QUARTERLY FINANCIAL SERVICES UPDATE

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In this edition of the quarterly communication, we have provided information about recent financial reporting and accounting updates – some of which are currently being evaluated by regulatory agencies and not resolved at this time. We have also compiled a list of items for consideration in your financial reporting and disclosures for the second quarter and a summary of recently issued accounting pronouncements (see Appendices for summary of recently issued accounting pronouncements and the related effective dates).

This quarterly update is organized as follows:

Accounting for Sale and Leaseback Transactions

Lauren Nilan, Principal

With lingering uncertainty in the current environment, sale and leaseback transactions may be attractive to institutions seeking additional capital. In these transactions, a company transfers an owned property to a third party and then subsequently leases the property back. Legacy properties may be recorded at significantly less than current market valuations, so the transaction represents an opportunity to recognize a gain on sale and obtain a substantial cash infusion without diluting ownership interests through a capital raise.

Buyers/Lessors are intending to structure the transaction in a way that qualifies for sale and lease accounting. However, as the accounting can be difficult to navigate, management should be aware of key criteria before sale accounting is assumed.

First, management should ensure that the sale fulfills the accounting definition for a sale, meeting criteria in ASC 606 – *Revenue from Contracts with Customers.* Principally, under ASC 606, a formal contract must exist, and control of the property must be transferred from the seller/lessee to the buyer/lessor. If either of these criteria fail, the transaction would not be considered a sale, and the asset would remain recognized on the seller/lessee's books with any cash received by the seller being accounted for as a financing obligation. Management should also beware of any repurchase options embedded in the agreement, which could indicate a sale has not occurred.

Next, it is important to determine the proper lease classification for the arrangement. The classification of the arrangement as an operating lease or financing lease is determined by the "lease term test" and the "present value test." A lease is classified as a finance lease under these tests if either of the following is true:

- The lease term (including any subsequent renewal periods that are "reasonably certain" to be exercised) constitutes a major part of the economic life of the underlying asset.
- The present value of the future lease payments is 90% or greater than the fair value of the underlying asset.

If the leaseback arrangement would be classified as a finance lease under the considerations above, the transaction would not qualify for sale accounting as the arrangement would indicate that the seller/lessee retains control of the property due to its ability to receive substantially all of the remaining benefits.

Significant areas of judgement are present in both tests. Management must estimate the lease term using a reasonable expectation of subsequent renewal periods as well as a reasonable expectation of future lease payments. The discount rate used in the calculation would also be a significant assumption. As the "present value test" utilizes a present value calculation, the outcome is highly sensitive to changes in the discount rate selected by the company. The use of a "risk-free" rate (which is permitted as a practical expedient) can yield very different outcomes compared to using an "incremental borrowing rate." Using a higher "incremental borrowing rate" would help drive down the present value toward the desired valuation below 90% of fair value. However, companies should seek to obtain realistic financing quotes for secured borrowings which match the expected lease term and payment structure for use in the calculation.

Finally, the fair value of the property used for comparison in the fair value test should be adequately supported. Since the sale and leaseback transaction is typically negotiated as a package, the sale price and lease terms could be inconsistent with true market values. It is important to substantiate the values used for fair value and lease payments in the calculation as compared to market valuations. An independent appraisal or the engagement of valuation specialists may be helpful in management's evaluation.

The closer the calculation is to the upper limit for operating lease qualification, the higher the risk of audit scrutiny. As the calculation is subjective and contains significant areas of judgement, management should consult with their auditors or other specialists to assist in the accounting for the transaction.

FASB Update

The following selected Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board (FASB) since our first quarter 2024 update. A complete list of all ASUs issued or effective in 2024 is included in Appendix A.

FASB Removes References to Concepts Statements

On March 29, the FASB issued ASU 2024-02, *Codification Improvements—Amendments to Remove References to the Concepts Statements*, which removes references to the concepts statements from the FASB Accounting Standards Codification (ASC). Concepts statements are nonauthoritative and do not establish generally accepted accounting principles (GAAP). They are intended to guide the FASB in developing sound accounting principles and provide the Board and its constituents with an understanding of the appropriate content and inherent limitations of financial reporting. Before establishing the ASC in 2009, the FASB used or referred to the concepts statements as part of its standard setting. However, the FASB is now removing those references since references to the Concepts Statements in the ASC could imply that the Concepts Statements are authoritative. Additionally, in certain instances, the ASC references Concepts Statements that are superseded, which could provide opportunities for diverse implications over time.

Effective Dates

While the amendments are not expected to result in significant changes for most entities, the FASB provided transition guidance since some entities could be affected. Public business entities affected by the ASU would apply its amendments for fiscal years beginning after December 15, 2024. All other entities would apply the guidance for fiscal years beginning after December 15, 2025. An entity that adopts the amendments in an interim period would have to adopt them as of the beginning of the fiscal year that includes that interim period. Early adoption is permitted for all entities in any period in which financial statements have not yet been issued or available for issuance. An entity would choose whether to apply the amendments (1) prospectively to new transactions after the adoption date or (2) retrospectively to the beginning of the earliest comparative period presented.

Regulatory Update

SEC Clarifies Selective Disclosure of Cybersecurity Incidents

A senior Securities and Exchange Commission (SEC) official issued a statement to clarify that companies are not prohibited from discussing a cybersecurity incident beyond what is required by the commission's rule issued in July 2023. Companies are required to report within four days of determination that a cybersecurity incident was material under Item 1.05 of Form 8-K, *Material Cybersecurity Incidents*, according to Release No. 33-11216, *Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure*. However, Erik Gerding, Director of the SEC's Division of Corporation Finance, said that companies have asserted that the rules may preclude a company from sharing additional information about a material cybersecurity breach with others, including their commercial counterparties, such as vendors and customers as well as other companies that may be impacted by the same incident.

