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quarterly financial services update

FOURTH QUARTER 2024

January 15, 2025

Happy New Year! We hope you and your family were able to enjoy the holiday season. During the fourth quarter of 2024, we hosted a Risk Management, Compliance and Internal Audit Track Forum during which our financial services experts addressed updates on the status of 1071, concepts in new IIA standards, AI and cybersecurity risks, model risk management, and regulatory exception topics to help your financial institution anticipate and respond to risks. We also hosted a Finance, Accounting, and Strategy Forum sharing tax and accounting updates, cybersecurity and fraud, and emerging legal, economic, and balance sheet management trends. Both forums were recorded, and you can them view using the links above.

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 fourth quarter and a summary of recently issued accounting pronouncements (see Appendices for a summary of recently issued accounting pronouncements and the related effective dates).

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frequent topics of discussion across the industry

Core Processing System Conversion Accounting

Changing core providers for a financial institution involves a complex process with multiple stages, each requiring specific accounting treatment. Costs are categorized into three phases: the preliminary project stage (which is expensed), the application development stage (where direct costs like software development and payroll are capitalized), and the post-implementation stage (where expenses for training and maintenance are typically expensed). Additionally, other considerations such as deconversion costs, data conversion, incentives, billing credits, consultant fees, hosting arrangements, and upgrades may impact financial reporting. Each of these costs requires careful evaluation under relevant accounting standards like ASC 350-40, ASC 420, and ASC 606 to ensure compliance and accurate reporting.

Questions frequently arise related to the accounting treatment of consultant negotiation costs. An entity may hire a consultant to negotiate the fee for a new core processing system contract. The fee charged by a consultant is commonly a percentage of the total cost savings realized over the contract term and is paid in one lump sum when the contract is signed. These negotiation costs may not necessarily result in the acquisition of a new system. Hence, these costs must not be capitalized.

To learn more about accounting for core processing systems, please read Accounting for Core Processing System Conversion and Other Related Costs by Bob Balzano, Senior Manager, and Dolly Jagad, Senior Manager.

Model Risk Management at Financial Institutions

Launching a Model Risk Management (MRM) function at financial institutions involves several foundational steps to ensure effective oversight and compliance with regulatory guidelines, particularly SR 11-7. The process begins with establishing a board-approved MRM policy, which outlines governance, roles, responsibilities, and a framework for model management. Institutions then identify potential models through a regular attestation process, followed by an assessment to determine if each model meets the necessary criteria. A centralized model inventory is created to track key details, including usage, risk levels, and validation schedules. Risk assessments are performed to evaluate the potential impact of each model, guiding the validation cadence based on its risk level. These foundational steps are crucial for meeting regulatory requirements and effectively managing model risks as the institution's MRM program matures.

For an in-depth analysis of model risk management, please read Building the Foundation: Key Steps for Launching Model Risk Management at Financial Institutions by Mark Scriven, Shareholder, and Alek Bevensee, Senior Manager.

fasb update

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

FASB Improves Disclosures about Income Statement Expenses

On November 4, the FASB issued ASU 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*, that improves financial reporting and responds to investor input by requiring public companies to disclose, in interim and annual reporting periods, additional information about certain expenses in the notes to the financial statements.

During the FASB's 2021 agenda consultation and other outreach, investors observed that expense information is critically important in understanding a company's performance, assessing its prospects for future cash flows, and comparing its performance over time and with that of other companies. They indicated that more granular expense information would assist them in better understanding an entity's cost structure and forecasting future cash flows. This ASU addresses this feedback by requiring public companies to disclose, in the notes to financial statements, specified information about certain costs and expenses at each interim and annual reporting period. Specifically, they will be required to:

- Disclose the amounts of (a) purchases of inventory; (b) employee compensation; (c) depreciation; (d) intangible asset amortization; and (e) depreciation, depletion, and amortization recognized as part of oil- and gas-producing activities (or other amounts of depletion expense) included in each relevant expense caption.
- Include certain amounts that are already required to be disclosed under current generally accepted accounting principles in the same disclosure as the other disaggregation requirements.
- Disclose a qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively.
- Disclose the total amount of selling expenses and, in annual reporting periods, an entity's definition of selling expenses.

