# QUARTERLY FINANCIAL SERVICES UPDATE

elliott davis

**Third Quarter 2024**

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We sincerely hope you and your family are safe and well in the aftermath of Hurricane Helene. Our thoughts are with those who are recovering from the storm, and we hope you've been able to navigate this challenging time with as little disruption as possible. In this edition of the quarterly communication, we have provided information about financial reporting and accounting issues – 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 third 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:

## FASB Update

The Financial Accounting Standards Board (FASB) did not issue any Accounting Standards Updates (ASUs) or other significant guidance during the third quarter. A complete list of all ASUs issued or effective in 2024 is included in Appendix A.

## Regulatory Update

### House Passes Bill to Block SEC Disclosure Rules

On September 19, 2024, the U.S. House passed a legislative package that would create significant new materiality-based hurdles to Securities and Exchange Commission (SEC) disclosure rulemaking. H.R. 4790, the *Prioritizing Economic Growth Over Woke Policies Act*, passed the House on a near-party-line vote of 215 to 203. The House vote comes as GOP-led states, the oil-and-gas-industry, U.S. Chamber of Commerce, and others are suing to block the SEC's risk disclosure rules in Release No. 33-11275, the *Enhancement and Standardization of Climate-Related Disclosures for Investors*, which mandates broad new public company climate risk and emissions reporting. Central to their argument against the rules is that the disclosures veer outside of strict financial materiality.

One provision of the bill would amend the Securities Act of 1933 and Securities Exchange Act of 1934 to require that, in a rulemaking regarding disclosure obligations of issuers, the SEC must expressly provide that an issuer is only required to disclose information in response to such disclosure obligations to the extent the issuer has determined that such information is material with respect to a voting or investment decision regarding the securities of such issuer. The text of the bill defines such information as material if there is a substantial likelihood that a reasonable investor would view the failure to disclose that information as having significantly altered the total mix of information made available to the investor. Another provision would require the SEC to list on its website "each mandate under the Federal securities laws and regulations that requires the disclosure of non-material information" along with an explanation of why it is required. The SEC would need to report to Congress every five years justifying each required disclosure on that list. The measure would also shield from private liability anyone failing to disclose non-material information. There are also measures in the bill that would set up a new Public Company Advisory Committee within the SEC, implement new restrictions on proxy firms, and make it easier for companies to exclude certain shareholder proposals, among other provisions.

### New Rules for Real Estate and Investment Advisers

The U.S. Treasury Department's Financial Crimes Enforcement Network (FinCEN) issued two new rules in August aimed at preventing the misuse of the U.S. financial system for illicit activities, particularly in the residential real estate and investment advising sectors. The rules, part of the Biden-Harris administration's broader strategy to combat corruption and illicit finance, are designed to enhance transparency and address vulnerabilities in the U.S. financial system.

The final residential real estate rule, set to take effect on December 1, 2025, requires reports and records on certain non-financed real estate transfers to legal entities and trusts. This rule doesn't apply to transfers to individuals. The goal is to increase transparency and prevent illicit finance in the U.S. residential real estate sector, according to the main provisions. To do this, a "Real Estate Report" must be submitted for high-risk transactions, including details on the reporting person, property owner, beneficial owners, and transaction details. The reporting person can rely on information provided by others, as long as it is certified in writing.

The final investment adviser rule takes effect on January 1, 2026. It requires investment advisers to have programs to prevent money laundering and terrorism financing, report suspicious activities, and follow certain reporting and record-keeping rules. The goal is to stop bad actors from using investment advisers to launder money, finance terrorism, and engage in other illegal activities, according to the text of the provisions. The rule applies to certain investment advisers, including those registered with the SEC and those with offices outside the U.S. that operate in the U.S. or serve U.S. clients. It does not apply to state-registered advisers, foreign private advisers, or family offices. However, FinCEN will continue to monitor state-registered advisers for any signs of illicit finance activities and take steps to mitigate risks as needed, the department said.

The department identified investment advisers as a potential entry point for illicit proceeds associated with foreign corruption, fraud, and tax evasion, text of the rule states. Specifically, investment advisers have been linked to billions of dollars controlled by sanctioned entities, including Russian oligarchs, and have been used by foreign states to access technology and services with long-term national security implications. By addressing these risks, the rule might deter money laundering, terrorist financing, and other illicit financial activities through the investment adviser industry.

