosure rules: What you need to know now**

For all of our podcasts on today’s most compelling accounting and financial reporting issues, subscribe to our podcast feed on your podcast platform of choice.

### In the loop

- You’re saying it. Are investors hearing it?
- New human capital disclosure rules: Getting your company ready
- To GAAP or to non-GAAP COVID-19: What you should know
- What’s behind the SPAC-tacular boom of 2020?

### Point of view

- The unbalanced balance sheet: Making intangibles count
- Cryptocurrencies: Time to consider plan B

### Observations from the frontlines

- Business strategy shifting? Update segment reporting to communicate the impact to stakeholders

### Governance insights

- ESG oversight: The corporate director’s guide
- Leading on diversity, equity, and inclusion
- Forecast 2021: The "E" in ESG (podcast); The "S" in ESG (podcast); The "G" in ESG (podcast)
- PwC comments on the SASB’s Human Capital Framework

### Accounting and reporting webcasts

Register for our [Quarterly accounting and reporting webcast](#) to earn CPEs while staying up to date on accounting, reporting, and governance trends every quarter.

### Subscribe to our weekly accounting newsletter

Interested in staying current on newly released PwC accounting, financial reporting, and business content, in addition to highlights from regulators and standard setters? [Subscribe to PwC's weekly accounting newsletter](#) and have our newsletter delivered to your inbox every Friday.

<p>| National Professional Services Group | <a href="http://www.cfodirect.com">www.cfodirect.com</a> | The quarter close | 10 |</p>
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<td>Equity securities, equity method, and derivatives</td>
<td>Cloud computing</td>
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<td></td>
<td>NFP entities: contributions of non-financial assets</td>
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<td>2025</td>
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a) Effective in 2022 for SEC filers other than SRCs; effective in 2024 for all other companies, including SRCs.

b) Effective in 2022 for “all other” entities that have not yet issued financial statements or made financial statements available for issuance reflecting the adoption of ASC 842 as of June 3, 2020.

c) In November, the FASB issued ASU 2020-11, providing an additional one-year deferral of the Insurance: long-duration contracts standard for all entities. The standard is now effective in 2023 for SEC filers other than SRCs, and effective in 2025 for all other entities, including SRCs.

d) Effective in 2020 for SEC filers other than smaller reporting companies (SRCs); effective in 2023 for all other companies, including SRCs.

For further information on the new accounting guidance for public and nonpublic companies, including available 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, and see our In depth, How to apply the FASB’s deferral of effective dates.