Introduction

The world continues to focus on the recent events in Ukraine and the devastating impact they have had on the people in that region; their safety and well being continues to be the primary concern of all of us. The combination of the Russian government’s invasion of Ukraine and the resultant sanctions—designed to inflict severe consequences on the Russian economy—has impacts not only to companies with operations in the region, but to all companies that participate in the global economy. Our In depth, Implications of the Russian government’s invasion of Ukraine, highlights several accounting and reporting matters that companies may need to consider this quarter.

Global events have put even greater emphasis on transparency around cyber risk. Both Congress and the SEC took actions on this topic in March, with new legislation requiring reporting of cyber incidents by critical infrastructure owners and a proposed SEC rule that would expand cyber-related reporting and disclosure requirements for SEC registrants. The SEC also took a significant step on ESG reporting on March 21 by issuing its landmark proposal on climate disclosures. Meanwhile, outside of the US, new global ESG reporting standards and requirements continue to move forward at a rapid pace. In Ask the National Office, we explain why these international developments matter to US companies.

The start of a new year also means adopting new accounting standards. Notably, revised guidance on liabilities and equity is now effective for many public companies. Changes are also on the horizon for the FASB’s technical agenda, as the FASB weighs feedback it received from its invitation to comment last year.

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 2022.
Implications of the Russian government’s invasion of Ukraine

The Russian government's invasion of Ukraine has had profound and immediate impacts on business operations within the conflict zone as well as reverberating more broadly through the world economy. The physical interruption of business operations has been compounded by economic sanctions imposed by the US and other governments, voluntary actions by businesses to cut ties with their Russian operations, and disruptions to commodity exports.

Specific matters that may impact financial reporting in the first quarter include:

• Disruption of operations – e.g., impairments of assets located in, or dependent on operations in, the conflict zone
• Impact of Russian laws and regulations – e.g., the impact to consolidation assessments for operations in Russia
• Exposure to customers affected by the conflict – e.g., the impact to revenue recognition and increased credit losses related to receivables
• Supply chain disruptions – e.g., the impact to the accounting for purchases and sales contracts
• Volatility in foreign currency and capital markets – e.g., the impact to valuation and impairments of financial assets and liabilities

Importantly, management should assess the need for transparent disclosure around the impact on current and future financial performance and the related risks and uncertainties. Timely company-specific disclosure is essential, even though it may be difficult to assess or predict the effects of the conflict with precision.

For discussion of the above topics and references to the relevant guidance, read our In depth, Implications of the Russian government’s invasion of Ukraine.

Regulatory actions seek to enhance reporting and disclosures on cyber

“Today, cybersecurity is an emerging risk with which public issuers increasingly must contend. Investors want to know more about how issuers are managing those growing risks.”

- Gary Gensler, SEC Chair, March 9, 2022

Cyber risk remains front and center, particularly in the current geopolitical environment; CEOs continued to cite cyber risk as a top threat in PwC’s 25th Annual Global CEO survey. On March 15, the Strengthening American Cybersecurity Act was signed into law requiring reporting of cybersecurity incidents by critical infrastructure entities and operators. The SEC has also issued multiple proposals related to cybersecurity in the first quarter, including a proposal in March to enhance public companies’ disclosures related to cybersecurity. The proposed amendments would require:

• current reporting on Form 8-K about material cybersecurity incidents;
• periodic reporting to provide updates about previously reported cybersecurity incidents and disclosure of policies, procedures, and oversight with regards to the identification and management of cybersecurity risks; and
• annual reporting about the cybersecurity expertise of the company’s board of directors.

Comments are due 30 days after publication of the proposal in the Federal Register or May 9, whichever is later.