In particular, Item 1.05 of Form 8-K requires a company to describe the nature, scope, and timing of the incident, as well as the incident's material impact, including its financial condition and results of operations. Gerding said that there is nothing in the rule that prevents a company from privately discussing a material cybersecurity breach with other parties or from providing information to those parties beyond what is included in an Item 1.05. He acknowledged that some companies may have concerns that privately disclosing additional information about a material cyberattack beyond what was included in an Item 1.05 could implicate the SEC's rules on selective disclosures in *Regulation Fair Disclosure* (Reg FD).

When companies disclose material nonpublic information to certain securities market professionals such as stock analysts or stockholders who may trade on the basis of that information, then the companies must also make that same information public under Reg FD. This is to promote fair and full disclosure throughout the market. Depending on the information disclosed, and to whom that information is disclosed, discussions about a cybersecurity incident may implicate Reg FD.

That said, nothing in Item 1.05 alters Regulation FD or makes it apply any differently to communications regarding cybersecurity incidents. Gerding explained that there are ways that companies can privately share additional information about a material cybersecurity incident without violating Reg FD. For example, the information that is being privately shared might be immaterial. The parties with whom the information is being shared may not be one of the individuals or entities covered by Reg FD. Even if the information and the parties may be covered by Reg FD, Gerding said an exclusion from the regulation may apply. For example, he said that if the information is being shared with a person who owes a duty of trust or confidence to the issuer—such as an attorney, investment banker, or accountant—or if the person agrees to maintain the extra information in confidence, then public disclosure of that privately-shared information will not be required under Reg FD.

SEC Staff Disclosure Guidance from Pandemic Remains Relevant

During a financial reporting conference, an SEC official urged public companies to continue looking at staff interpretive guidance published in the past few years, including ones that were issued during the COVID-19 pandemic, when providing disclosures in their periodic reports because the guidance still remains relevant with continued high interest rates and inflation, among other risks. This comes as the SEC staff in the Division of Corporation Finance (CorpFin) keep seeing boilerplate disclosures from some companies, and the staff would send comment letters to companies to make the information in filings to be tailored to their circumstances. While no longer in a pandemic, the guidance does contain topics as it relates to liquidity and interest rate risks that is still relevant for today.

Recent comment letter topics include: inflation, interest rates; supply chain; Ukraine/China/Israel; impairment; climate disclosures; human capital; cybersecurity; commercial real estate exposure and digital assets. There are also certain areas of comment letters that have perennially been hot topics: non-GAAP measures; MD&A; revenue recognition; business combinations; segment reporting; critical accounting estimates; and disclosure controls and internal control over financial reporting.

House Panel Advances SEC Cuts

On June 5, 2024, the House Appropriations Committee's Financial Services and General Government (FSGG) subcommittee advanced a fiscal 2025 FSGG measure to the full committee. The bill represents the first in what will be a longer negotiation over funding the SEC, Treasury Department, Internal Revenue Service (IRS), and other agencies for the fiscal year beginning in October. House Republicans' vision for those regulators involves deep cuts, trimming the SEC's now $2.149 billion in operating funds down to a flat $2 billion. FSGG subcommittee Chairman David Joyce (R-OH), prior to advancing the bill, said the measure prioritizes economic growth and limited government by pushing back on the administration's overbearing and costly agenda, including by prohibiting funds for the SEC climate rules as well as other environmental, social and governance (ESG) initiatives.

Among other riders, the FSGG bill would also block the SEC's 2022 crypto accounting guidance in Staff Accounting Bulletin (SAB) 121—long opposed by the banking and crypto industries—as well as pressure the FASB to drop its December 2023 income tax disclosure rules in ASU 2023-09, *Income Taxes (Topic 740) Improvements to Income Tax Disclosures*.

Federal Reserve Releases Financial Stability Report

On April 19, 2024, the Federal Reserve (the "Fed") issued its semiannual Financial Stability Report which assess the stability of the US financial system by analyzing vulnerabilities related to asset valuation pressures, borrowings by businesses and households, leverage within the financial sector, and funding risks. The Fed notes the banking system remained sound and resilient with risk-based capital ratios well above regulatory requirements. The report also highlights near-term risks based in part on the most frequently cited risks to U.S. financial stability as gathered through survey participants. According to survey participants, persistent inflation and monetary tightening remained the most cited risks to stability. However, policy uncertainty related to the upcoming US election was cited by 60% of survey participants (compared to 24% in October 2023) as potential financial stability risk. Commercial real estate was the third most cited risk with 56% of participants concerned that upcoming maturity over the next couple of years could pose refinancing risk.

Third-Party Risk Management Guide for Community Banks

In May 2024, the Fed, FDIC and OCC released the Third-Party Risk Management: A Guide for Community Banks designed to assist community banks when developing and implementing their third-party risk management practices. The guide provides potential considerations, resources, and examples through each stage of third-party risk management life cycle and includes the following topics: risk management considerations, third-party relationship cycle, governance, and additional resources. This guide is not a substitute for the June 2023 interagency guidance on third-party risk management, but rather a complement to the existing guidance.

Interagency Proposed Rule: Incentive-based Compensation

Several federal financial regulators, including the FDIC, OCC, National Credit Union Administration (NCUA) and Federal Housing Finance Agency (FHFA) re-proposed rules on incentive-based compensation arrangements at financial institutions with at least $1 billion in assets. This proposed rule revises regulatory text previously proposed in June 2016 and if finalized, the proposed rule would implement Section 956 of the Dodd-Frank act. The newly proposed rule is similar to the 2016 proposed rule and would prohibit any types of incentive-based compensation arrangements that "encourage inappropriate risks" by providing excessive compensation, fees or benefits to an executive officer, employee, director or principal shareholder or that could lead to material financial loss. The proposed rule uses a tiered approach to applicability and distinguishes institutions by total asset size as follows: Level 1 ($250 billion or more); Level 2 ($50 billion to less than $250 billion); and Level 3 ($1 billion to less than $50 billion).