## States Defend SEC Climate Rules

In an August brief, a coalition of 18 states (Arizona, Colorado, Connecticut, Delaware, Hawaii, Illinois, Maryland, Massachusetts, Michigan, Minnesota, Nevada, New Mexico, New York, Oregon, Rhode Island, Vermont, Washington, and Wisconsin) and the District of Columbia supported the SEC against a consolidated challenge to the SEC's climate rules at the 8th U.S. Circuit Court of Appeals. The states framed the regulations as the product of investor demand, and pushed back against assertions by industry groups and Republican lawmakers that the requirements represent a sharp departure from the commission's existing disclosure regime. The SEC's rules set out new disclosures on climate-related risks with a material impact on a registrant's business and prescribe certain emissions reporting and attestation requirements for larger public companies, among other requirements.

The SEC has voluntarily stayed the rules in light of the consolidated lawsuits from the U.S. Chamber of Commerce, oil and gas industry, GOP-led states, and others. Those critics have attacked the disclosure requirements as not material; compelling corporate speech in violation of the First Amendment; and outside of the SEC's statutory authority. They have leaned heavily on the "major questions doctrine" invoked in the Supreme Court's 2022 ruling in West Virginia v. EPA, under which agencies need clear authorization from Congress in order to implement regulations with major economic or political significance.

However, the intervenor states argued the major questions doctrine has no place in this case, where the SEC is applying its long-established authority. They framed the concerns over the rules as a standard administrative law dispute not rising to the level of an extraordinary political or economic controversy. Further, should the major questions doctrine apply, the securities laws empower the SEC to implement disclosures necessary or appropriate in the public interest or to protect investors, which provides the necessary clear statement from Congress under West Virginia v. EPA, the states argued.

## FinCEN Issues Notice Highlighting Beneficial Ownership Reporting Nuances

The Treasury Department's Financial Crimes Enforcement Network (FinCEN) has enlisted financial institutions to help spread the word about its new beneficial ownership information (BOI) reporting rule for legal entities. FinCEN issued a notice explaining the differences between the beneficial ownership reporting rule in effect since January and a separate measure requiring banks to collect ownership information as part of their customer due diligence (CDD) obligations. Both rules attempt to combat the abuse of shell companies by illicit actors. The notice included a chart outlining how the rules differ. FinCEN also asked financial institutions to help clarify the reporting regime by sharing the notice with customers.

The BOI reporting requirement in effect since January, originated with the Corporate Transparency Act (CTA) and the Anti-Money Laundering Act of 2020. It requires certain entities, including many small businesses, to inform FinCEN about the individuals who ultimately own or control them. Separately, FinCEN's 2018 due diligence rule required many financial institutions to collect beneficial ownership information from certain customers seeking to open accounts. The notice issued by FinCEN in July, seeks to clarify the two rules and alleviate confusion on the part of legal entities that feel they are making unnecessary, duplicate BOI disclosures. The two BOI reporting requirements are not identical. For example, financial institutions must collect social security numbers from beneficial owners, but social security numbers are not required to be reported to FinCEN. On the other hand, an individual filing a report to FinCEN must certify that the report is "true, correct and complete," while reports made to banks require no such certification.

## Banking Regulators Issue Statement on Arrangements with Third Parties to Deliver Bank Deposit Products and Services

On July 25, 2024, the Federal Reserve Board, OCC, and FDIC issued a joint statement to banks regarding arrangements with third parties to deliver bank deposit products and services to end users. The joint statement emphasizes several risks that may be elevated when using third-party arrangements to deliver deposit products and services. These elevated risks include operational, compliance, strategic, liquidity, and concentration risks, as well as potential risks pertaining to end-user confusion and misrepresentation of deposit insurance coverage. The joint statement discusses examples of effective governance and risk management practices for banks to consider as they manage third-party arrangements.

In addition, the agencies also released a request for information (RFI) to solicit comment on bank-fintech arrangements, including associated risk management practices and implications. The RFI is intended to gather additional information on deposit arrangements addressed in the joint statement, as well as other types of arrangements in the areas of payments and lending. The RFI is published in the *Federal Register* and comments are due September 30, 2024; although, several groups have requested a 30-day extension to the deadline.