See our In brief for more details and join our Q1 2022 Quarterly accounting webcast featuring Sean Joyce, PwC’s US and Global Cybersecurity and Privacy practice leader, who will share his advice for finance teams on cybersecurity.
SEC issues landmark climate disclosure proposal

On March 21, the SEC issued its highly anticipated proposal for new disclosures of climate-related information. The proposal would require most SEC registrants to provide specific disclosures in registration statements and periodic reports, such as on Form 10-K, about:

- climate-related risks and their actual or likely material impacts on the registrant’s business, strategy, and outlook;
- the governance of climate-related risks and relevant risk management processes;
- Scope 1 and 2 greenhouse gas (GHG) emissions (Scope 3 if material or if included in announced emission targets);
- certain climate-related financial statement metrics and related disclosures in a note to the audited financial statements; and
- information about climate-related targets and goals, if any.

The proposed rules would become effective in phases depending on the company’s filer status. Large accelerated filers would be required to provide the new disclosures first in 2023 (Form 10-Ks filed in 2024), except information about Scope 3 GHG emissions, which would not be required until the following year. The proposal would also require accelerated and large accelerated filers to obtain an attestation report providing assurance over information about Scope 1 and 2 GHG emissions, also subject to phased-in compliance dates.

Comments are due 30 days after publication of the proposal in the Federal Register or May 20, whichever is later.

Read our In brief for more details on the proposal and stay tuned for more resources coming soon.

Other developments in ESG reporting

In addition to the SEC’s climate disclosure proposal, the past few months have seen a flurry of global activity on ESG reporting. Head to Ask the National Office for the latest updates and why they matter to US companies.

Although there is increased pressure for ESG information from various stakeholder groups, investors may be the most vocal about the need for greater transparency on how companies are responding to ESG risks and opportunities. Our In the loop, PwC’s US investor survey: The economic realities of ESG, highlights US investor feedback from our Fall 2021 investor survey.

Not sure where to start on ESG reporting? Read our updated In the loop, Don’t wait until the SEC staff asks you about climate change, to incorporate recent SEC comments on climate disclosures.
Here are some of the technical accounting trends we're seeing during the first quarter of 2022:

The end of LIBOR draws near: are you prepared?

The shift away from LIBOR, one of the most widely used interest rate benchmarks, to alternative reference rates is a significant change for the global financial markets. January 1, 2022 was a major milestone in this transition with the administrator to LIBOR ceasing publication of certain USD LIBOR and most non-USD LIBOR settings. Additionally, US banking agencies have directed banks to discontinue entering into new agreements referencing USD LIBOR, with some exceptions. The final step in the transition is on the horizon, with remaining USD LIBOR settings expected to cease to exist beyond June 30, 2023.

What actions should companies be taking now?

A first step is identifying existing LIBOR exposures. Generally, non-financial institutions will have less volume of direct exposures than financial institutions, but some examples may include borrowings and derivative instruments. Arrangements with LIBOR exposure will need to be renegotiated, modified, or replaced prior to June 2023; therefore, finance teams should be prepared to react to these changes. Additionally, companies should not lose sight of the use of LIBOR in their systems and processes, sometimes referred to as indirect LIBOR exposure. For example, LIBOR is often used as a discount rate in valuation, which will require updates to models, systems, and processes to incorporate new rates, such as the Secured Overnight Financing Rate (SOFR). Systems and processes will also need to be updated to perform tasks such as calculating accruals for arrangements with new rates.

The SEC continues to emphasize the importance of transparent disclosures about the impact of reference rate reform, most recently in a staff statement issued in December 2021. The SEC staff has encouraged companies to provide qualitative and quantitative disclosure, when material, of the status of their transition efforts and the related risks.

FASB guidance on reference rate reform

The FASB issued ASC 848, Reference rate reform, to provide relief for the transition away from LIBOR. This guidance generally simplifies the accounting for a contract modified solely to change the reference rate as a result of reference rate reform and has a current sunset date of December 31, 2022, at which time it will be superseded. In response to changes in the timeline of LIBOR transition, the FASB recently voted to propose an extension of the sunset date to December 31, 2024. An exposure draft is expected soon.

For more information, read our Reference rate reform guide and listen to our podcast, LIBOR transition past, present, and future.