Section 956 of Dodd-Frank requires joint rulemaking by six federal financial agencies. This proposal does not include the FRB and SEC so some have raised doubts as to the likelihood of the proposed rule being finalized in its current form. This proposed rule will not be published in the Federal Register or opened for formal comment until the SEC and FRB approval the proposal. However, the FDIC, OCC, NCUA and FHFA are accepting comments on the pre-proposal publication version.

OCC Issues Semiannual Risk Perspective

The OCC released its Spring 2024 Semiannual Risk Perspective which addresses key issues facing banks, focusing on those that pose threats to the safety and soundness of banks and compliance with applicable laws and regulations. The OCC reports banks' financial condition remains sound. While the 2023 economy outperformed forecasts, the report notes there is risk of the economy slowing which could bring significant consumer challenges. The report focuses on the following risk themes:

- Credit risk is rising, especially within commercial real estate lending (primarily office and multifamily properties), due to vacancy rates and higher interest rates. The report specifically mentions the additional risk for interest-only loans, set to mature within the next three years.
- Strong deposit competition and net interest margin compression is driving an increase in market risk. Market trends indicate funding costs and net interest margins may be close to the peak. Wholesale funding continues to grow, however, at a slower pace than prior year.
- Operational risk remains elevated as banks continue to leverage new technology to digitize operations in addition to increasing sophistication and frequency of cyber threats.
- Compliance risk remains elevated due to increased focus on fair lending and expansion of partnerships with third parties, such as fintechs.

PCAOB Proposes Additional Disclosures by Auditors

On April 9, 2024, the PCAOB issued two proposals, Firm and Engagement Metrics, and Firm Reporting, that would require audit firms to significantly expand reporting about their audits and audit practices. The *Firm and Engagement Metrics* proposal would require disclose of firm and engagement level measures including (1) partner and manager hours, (2) average weekly hours worked on a quarterly basis by engagement partners, managers and staff, (3) audit resources (firm-level), (4) experience of audit personnel, (5) industry experience of audit personnel, (6) retention and tenure, (7) audit hours and risk areas (engagement level only), (8) allocation of audit hours, (9) quality performance ratings and compensation (firm level only), (10) audit firm internal monitoring, and (11) restatement history (firm level only). Engagement level metrics would be reported for accelerated and large accelerated filers. This information would be made publicly available on a revised Form AP retitled "Audit Participants and Metrics". And firm level metrics would be reported on a new Form FM.

The Firm Reporting proposal would enhance reporting of firm financial, governance, and network information; establish timelier and expanded special reporting; and require new disclosures related to cybersecurity and other topics. This information would be reported on amended Form 2 (annual reporting) and Form 3 (special reporting).

PCAOB Issues Spotlight Related to Commercial Real Estate

In May 2024, the PCAOB staff release a spotlight publication *Auditing Considerations Related to Commercial Real Estate*. As a result of the current economic conditions combined with high interest rates, there is heightened risk among financial institutions and other companies with commercial real estate exposure. The spotlight highlights important considerations and examples for auditors relating to commercial real estate, as they plan and perform audits and reviews of interim financial information. The spotlight provides guidance in the following key areas: identifying and assessing risks, including fraud; asset impairment and allowance for credit losses; going concern; and considerations specific to interim reviews.

PCAOB Adopts Rule to Increase Auditor Accountability

On June 12, 2024, the PCAOB approved the adoption of an amendment to PCAOB Rule 3502, previously titled Responsibility *Not to Knowingly or Recklessly Contribute to Violations*. Under the existing rule, which was adopted in 2005, the PCAOB can hold an associated person of the firm liable if they act recklessly, meaning they took an extreme departure from the standard or ordinary care. The updated rule changes the liability standard from reckless to negligence. Negligence is defined as the failure to exercise reasonable care or competence, covering a broader range of possible behavior in performing an audit. By adopting these changes, the PCAOB aligns itself with the SEC who already has the ability to seek civil penalties when an associated person negligently causes firm violations. The amendment to Rule 3502 is subject to approval by the SEC. If approved by the SEC, the amended rule will become effective 60 days after such approval.

Other Developments

FASB Plans Improvements to Statement of Cash Flows for Banks

The FASB is making significant progress in its effort to revamp the statement of cash flows for financial institutions, aiming to provide investors with more detailed and transparent information. The goal is to reorganize and break down the information on the statement to make it more intuitive and useful, according to a presentation at the 42nd Annual SEC and Financial Reporting Conference held by the University of Southern California and Financial Executives International.

A “beta version” has been created and is being tested with preparers, practitioners, and investors, with positive feedback so far. The new approach will be operable, more intuitive, and resonates with investors, according to the presentation. The board plans to discuss the topic later this year, with the aim of determining if they can reorganize and break down information that's included on the statement of cash flow today to make sure that investors are able to use that statement. A narrow project was added to the board’s technical agenda last year.

The project comes amid growing concerns about the complexity and opacity of cash-flow reporting for banks. Regulators and industry experts have long argued that the current statement of cash flows can be difficult to understand, making it challenging for investors to make informed decisions. The FASB’s efforts are seen as a key step toward requiring more detailed information, particularly related to cash flow, in financial reporting. Some projects, such as those involving government grants and environmental credits, have cash flow implications that are not fully captured in current reporting.

Industry Groups Urge Reforms to Simplify Private Company Accounting Standards

Industry groups and state CPA societies are urging reforms to the Private Company Council (PCC), which collaborates with the FASB to set accounting standards for private companies. Groups told the Financial Accounting Foundation (FAF), which is evaluating the PCC’s effectiveness, that there needs to be increased awareness, better representation from smaller private companies, and enhanced authority for the PCC to address the unique challenges of private company financial reporting.

Though the PCC has undertaken significant outreach, the National Association of State Boards of Accountancy (NASBA) is concerned that many preparers, practitioners and investors are simply not engaged in following or providing input into the ongoing activities of the PCC. Similarly, state CPA societies pressed for greater representation, authority, and proactive efforts by the PCC to address the unique challenges faced by private companies in financial reporting.