## OCC Updates Bank Accounting and Advisory Series

The OCC has released the 2024 edition of its Bank Accounting and Advisory Series (BAAS). This publication contains responses to frequently asked questions from the banking industry and bank examiners on a variety of accounting topics and promotes consistent application of accounting standards and regulatory reporting among banks. In this edition of the BAAS, there are a few general clarifications as well as eliminations of topics, such as, other-than-temporary-impairment, troubled debt restructurings, acquired loans, and the allowance for loan losses and leases under legacy guidance– which have been superseded by the ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.*

## FDIC Proposes Rule to Revise Brokered Deposit Regulations

In July 2024, FDIC proposed a number of changes to existing brokered deposit regulations. The FDIC appears intent on addressing a variety of safety and soundness risks that have been highlighted following recent large bank failures in 2023 as well as more novel risks arising from bank-fintech partnerships. The new rules would revise the definition of "deposit broker," remove the exclusive deposit placement arrangement exclusion, and revise the primary purpose exception, among other changes. The proposal also seeks to simplify reporting requirements for insured depository institutions (IDIs). Public comments on the proposal are due 60 days after its publication in the Federal Register.

## SEC Approves Four PCAOB Final Rules

On August 20, 2024, the SEC approved the following PCAOB's standard-setting and rulemaking actions:

- AS 1000, *General Responsibilities of the Audit in Conducting the Audit* – this standard reorganizes and consolidates standards that address auditing fundamentals such as due professional care, professional skepticism, competence, and professional judgment. AS 1000 is effective for audits of financial statements for fiscal year beginning after December 15, 2024.

- Amendments to existing standards related to technology-assisted analysis. These updates take effect for audits of financial statements for fiscal year beginning after December 15, 2025.

- Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations* – updates to this rule changed the auditor's contributory liability from reckless to negligent. Rule 3502 is effective 60 days after the SEC's approval.

On September 9, 2024, the SEC approved the PCAOB's new quality control (QC) standard. QC 100, A Firm's System of Quality Control, establishes an integrated, risk-based quality control standard that requires all registered public accounting firms to identify specific risks to their practice and design a quality control system to respond to those risks. QC 1000 will take effect on December 15, 2025.

## FDIC Quarterly Banking Profile Second Quarter 2024

On September 5, 2024, the FDIC released its more recent Quarterly Banking Profile covering the second quarter of 2024. The Quarterly Banking Profile is a quarterly publication that provides the earliest comprehensive summary of financial results for all FDIC-insured institutions. The report includes data from 4,539 commercial banks. Highlights from the Second Quarter 2024 Quarterly Banking Profile are included below:

- Community banks reported an increase second quarter net income of 1.1% compared to the previous quarter with more than half (61.1%) of community banks reporting a quarter-over-quarter increase in net income. Community banks reported pre-tax ROA of 1.14%, down 1 basis point from the prior quarter but was down 14 basis points from the second quarter 2023. Net income for community banks declined 8.2% from second quarter 2023, driven primarily by higher noninterest expense.
- Net income for the entire industry increased from prior quarter by 11.4%. The increase was driven by a 2.4% decline in noninterest expense, along with an increase of 1.5% in noninterest income and significant gains on the sale of securities. The increase in net income was largely driven by nonrecurring items including reductions in expense related to FDIC special assessment, one-time gains on equity security transactions, and the sale of an institution's insurance division that resulted in an after-tax gain of $4.9 billion.
- In total, net interest margin (NIM) decreased by 1 basis point in the second quarter to 3.16%. However, NIM increased quarter over quarter for all size banks except the largest banks (those with more than $250 billion in assets), which in aggregate reported a 4 basis points decline.
- Provisions for credit losses increased from the previous quarter due to loan growth, deterioration in office markets, and high credit card charge-offs.
- Unrealized losses on securities decreased by 0.7% from the first quarter 2024. This decline was driven by significant realized losses upon the sale of bonds by several large banks, partially offset by modest increases in interest rate which put downward pressure on bond prices.
- Loan balances increased modestly by 1.0% from the previous quarter with most of the growth coming from loans to non-depository financial institutions and consumer loans. Over 75% of banks reported loan growth and all major loan categories, except construction and land development, report quarter-over-quarter growth.
- Deposits increased in Q2 2024 by 1.1% from the prior quarter. Both transaction and savings deposits decreased from prior quarter, with growth in small time deposits offsetting the declines. Brokered deposits declined for the second quarter in a row, down 0.8% from prior quarter.
- Noncurrent loans (loans that are 90 days or more past due or in nonaccrual status) remained unchanged at 0.91% of total loans. The noncurrent rate of non-owner-occupied commercial real-estate loans was 1.77% which is the highest level since third quarter of 2013. This increase is driven by office portfolios at the largest banks.