In case you missed it: Making materiality assessments

On March 9, SEC Acting Chief Accountant Paul Munter issued a statement on how to consider materiality in the context of error corrections. Munter noted that the assessment of materiality should take a well-reasoned, holistic, objective approach from a reasonable investor’s perspective based on the total mix of information, both quantitative and qualitative. He highlighted a need for increased objectivity and cautioned that the SEC staff has observed some materiality assessments that seem biased toward supporting an outcome that an error is not material. Need a refresher on this important topic? Revisit our recent podcast, Year-end toolkit: Making materiality assessments.
Determining whether to report revenue on a gross or net basis continues to be a challenging aspect of applying the revenue guidance. At December’s AICPA & CIMA Conference on Current SEC and PCAOB Developments (the Conference), the SEC staff noted principal versus agent assessments as a frequent topic of consultation by registrants.

The issue arises when more than one party is involved in providing goods or services to a customer. A company that is the intermediary between two parties (e.g., a reseller, distributor, or platform) needs to assess whether it is the principal for the transfer of the good or service to the customer (gross reporting) or an agent arranging for another party to transfer the good or service (net reporting).

**How the guidance works**

Principal versus agent assessments are a two-step approach: (1) identify each specified good or service that is being provided to the end consumer, and (2) assess whether the company controls each specified good or service before it is transferred to the end consumer. To help companies assess control, the guidance provides three indicators of control: (1) primary responsibility for fulfillment, (2) inventory risk, and (3) pricing discretion.

Assessing whether a company obtains control can be more challenging when a service or an intangible is being provided to the customer. In particular, transactions that involve multiple parties but occur in mere moments, such as a payment processing or internet advertising transaction, can be difficult to evaluate under the principal versus agent guidance.

**Key reminders**

Principal versus agent assessments require a thorough understanding of the roles and responsibilities of each party involved. This includes evaluating both the contractual arrangements and the company's customary business practices. It's also important not to shortcut the steps of the model. For example, the assessment of control should be based on the control definition. The indicators should then be used to support that assessment rather than replace or override it, and certain indicators may be more relevant than others, depending on the fact pattern.

In some cases, a company may conclude that it integrates another party's good or service with its own goods or services into a combined offering provided to the customer. The SEC staff highlighted at the Conference that the company should consider the nature and significance of the integration service and whether it controls all inputs (including those provided by the other party) in order to integrate them. In other words, a company still needs to evaluate whether it obtains control of the other party's goods or services in this scenario.

Lastly, clear and transparent disclosures are critical to communicate the key judgments applied in the principal versus agent assessment and the conclusions the company has reached for its specific facts and circumstances.

For additional information, refer to Chapter 10 in our [Revenue from contracts with customers](#) guide and listen to our podcast, [Principal or agent? Gross or net? Your revenue questions answered](#). Also, listen to our [What you missed at the 2021 AICPA Conference](#) podcast for more highlights from the Conference.
Global ESG reporting developments: why they matter to US companies

Andreas Ohl
Partner, PwC National Office

What recent developments in ESG reporting have you been tracking?

Andreas: The ESG reporting landscape has been evolving rapidly in recent months. In the US, we’ve been focused on anticipated SEC proposals on climate and human capital disclosures; however, there have also been significant developments internationally. Late last year, the IFRS Foundation announced the new International Sustainability Standards Board (ISSB). In the EU, the European Financial Reporting Advisory Group (EFRAG) has begun releasing initial drafts of sustainability standards that are expected to become mandatory under the proposed Corporate Sustainability Reporting Directive (CSRD).

Why do US companies need to pay attention to ESG reporting developments outside of the US?

Andreas: If US companies are solely focused on US regulations, they may find themselves unprepared if they are scoped into global ESG reporting requirements. For example, we expect CSRD to impact many EU subsidiaries of US companies and US companies that are subsidiaries of a parent headquartered in the EU. In addition, the CSRD envisions requiring significant information about a company’s value chain, so the requirements will indirectly impact anyone in the value chain of an in-scope company.