The feedback was in response to the FAF’s Request-for-Comment of the PCC's effectiveness in providing alternative accounting standards for private companies alongside the FASB. The FAF is a trustee body with oversight of the FASB and the PCC. The organization received 27 comment letters by the May 31st deadline. The comments will inform the FAF's decision on how to improve the PCC's role in simplifying financial reporting for private companies.

On the Horizon

The following selected FASB exposure drafts and projects are outstanding as of June 30, 2024.

Proposed ASU on Induced Conversions of Convertible Debt

In December 2023, the FASB issued a proposed ASU, *Induced Conversions of Convertible Debt Instruments*. Under current GAAP, the guidance on induced conversions applies only to conversions that include the issuance of all equity securities issuable pursuant to the conversion privileges provided in the terms of the debt at issuance. Current GAAP does not address how this criterion should be applied to the settlement of a convertible debt instrument that does not require the issuance of equity securities upon conversion (for example, a convertible debt instrument with a cash conversion feature). Current GAAP also does not address how the incorporation, elimination, or modification of a volume-weighted average price (VWAP) formula interacts with this criterion, including when such changes could result in the holder receiving less cash or fewer shares than if the debt instrument had been settled in accordance with the conversion privileges provided in the terms of the instrument (prior to any changes to induce conversion). Stakeholders also have noted that, under current GAAP, it is not clear whether the guidance on induced conversions can be applied to the settlement of a convertible debt instrument that is not currently convertible.

The amendments in this proposed ASU would clarify the requirements for determining whether certain settlements of convertible debt instruments should be accounted for as an induced conversion. Under the proposed amendments, to account for a settlement of a convertible debt instrument as an induced conversion, an inducement offer would be required to provide the debt holder with, at a minimum, the consideration (in form and amount) issuable under the conversion privileges provided in the terms of the instrument. An entity would assess whether this criterion is satisfied as of the date the inducement offer is accepted by the holder. If, when applying this criterion, the convertible debt instrument had been modified (without being deemed substantially different) within the one-year period leading up to the offer acceptance date, then an entity would compare the terms provided in the inducement offer with the terms that existed one year before the offer acceptance date. The proposed amendments would not change the other existing criteria that are required to be satisfied to account for a settlement transaction as an induced conversion.

The amendments in this proposed ASU also would make additional clarifications to assist stakeholders in applying the proposed guidance. Under the proposed amendments, the incorporation, elimination, or modification of a VWAP formula would not automatically cause a settlement to be accounted for as an extinguishment; an entity would instead assess whether the form and amount of conversion consideration are preserved (that is, provided for in the inducement offer) using the fair value of an entity's shares as of the offer acceptance date.

The amendments in this proposed ASU also would clarify that the induced conversion guidance can be applied to a convertible debt instrument that is not currently convertible so long as it had a substantive conversion feature as of its issuance date and is within scope of the guidance in Subtopic 470-20.

Proposed ASU to Improve Disclosures around Income Statement Expenses

In July 2023, the FASB issued a proposed ASU intended to provide investors with more decision-useful information about a public business entity's expenses. The proposed ASU would require public companies to provide detailed disclosure of specified categories underlying certain expense captions in interim and annual periods. It would provide investors with more detailed information about the types of expenses, including employee compensation, depreciation, amortization, and costs incurred related to inventory and manufacturing activities in income statement expense captions such as cost of sales; selling, general and administrative; and research and development.

The amendments in the proposed ASU do not change or remove existing expense disclosure requirements and do not change requirements for presentation of expenses on the face of the income statement. They would require public companies to include certain existing disclosures in the same tabular format disclosure as the other disaggregation requirements set forth in the proposed ASU.

Potential GAAP Guidance on Government Grants

In June 2022, the FASB published an Invitation to Comment (ITC), *Accounting for Government Grants by Business Entities: Potential Incorporation of IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, into Generally Accepted Accounting Principles*. The ITC gives stakeholders the opportunity to provide feedback on whether IAS 20 represents a workable solution for improving GAAP in the U.S. financial reporting environment for business entities as it relates to the accounting for government grants.

In 2021, the FASB issued the Invitation to Comment, *Agenda Consultation*, which gave all stakeholders the opportunity to provide input on what the Board's future priorities should be. The 2021 ITC asked stakeholders to weigh in on a broad range of issues, including whether the FASB should pursue a project on the recognition and measurement of government grants—and, if so, whether it should leverage an existing grant or contribution model or develop a new accounting model. Approximately three-quarters of stakeholders who provided specific feedback on that question, including investors, practitioners, preparers, and state certified public accounting societies, preferred that the FASB leverage International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*.

In response to this feedback, the FASB added a project, *Accounting for Government Grants, Invitation to Comment*, to the research agenda. Published as part of that research project, the government grants ITC solicits additional feedback from stakeholders on relevant requirements in IAS 20 and includes specific questions for investors about the importance and utility of government grants information to their analysis of a company's financial performance.

Projects on Environmental Credits, Consolidation, and KPIs

In May 2022, the FASB added a project to its technical agenda on the recognition, measurement, presentation and disclosure of environmental credits that are legally enforceable and tradeable, following a review of the staff's initial research on accounting for environmental credits, including feedback that there is diversity in practice in this area. The project will address the accounting by participants in compliance and voluntary programs, as well as by creators of environmental credits. In addition, the FASB added a project on consolidation for business entities to its research agenda after removing its project on consolidation reorganization and targeted improvements from the technical agenda. The new project will explore whether a single consolidation model could be developed for business entities. In response to feedback received on the FASB's Invitation to Comment, Agenda Consultation, the FASB also added a project on financial key performance indicators to the research agenda to explore standardizing the definitions of financial key performance indicators.