## FDIC and OCC Adopt Final Policy on Bank Merger Transactions

On September 17, 2024, the FDIC and OCC separately issued final policy statements on bank merger transactions under the Bank Merger Act (BMA). The FDIC's final statement of policy is "broadly consistent" with the OCC's revised bank merger guidance. These policies aim to update, strengthen and clarify the FDIC's and OCC's policies and expectations related to the evaluation of bank merger transactions.

## PCAOB Issues Spotlight on 2023 Inspection Activities

The PCAOB published a Spotlight: Staff Update on 2023 Inspection Activities. During 2023, the PCAOB inspected 227 register public accounting firms and reviewed portions of 793 issuer audits, and 103 audits of brokers and dealers. This spotlight presents the results and activities from the 2023 inspection cycle including the inspection approach, common deficiencies identified, observations related to quality control systems, trends and recurring deficiencies and good practices.

## PCAOB Issues Spotlight on Bank Audit Inspections

On September 9, 2024, the PCAOB released a spotlight to provide details of the PCAOB inspection activities following the 2023 bank failures. This spotlight includes survey responses showing how dozens of U.S. firms responded to disruptions in the banking industry, including risk interest rates and how firms evaluated emerging and changing risks within the industry. In addition, the spotlight provides common observations from the PCAOB's inspection activities, along with a description of good practices at audit firms in key focus areas, including allowance for credit losses, investment securities, loans, and deposits.

## PCAOB Releases Spotlight on Observations Related to Auditor Independence

On September 16, 2024, the PCAOB published a spotlight to highlight recent staff observations on independence. The spotlight focuses on observations for inspections including common deficiencies resulting in comment forms, good practices, and other reminders, that can help audit firms comply with PCAOB and SEC independence standards and rules.

## Other Developments

### FASB Urged to Strengthen Disclosure Rules for Banks' Credit Risk Transfers

A former senior U.S. bank supervisor has highlighted the lack of transparency in banks' reporting of credit risk transfer (CRT) transactions, citing significant concerns over the accuracy of regulatory capitalization ratios. Jill Cetina, currently an Executive Professor of Finance at Texas A&M University, has urged the FASB to ensure that CRT transactions are fully reflected in banks' financial statements under U.S. GAAP. In a recent letter to the board, Cetina emphasized that the current regulatory framework does not require banks to disclose CRT transactions or their impact on regulatory capital ratios, creating substantial data gaps.

To make CRT transactions more transparent, Cetina has proposed several measures. First, she suggests that the FASB require banks to fully disclose CRT transactions in their financial statements, including the impact on regulatory capital ratios. Second, she recommends that bank management make representations and warranties about significant risk transfer when reporting their Common Equity Tier 1 (CET1) ratio, a key metric that measures a bank's core equity capital compared to its risk-weighted assets (RWA). Finally, she proposes that the FASB review recent bank CRT transactions and associated financial reporting to ensure full reflection in financial statements.

However, others argue that CRTs are a legitimate risk-management tool, and any additional transparency disclosures should be governed by global banking standards, not U.S. accounting rules. Some suggest that any disclosures for commercial transparency regarding the use of CRTs should come from the Basel Committee on Banking Supervision (BCBS) through Basel III+ rules (a set of global regulatory standards for banking), and not the U.S.-based FASB.

## On the Horizon

The following selected FASB exposure drafts and projects are outstanding as of September 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

*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 (EIFT) did not meet during the third quarter. The next scheduled meeting is Monday, October 28.