What is the significance of the IFRS Foundation establishing the ISSB?

Andreas: Although there was some consolidation in 2021, companies and investors currently have to navigate an “alphabet soup” of available voluntary reporting frameworks. The IFRS Foundation’s creation of the ISSB, consolidation with the Climate Disclosure Standards Board, and expected consolidation with the Value Reporting Foundation are significant milestones on the path to developing global standards that provide the foundation for consistent, comparable, and high quality ESG reporting. The ISSB will sit alongside the IASB and they will work in close cooperation to establish complementary standards. That said, the ISSB plans to develop standards that are compatible with not only IFRS, but also other financial reporting frameworks, such as US GAAP. The ISSB is aiming to issue standards as early as the second half of 2022, with an initial focus on climate.

Who would be required to apply the ISSB standards and when?

Andreas: Each jurisdiction will individually decide whether and when to adopt ISSB standards. ISSB standards can be thought of as a global baseline for ESG reporting that individual jurisdictions can build upon. Given that adoption will be determined by individual jurisdictions, it is unclear when reporting under the ISSB standards would begin. That said, investor demands and strong support from the International Organization of Securities Commissions may accelerate the route to adoption in many jurisdictions. I also anticipate that many US companies will find the ISSB standards useful as they develop their ESG reporting.

What is the key takeaway for US companies?

Andreas: One takeaway is that US companies, especially multinationals, will need to stay attuned to developments in all of the jurisdictions where they may be impacted. However, even companies that are not directly subject to ESG reporting requirements should be prepared to respond to evolving investor expectations. This is going to be an area to watch throughout 2022 and beyond.

For more information, read our In the loop publications, Make no mistake – global ESG regulations will impact US companies and PwC’s US investor survey: The economic realities of ESG.
Here are updates and insights on recently-issued standards as you prepare to adopt the new guidance:

New guidance on liabilities and equity effective now

The new guidance on liabilities and equity, ASU 2020-06, is now effective for many public companies. The guidance simplifies the accounting for certain financial instruments by reducing the number of accounting models for convertible debt and convertible preferred stock instruments. In addition, the FASB amended certain aspects of the derivative guidance for the “own stock” scope exception and the guidance for calculating earnings per share (EPS).

The adoption of ASU 2020-06 could have significant—and unexpected—consequences related to how certain instruments are reflected on a company’s balance sheet and treated in EPS, and how they impact net income.

For details on the effective date and key considerations related to adoption of this standard, refer to our Financing transactions guide and read our In depths, Adopting the new liability and equity guidance early and Accounting for convertible instruments and own equity contracts.

What else is new in 2022?

In addition to the new guidance on liabilities and equity discussed above, there are multiple other standards effective for public companies in 2022, including:

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<tr>
<th>Accounting standard</th>
<th>PwC resources</th>
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<tr>
<td>ASU 2021-04, Issuer’s accounting for certain modifications or exchanges of freestanding equity-classified written call options</td>
<td>Sections 8.3 of our Financing transactions guide and 7.4.1.6 of our Financial statement presentation guide</td>
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<tr>
<td>ASU 2021-05, Lessors–Certain leases with variable lease payments</td>
<td>Sections 4.3 and 10.10 of our Leases guide</td>
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<tr>
<td>ASU 2021-10, Disclosures by business entities about government assistance</td>
<td>Section 3.10.3 of our Financial statement presentation guide</td>
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While not required in 2022, companies may choose to early adopt ASU 2021-08, Accounting for contract assets and contract liabilities from contracts with customers, which changes how revenue contracts acquired in a business combination are measured. For more information on this new standard, refer to our In depth, Accounting for acquired contract assets and contract liabilities.

Also coming soon: the FASB has voted to move forward with final standards on (1) fair value hedging – portfolio layer method and (2) accounting for troubled debt restructurings (TDRs) by creditors. These standards are expected to be available for early adoption in 2022.