EITF Agenda Items

The Emerging Issues Task Force (EITF) met on Friday, June 14, 2024. In March 2024, the FASB updated the EITF's operating procedures. Under the new operating procedures, the initial Task Force recommendation is summarized by the FASB staff in an agenda decision memo for the Board's discussion at a public meeting. On the basis of such discussion, the Board determines whether to add a project to the FASB's technical agenda and votes on all substantive decisions (including a cost-benefit analysis). The Board then directs the staff to draft a proposed ASU for a vote by written ballot. These decisions are expected to be made at a single meeting. After the FASB approves the draft proposed ASU, it is exposed for public comment. When the comment period ends, the FASB considers the comments received; redeliberates the issues at a public Board meeting; and, ultimately, issues a final ASU. The EITF discussed the following topic at the June 14 meeting:

- Issue 24-A, "Determining the Accounting Acquirer" – the EITF directed the FASB staff to draft an agenda decision memo for the Board's consideration. ASC 805-10-25-5 states that in a business combination in which a VIE is acquired, the primary beneficiary of the legal acquiree is always the accounting acquirer. For business combinations in which the acquired entity is determined not to be a VIE, and it is not clear which of the combining entities is the acquirer after application of the voting interest entity model, a reporting entity is required to consider the factors in ASC 805-10-55-11 through 55-15 to determine which legal entity is the accounting acquirer. In practice, a reporting entity may reach different conclusions related to certain business combinations when the legal acquiree is a VIE than it does when the legal acquiree is a voting interest entity, particularly when the transaction is effected primarily by exchanging equity interests. That is, the primary beneficiary of the legal acquiree that is a VIE may not be identified as the accounting acquirer of the combining entities if the reporting entity considers the factors in ASC 805-10-55-11 through 55-15. In other words, if two business combinations are identical except for the fact that the legal acquiree is a VIE in one transaction and a voting interest entity in the other transaction, the accounting acquirer may be different solely on the basis of the nature (VIE or voting interest entity) of the legal acquiree. Some examples of such a scenario could include:
    - Umbrella partnership C corporation (Up-C) transactions in which a special-purpose acquisition company (SPAC) acquires an operating company that is a limited liability company (LLC) or partnership.
    - Use of Up-C transactions to facilitate a business combination in which the legal acquirer is a public corporation other than a SPAC.
    - Merger of two corporations when the legal acquiree is a VIE as a result of insufficient equity at risk.

  Under existing guidance, once the legal acquirer of a VIE is identified as the primary beneficiary and the accounting acquirer, and the VIE meet the definition of a business, the combined entity's financial statements are significantly affected. That is, the guidance on business combinations requires that all of the accounting acquiree's identifiable assets and liabilities be remeasured in accordance with ASC 805-20 (generally at fair value) and that goodwill be recognized and initially measured in accordance with ASC 805-30. This is sometimes referred to as a "new basis of accounting."

  After discussing three alternatives, the Task Force supported making narrow amendments to ASC 805-10-25-53 to require the reporting entity to evaluate the factors in ASC 805-10-55-11 through 55-15 when a business combination involving a legal acquiree that is a VIE is effected primarily by exchanging equity interests. The Task Force voted 11 to 0 in support of the amendment since it was viewed as addressing the issue discussed above while having the narrowest impact on current practice. The Task Force also unanimously supported a prospective transition method and early adoption.

  Next Steps: The FASB staff will prepare an agenda decision memo for the Board to discuss at a public meeting that is expected to occur in July 2024. The agenda decision memo will include the materials addressed by the EITF, a summary of the EITF's discussions, the basis for the EITF's recommendation, and an analysis of the FASB's agenda criteria. The Board will discuss the issue at a public meeting and determine whether to add a project to the FASB's technical agenda.

PCC Activities

The Private Company Council (PCC) met on Thursday, April 18, 2024. Below is a summary of topics discussed by PCC and FASB members at the meeting:

- PCC Agenda Priorities: PCC members discussed their agenda priorities and the factors that should be considered in their determination. PCC members supported conducting preliminary research on the following areas: debt modifications and extinguishments, credit losses—short-term trade accounts receivable and contract assets, lease accounting simplifications such as practical expedients or accounting alternatives for private companies, and the presentation of conditional retainage and overbillings as contract assets and liabilities.

- Stock Compensation Disclosures (PCC Research Project): PCC members decided not to add a project to the PCC agenda to consider stock compensation disclosures in ASC 718, *Compensation—Stock Compensation*. PCC members noted that there are more pervasive and pressing issues for the PCC to address such as those discussed under PCC Agenda Priorities.
- Accounting for and Disclosures of Software Costs: FASB staff provided PCC members with an update on the project, including the Board's recent decision to pursue targeted improvements to Subtopic 350-40, *Intangibles—Goodwill and Other—Internal-Use Software*. PCC members provided feedback on whether the tentative amendments to Subtopic 350-40 under this approach would be auditable and operable. PCC members suggested that further clarification on unit of account and maintenance and enhancements guidance would improve the operability of the approach. Some PCC members observed that many software projects involve aspects of both linear and nonlinear development (commonly referred to as waterfall and agile development, respectively) and applying the tentative decisions for nonlinear development to all software costs within the Subtopic could reduce complexity. Additionally, PCC members observed that some of the new terminology included in the targeted improvements would introduce new judgments into the guidance. User PCC members indicated that they would like to be able to differentiate between recurring and one-time software costs and to have more insight into management's judgments. PCC members also discussed whether a recognition and measurement exception is warranted for private companies.
- Accounting for Government Grants: The PCC discussed the Board's recent decisions on this project, including its decisions to (1) leverage the accounting framework within IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, for government grants and (2) make targeted improvements to the IAS 20 guidance and provide implementation guidance. PCC members generally agreed with the Board's decisions and specifically expressed their support for including implementation guidance. Preparer PCC members asked about wording differences related to the recognition threshold between IAS 20 and the proposed wording in the Codification. Preparer PCC members also asked clarifying questions about the type of transactions that would be included in the proposed guidance based on the revised scope. User PCC members noted that the required disclosures in ASC 832, *Government Assistance*, are important to help users understand the accounting for government grants received by the private companies that they work with.
- Credit Losses Implementation: PCC members discussed recent observations on private company implementation of ASC 326, *Financial Instruments—Credit Losses (CECL).* PCC user members noted that they have not observed a significant effect on private company financial statements from applying CECL to trade accounts receivable and contract assets. Several PCC members commented on the application of CECL to contract assets and the interaction between credit risk and revenue recognition under ASC 606, *Revenue from Contracts with Customers*.
- Scope Application of Profits Interest Awards: PCC members supported the amendments in ASU 2024-01, *Compensation—Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards.* Several practitioner PCC members noted that the amendments will help private company stakeholders apply the guidance. PCC members discussed various ways to educate stakeholders on this ASU.
- Other Business: FASB staff summarized the PCC's closed meeting discussion of the interest rate environment and its effects on financial reporting, as well as other topics.