## PCC Activities

The Private Company Council (PCC) and the Small Business Advisory Committee (SBAC) jointly met on Tuesday, June 25, 2024. Below is a summary of topics discussed by PCC, SBAC and FASB members at the meeting:

- <u>PCC Agenda Prioritization:</u> PCC and SBAC members discussed the PCC agenda prioritization process and two of the four areas that the PCC is considering: (a) credit losses—short-term trade accounts receivable and contract assets and (b) debt modifications and extinguishments. PCC and SBAC members have not observed a significant financial statement effect from the application of

ASC 326, *Financial Instruments—Credit Losses*, to short-term trade accounts receivable and contract assets. While some SBAC members observed that most companies do not experience significant ongoing costs beyond the initial cost to implement the credit losses guidance, other PCC and SBAC members observed that companies incur ongoing costs, particularly related to the documentation of certain assumptions, such as a reasonable and supportable forecast. Second, SBAC members supported simplifying the guidance on debt modifications and extinguishments. Some PCC and SBAC members that make capital allocation decisions noted that they do not have a preference for the accounting treatment (modification or extinguishment), as long as the transaction and the terms of the refinanced debt agreement are disclosed.

- Accounting for and Disclosure of Software Costs: PCC and SBAC members generally supported the Board's tentative decisions on the targeted improvements to ASC 350-40, *Intangibles—Goodwill and Other—Internal-Use Software*. Some PCC and SBAC members observed that certain judgments related to the evaluation of the probable to complete recognition threshold may be challenging to audit. Those members emphasized the importance of providing illustrative examples of this evaluation, particularly for companies that are implementing common software solutions or platforms to manage their internal operations. Some PCC preparer members suggested that further clarification on the accounting for maintenance and enhancements costs would improve the operability of the guidance in ASC 350-40. PCC practitioner members noted that their clients typically do not apply ASC 350-50, *Intangibles—Goodwill and Other—Website Development Costs*, and supported subsuming that guidance into ASC 350-40. PCC and SBAC members also discussed the Board's tentative decision on presentation in the statement of cash flows. Members observed that requiring separate presentation of cash outflows for software costs capitalized under ASC 350-40 as cash flows from investing activities would generally be operable but would result in entities incurring some costs.
- Accounting for Government Grants: PCC and SBAC members received an update on the Board's tentative decisions in this project. A PCC member noted that leveraging the accounting guidance in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, would establish authoritative guidance in GAAP that generally reflects current practice. That member also suggested that it would be helpful to provide implementation guidance about the probable recognition threshold.
- Derivatives Scope Refinements: PCC and SBAC members discussed the Board's tentative decisions in this project. A PCC practitioner member and a SBAC practitioner member supported the Board's tentative decision that would exclude from derivative accounting certain contracts with underlyings that are based on the operations or activities of one of the parties to the contract.
- Accounting Alternatives and Changes in Accounting Principles: PCC and SBAC members discussed the circumstances and factors the Board should consider when determining whether to provide accounting alternatives in GAAP, including options and practical expedients. Those circumstances and factors could include the complexity of the accounting guidance, additional resources needed by private companies and related costs, and the level (entity level or transaction level) at which an accounting policy election should be applied. PCC and SBAC members also provided input about the application of the guidance on changes in accounting principles. PCC and SBAC members that make capital allocation decisions emphasized the importance of consistent financial reporting within a company and comparability among companies. Those members suggested requiring companies to disclose all accounting alternatives and changes in accounting principles in a single note to the financial statements to improve the transparency and accessibility of the information about changes in accounting. Some PCC and SBAC preparer members observed that it is important to strike a balance between providing comparable financial information and reporting financial information that reflects the economics of a company's business. PCC and SBAC members also discussed the criteria under which a preferability assessment under ASC 250, *Accounting Changes and Error Corrections*, would generally be made.

The PCC met on Tuesday, September 24, 2024; however, the meeting recap was not available at the time of this publication. The next PCC meeting is scheduled for Tuesday, December 17, 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<br><br>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 September 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

# Appendix B

## Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

***For the Quarter Ended September 30, 2024***

combination. 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]* 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

# Appendix B

## Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

### *For the Quarter Ended September 30, 2024*

of those improvements to the common control group regardless of the lease term. The amendments are effective for fiscal years 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 September 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 September 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*