For a refresher on the standards effective in 2022, listen to our podcast, FASB guidance effective in 2022. 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.
Here are standard-setting developments you need to know about as we make our way through 2022:

FASB adds new research projects in response to agenda feedback

The FASB has kicked off discussions of the feedback received from the invitation to comment on its future standard-setting agenda. So far, the FASB has decided to hit “reset” on its financial performance reporting project to focus on the disaggregation of certain expense captions by business entities, including selling, general, and administrative expenses (SG&A), cost of services, and cost of tangible goods sold.

In addition, FASB Chair Rich Jones added multiple projects to the FASB’s research agenda:

• exchange-traded digital assets and commodities
• intangibles, including software costs
• hedge accounting, including definition of a derivative
• financial instruments with ESG-linked features and regulatory credits
• recognition and measurement of government grants

Projects are added to the FASB’s technical agenda based on a vote of a majority of Board members. Stay tuned as the FASB is likely to make more decisions regarding its agenda throughout 2022.

FASB takes next steps on proposal for additional segment disclosures

In December 2021, the FASB wrapped up its initial deliberations of the segment reporting project and voted to move forward by preparing a draft proposal for external review. The proposal would not change how reportable segments are identified. However, it would add a new disclosure requirement to report significant segment expense categories and amounts that are both (1) regularly provided to the chief operating decision maker (CODM) and (2) included in the reported measure of segment profit or loss. The required disclosure would also include expense amounts that are “easily computable” based on information regularly provided to the CODM. Each expense category disclosed would need to be reconciled to the corresponding consolidated amount. The disclosures would be required in both interim and annual periods and would also apply to companies with a single reportable segment.

For additional background, refer to the FASB’s segment reporting project page.

FASB issues exposure draft on disclosures of supplier finance program obligations

Financial statement users have expressed interest in the use of supplier finance programs (also referred to as reverse factoring, payables finance, or structured payable arrangements) given the impact that these programs could have on a company’s working capital, liquidity, and cash flows. The FASB’s recent proposal, issued in December, does not address the accounting for these arrangements, but would require specific disclosures intended to enhance transparency. Proposed disclosures include key terms of the program, amounts outstanding, and changes in that amount during the period. Comments were due March 21.

Looking for a complete list of active standard-setting projects? Refer to the FASB’s Technical Agenda.
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 our Finance 2025 series, we give listeners a look at the future of finance and the evolutionary road to get there.

In our Toolkit podcast series, we are taking a deep dive into one accounting topic each month that goes beyond the basics and into areas that require judgment. The series kicks off in March with revenue recognition.

Some of the most popular podcasts from this quarter:
- Finance 2025: Transformation made practical
- Finance 2025: Transforming with a people-first mindset
- Finance 2025: How to unlock the promise of automation
- Revenue toolkit: Step one—Identify the contract
- Special episode: The CFO’s inflation playbook

Accounting and reporting webcasts

Register for our Quarterly accounting and reporting webcast to earn CPEs while staying up to date on key accounting and financial reporting matters each quarter.

Some of our other recent webcasts:
- PwC's Q1 2022 quarterly ESG webcast (CPE-eligible replay available soon)
- IFRS year-end accounting webcast (CPE-eligible replay)
- ESG accounting and reporting fall webcast series (CPE-eligible replays)

In briefs

- First look at the SEC’s climate disclosure proposal
- SEC proposes new cybersecurity disclosure requirements
- FX and inflation: Turkey expected to be highly inflationary
- New SEC requirement will affect upcoming annual filings
- SEC proposes rules impacting private funds and advisers

In the loops

- PwC's US investor survey: The economic realities of ESG
- Make no mistake – global ESG regulations will impact US companies
- Don't wait until the SEC staff asks you about climate change

Governance insights

- Taking board governance from good to great: now is the time to act
- The push to net zero emissions: where the board comes in
- Overseeing cyber risk: the board’s role
- ProxyPulse: 2022 proxy season preview
- PwC’s 2021 Annual Corporate Directors Survey

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