The PCC met on Monday, June 24, 2024. Below is a summary of topics discussed by PCC and FASB members at the meeting:

- PCC Agenda Priorities: The PCC discussed its agenda priorities and expressed continued support for conducting research in the following areas identified at the April 2024 PCC meeting: credit losses—short-term trade accounts receivable and contract assets, debt modifications and extinguishments, presentation of conditional retainage and overbillings as contract assets and liabilities, and lease accounting simplifications such as practical expedients or accounting alternatives.
    - PCC members discussed the challenges of applying Topic 326, *Financial Instruments—Credit Losses (CECL)*, to short-term trade accounts receivable and contract assets and what solution could address those challenges. PCC members discussed several potential solutions including (1) permitting a private company to exclude the evaluation of reasonable and supportable forecasts or (2) allowing for the collection of receivables after the balance sheet date but before the financial statements are available to be issued to be considered in measuring expected credit losses

at the balance sheet date. PCC members also discussed the types of assets that might be within the scope of a potential private company alternative.

- PCC members discussed the costs and complexities in applying Subtopic 470-50, *Debt—Modifications and Extinguishments*. PCC members suggested that outreach be conducted with private company financial statement users to understand their views on the different financial reporting outcomes that can arise when applying Subtopic 470-50 to term loans that are exchanged or modified.
- PCC members expressed support for providing private companies in the construction industry with an option for presenting conditional retainage and overbillings gross on the balance sheet. PCC members and FASB staff also discussed stakeholder feedback obtained to date on this issue and whether additional outreach with the construction industry and sureties may be needed.
- PCC members discussed forming a working group to identify specific issues in Topic 842, *Leases*, for the PCC to conduct further research. PCC members preliminarily discussed areas of ongoing challenges in applying the leases guidance, such as embedded leases and lease modifications. PCC members also discussed how they could assist with the FASB's leases post-implementation review activities.

- <u>Topic 815—*Hedge Accounting Improvements*:</u> FASB staff provided PCC members with an update on the project, including a brief overview of improvements that the Board is proposing to similar risk assessments in cash flow hedges, hedging forecasted interest payments on choose-your-rate debt instruments, and cash flow hedges of nonfinancial forecasted transactions. Overall, PCC members generally agreed with the Board's decisions, noting that the forthcoming proposed amendments will simplify the guidance, make it easier to qualify for and apply hedge accounting, and will be appreciated by private company preparers.
- <u>Induced Conversions of Convertible Debt Instruments (EITF Issue No. 23-A):</u> FASB staff summarized the key proposed amendments in the proposed Update, Debt—*Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments*, comment letter feedback, and next steps. PCC members asked about the effects of the proposed amendments on certain debt arrangements and about next steps in the Board's redeliberations.

The PCC and the Small Business Advisory Committee met on Tuesday, June 25, 2024; however, the meeting recap was not available at the time of this publication. The next PCC meeting is scheduled for Tuesday, September 24, 2024.

Appendix A

Important Implementation Dates

The following table contains significant implementation dates and deadlines for standards issued by the FASB and others.

Selected Implementation Dates (FASB/EITF/PCC)

Pronouncement	Affects	Effective Date and Transition
ASU 2024-02, Codification Improvements—Amendments to Remove References to the Concepts Statements	All reporting entities within the scope of the affected accounting guidance	For public business entities, the amendments are effective for fiscal years beginning after December 15, 2024. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2025. Early application of the amendments in this Update is permitted for all entities, for any fiscal year or interim period for which financial statements have not yet been issued (or made available for issuance).
ASU 2024-01, Scope Application of Profits Interest and Similar Awards	All entities that account for profits interest awards as compensation to employees or nonemployees in return for goods or services	For public business entities, the amendments are effective for fiscal years beginning after December 15, 2024, including interim periods within those years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2025, including interim periods within those years. Early adoption is permitted. If an entity intends to adopt the amendments in an interim period, it must do so as of the beginning of the fiscal year that includes that interim period.
ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures	All entities subject to ASC 740, *Income Taxes*	For public business entities, the amendments are effective for annual periods beginning after December 15, 2024. For entities other than public business entities, the amendments are effective for annual periods beginning after December 15, 2025. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The amendments should be applied on a prospective basis. Retrospective application is permitted.
ASU 2023-08, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets	All entities that hold crypto assets	The amendments are effective for all entities for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued (or made available for issuance). If an entity adopts the amendments in an interim period, it must adopt them as of the beginning of the fiscal year that includes that interim period.
ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures	All public entities that are required to report segment information in accordance with ASC 280, *Segment Reporting*	The amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
ASU 2023-06, Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative	All reporting entities within the scope of the affected ASC topics unless otherwise indicated	For entities subject to the SEC's existing disclosure requirements and for entities required to file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer, the effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. For all other entities, the amendments will be effective two years later.
ASU 2023-05, Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement	Entities that meet the definition of a joint venture or a corporate joint venture, as defined in the ASC Master Glossary	The amendments are effective prospectively for all joint ventures with a formation date on or after January 1, 2025, and early adoption is permitted. Additionally, a joint venture that was formed before the effective date of the ASU may elect to apply the amendments retrospectively if it has sufficient information.
ASU 2023-02, Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a consensus of the Emerging Issues Task Force)	All entities that hold (1) tax equity investments that meet the conditions for and elect to account for them using the proportional amortization method or (2) an investment in a LIHTC structure through a limited liability entity that is not accounted for using the proportional amortization method and to which certain LIHTC-specific guidance removed from Subtopic 323-740 has been applied	For public business entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted for all entities in any interim period.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
ASU 2023-01, Leases (Topic 842) Common Control Arrangements	Practical expedient: Entities other than public business entities, not-for-profit conduit bond obligors, and employee benefit plans that file or furnish financial statements with or to the SEC Leasehold improvements: All lessees	The amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been made available for issuance. If an entity adopts the amendments in an interim period, it must adopt them as of the beginning of the fiscal year that includes that interim period.
ASU 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848	All entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform	Effective upon issuance.
ASU 2022-05, Financial Services—Insurance (Topic 944): Transition for Sold Contracts	Insurance entities that have derecognized contracts before the effective date of ASU 2018-12	The effective dates of the amendments are consistent with the effective dates of the amendments in ASU 2020-11.
ASU 2022-04, Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations	All entities that use supplier finance programs in connection with the purchase of goods and services	The amendments became effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, except for the amendment on roll-forward information, which is effective for fiscal years beginning after December 15, 2023.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
ASU 2022-03, Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions	All entities	For public business entities, the amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance.
ASU 2022-01, Derivatives and Hedging (Topic 815): Fair Value Hedging—Portfolio Layer Method	All entities that elect to apply the portfolio layer method of hedge accounting in accordance with ASC 815	For public business entities, the amendments became effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years.
ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers	All entities that enter into a business combination	For public business entities, the amendments became effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The amendments should be applied prospectively to business combinations occurring on or after the effective date of the amendments. Early adoption of the amendments is permitted, including adoption in an interim period.
ASU 2020-11, Financial Services—Insurance (Topic 944): Effective Date and Early Application	Insurance entities that issue long-duration contracts	The amendments in this ASU delay the effective date of ASU 2018-12.
ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity	Entities that issue convertible instruments and/or contracts in an entity's own equity	Became effective for public business entities that meet the definition of a SEC filer, excluding entities eligible to be smaller reporting companies as defined by the SEC, for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years.
ASU 2019-09, Financial Services—Insurance (Topic 944): Effective Date	Insurance entities	The amendments in this ASU defer the effective date of the amendments in ASU 2018-12 for all entities.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts	Insurance entities that issue long-duration contracts	For public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC, the amendments became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025. Early application of the amendments is permitted.

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements

For the Quarter Ended June 30, 2024

The illustrative disclosures below are presented in plain English. Please review each disclosure for its applicability to your organization and the need for disclosure in your organization's financial statements.

{Please give careful consideration to appropriateness of highlighted text.}

ASU 2018-12 – Applicable to insurance entities that issue long-duration contracts:

In August 2018, the FASB amended the Financial Services—Insurance Topic of the Accounting Standards Codification to make targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. The amendments will be effective for the Company for ~~*[fiscal years beginning after December 15, 2022, and interim periods within those fiscal years.-public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC]*~~ *[fiscal years beginning after December 15, 2024, and interim periods within fiscal year beginning after December 15, 2025.-all other entities]* The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2019-09 – Applicable to insurance entities that issue long-duration contracts:

In November 2019, the FASB issued guidance to defer the effective date of ASU 2018-12, Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts. The new effective date will be for ~~*[fiscal years beginning after December 15, 2021, and interim periods within those fiscal years.-public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC]*~~ *[fiscal years beginning after December 15, 2023, and interim periods within fiscal year beginning after December 15, 2024.-all other entities]* The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2020-06 – Applicable to all entities:

In August 2020, the FASB issued guidance to improve financial reporting associated with accounting for convertible instruments and contracts in an entity's own equity. The amendments are effective for ~~*[fiscal years beginning after December 15, 2021, including interim periods within those fiscal years – public business entities that meet the definition of a SEC filer, excluding entities eligible to be smaller reporting companies as defined by the SEC]*~~ *[fiscal years beginning after December 15, 2023, including interim periods within those fiscal years – all other entities]*. ~~Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years.~~ The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2020-11 – Applicable to insurance entities that issue long-duration contracts:

In November 2020, the FASB issued guidance to defer the effective dates for insurance entities which have not yet applied the long duration contracts guidance by one year. The new effective dates will be ~~*[fiscal years beginning after December 15, 2022, and interim periods within those fiscal years.-public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC]*~~ *[fiscal years beginning after December 15, 2024, and interim periods within fiscal year beginning after December 15, 2025.-all other entities]* The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2021-08 – Applicable to all entities that enter into a business combination

In October 2021, the FASB amended the Business Combinations topic in the Accounting Standards Codification to require entities to apply guidance in the Revenue topic to recognize and measure contract assets and contract liabilities acquired in a business combination. The amendments are effective for ~~*[fiscal years beginning after December 15, 2022, including interim periods within those*~~

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended June 30, 2024

~~*fiscal years. - public business entities]*~~ *[fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. - all other entities]* The amendments are applied prospectively to business combinations occurring on or after the effective date of the amendments. Early adoption of the amendments is permitted, including adoption in an interim period. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2022-01 – Applicable to entities that elect to apply the portfolio layer method of hedge accounting

In March 2022, the FASB issued amendments which are intended to better align hedge accounting with an organization's risk management strategies. The amendments are effective for ~~*[fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. - public business entities]*~~ *[fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. - all other entities]*. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2022-03 – Applicable to all entities:

In June 2022, the FASB issued amendments to clarify the guidance on the fair value measurement of an equity security that is subject to a contractual sale restriction and require specific disclosures related to such an equity security. The amendments are effective for *[fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. - public business entities] [fiscal years beginning after December 15, 2024 including interim periods within those fiscal years. - all other entities]*. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2022-04 – Applicable to all entities that use supplier finance programs in connection with the purchase of goods and services:

In September 2022, the FASB issued amendments to enhance the transparency about the use of supplier finance programs for investors and other allocators of capital. The amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, except for the amendment on roll-forward information, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2022-06 – Applicable to all entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform:

In December 2022, the FASB issued amendments to defer the sunset date of the Reference Rate Reform Topic of the Accounting Standards Codification from December 31, 2022, to December 31, 2024, because the current relief in Reference Rate Reform Topic may not cover a period of time during which a significant number of modifications may take place. The amendments were effective upon issuance. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2023-01 – Practical expedient: Applicable to all entities other than public business entities, not-for-profit conduit bond obligors, and employee benefit plans that file or furnish financial statements with or to the SEC; Leasehold improvements: Applicable to all lessees:

In March 2023, the FASB amended the Leases topic in the Accounting Standards Codification to provide a practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement to determine whether a lease exists and, if so, the classification of and accounting for that lease. The amendments also change the guidance for public and private companies to require that leasehold improvements be amortized over the useful lives of those improvements to the common control group regardless of the lease term. The amendments are effective for fiscal years

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended June 30, 2024

beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2023-02 – Applicable to all entities that hold (1) tax equity investments that meet the conditions for and elect to account for them using the proportional amortization method or (2) an investment in a LIHTC structure through a limited liability entity that is not accounted for using the proportional amortization method and to which certain LIHTC-specific guidance removed from Subtopic 323-740 has been applied:

In March 2023, the FASB issued amendments to allow reporting entities to consistently account for equity investments made primarily for the purpose of receiving income tax credits and other income tax benefits. The amendments are effective for *[fiscal years beginning after December 15, 2023, including interim periods within those fiscal years.-public business entities] [fiscal years beginning after December 15, 2024, including interim periods within those fiscal years..-all other entities]* Early adoption is permitted for all entities in any interim period. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2023-05 – Applicable to Entities that meet the definition of a joint venture or a corporate joint venture, as defined in the ASC Master Glossary:

In August 2023, the FASB issued amendments to address the accounting for contributions made to a joint venture, upon formation, in a joint venture's separate financial statements. The amendments are effective prospectively for all joint venture formations with a formation date on or after January 1, 2025. Additionally, a joint venture that was formed before January 1, 2025 may elect to apply the amendments retrospectively if it has sufficient information. Early adoption is permitted in any interim or annual period in which financial statements have not yet been issued (or made available for issuance), either prospectively or retrospectively. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2023-06 – Applicable to all reporting entities within the scope of the affected ASC topics unless otherwise indicated

In October 2023, the FASB issued amendments to incorporate certain U.S. Securities and Exchange Commission (SEC) disclosure requirements into U.S. GAAP and align the requirements with the SEC's regulations. The amendments are effective prospectively *[on date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective. -entities subject to the SEC's existing disclosure requirements and for entities required to file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer] [two years after the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective.-all other entities]* Early adoption is prohibited. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2023-07 – Applicable to all public entities that are required to report segment information in accordance with ASC 280, Segment Reporting

In November 2023, the FASB amended the Segment Reporting topic in the Accounting Standards Codification to improve disclosures about a public entity's reportable segments and provide more detailed information about a reportable segment's expenses. The amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. Upon adoption, the Company will apply the amendments retrospectively to all prior periods presented in the financial statements. The Company does not expect these amendments to have a material effect on its financial statements.

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended June 30, 2024

ASU 2023-08 – Applicable to all entities that hold crypto assets

In December 2023, the FASB amended the Intangibles topic in the Accounting Standards Codification to improve the accounting for and disclosure of certain crypto assets. The amendments are effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted. Upon adoption, the Company will apply a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets) as of the beginning of the annual reporting period in which the Company adopts the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2023-09 – Applicable to all entities subject to ASC 740, Income Taxes

In December 2023, the FASB amended the Income Taxes topic in the Accounting Standards Codification to improve the transparency of income tax disclosures. The amendments are effective for *[annual periods beginning after December 15, 2024.-public business entities] [annual periods beginning after December 15, 2025.-all other entities]* Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2024-01 – Applicable to all entities that account for profits interest awards as compensation to employees or nonemployees in return for goods or services.

In March 2024, the FASB amended the Compensation—Stock Compensation topic in the Accounting Standards Codification demonstrate how an entity should apply the guidance to determine whether profits interest and similar awards should be accounted for in accordance with that topic. The amendments are effective for *[annual periods beginning after December 15, 2024, and interim periods within those annual periods.-public business entities] [annual periods beginning after December 15, 2025 and interim periods within those annual periods.-all other entities]* Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. The Company will apply the amendments *[retrospectively to all prior periods presented in the financial statements] [prospectively to profits interest and similar awards granted or modified on or after the date at which the Company first applies the amendments].* The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2024-02 – Applicable to all entities within the scope of the affected accounting guidance

In March 2024, the FASB issued amendments to the Codification that remove references to various FASB Concepts Statements. The amendments are effective for *[fiscal years beginning after December 15, 2024. -public business entities] fiscal years beginning after December 15, 2025.-all other entities]* Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. The Company will apply the amendments *[retrospectively to the beginning of the earliest comparative period presented in which the amendments were first applied] [prospectively to all new transactions recognized on or after the date that the Company first applies the amendments].* The Company does not expect these amendments to have a material effect on its financial statements.

Applicable to all:

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Appendix C

Recently Issued Accounting Pronouncements

***NOTE**: The disclosures in the previous appendix are not intended to be all inclusive. All pronouncements issued during the period should be evaluated to determine whether they are applicable to your Company. Through June 30, 2024, the FASB has issued the following Accounting Standard Updates during the year.*

- ***ASU 2024-01,** Scope Application of Profits Interest and Similar Awards*
- ***ASU 2024-02,** Codification Improvements—Amendments to Remove References to the Concepts Statements*