Effective Dates

The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2026 and interim reporting periods beginning after December 15, 2027. Early adoption is permitted.

Accounting Guidance for Induced Conversions of Convertible Debt Instruments

On November 26, the FASB issued ASU 2024-04, *Debt—Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments*, that improves the relevance and consistency in application of the induced conversion guidance in FASB Accounting Standards Codification (ASC) Subtopic 470-20, *Debt—Debt with Conversion and Other Options*.

Current generally accepted accounting principles provides guidance for determining whether a settlement of convertible instruments at terms different from the original conversion terms should be accounted for as an induced conversion (as opposed to a debt extinguishment). Because that guidance was written in the context of share-settled convertible debt instruments, stakeholders raised questions about how to apply the existing induced conversion guidance to settlements of convertible debt instruments with cash conversion and other features that have become prevalent in the marketplace. The amendments in this ASU clarify requirements for determining whether certain settlements of convertible debt instruments, including convertible debt instruments with cash conversion features or convertible debt instruments that are not currently convertible, should be accounted for as an induced conversion.

Effective Dates

The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2025 and interim reporting periods within those annual reporting periods. Early adoption is permitted.

regulatory update

Trump Picks Paul Atkins for SEC Chair

In December, President-elect Donald Trump said he would nominate Paul Atkins, a lawyer and former top SEC official who has advocated for de-regulation, to run the Securities and Exchange Commission (SEC). Atkins is currently the chief executive at Patomak Global Partners, a Washington-based strategic and risk management advisory business he founded in 2009.

Current SEC Chair Gary Gensler, who is stepping down on January 20, issued more than 40 rules aimed at boosting transparency, reducing risks, and stamping out conflicts of interest on Wall Street and sued multiple crypto firms he alleged were flouting SEC rules. Atkins is expected to review many of Gensler's rules and enforcement actions winding their way through the courts, adopt a softer touch on crypto, and pursue rule changes aimed at promoting capital formation. Industry groups applauded his nomination, while some progressive groups warned he may be too soft on Wall Street.

In line with the Trump administration's plans to challenge so-called "woke" capitalism, Atkins has criticized socially conscious corporate shareholder activism—an issue the SEC has embraced in recent years with climate risk disclosures and other rules on environmental, social and governance investing. He has also criticized overzealous SEC corporate enforcement actions, arguing they only hurt shareholders twice over.

Democratic SEC Member to Step Down

A Democratic member of the five-person SEC said, in November, he will step down more than two years early, leaving just two Republicans and one Democrat in place from the start of President-elect Donald Trump's administration in January. Commissioner Jaime Lizarraga, a former aide to former House Speaker Nancy Pelosi who in 2022 was confirmed to a five-year SEC term, cited his wife's poor health in announcing his decision.

With Lizarraga's departure, Republicans will outnumber Democrats on the commission from day one of the new Trump administration, likely boosting their ability to begin a sharply different course on policy matters such as regulating cryptocurrency and pursuing enforcement cases. During his campaign, Trump largely adopted the crypto industry's grievances against SEC Chair Gensler.

House Republican Urges SEC, Other Regulators to Halt Rulemakings

Representative French Hill (R-AR), who will lead the House Financial Services Committee in the next Congress, in November, urged the SEC and seven other regulators to halt all rulemakings in light of former president Donald Trump's victory in the presidential election. Hill, in his letter, called on the agencies to immediately cease all ongoing rulemaking actions and suspend the proposal or promulgation of any regulations. In November, Hill released a set of principles to Make Community Banking Great Again which outlines his support for a growing, successful community banking industry.

The SEC, since 2021, has proposed 55 rules and finalized 43, according to a recent report by the SEC Office of Inspector General. The SEC's rulemaking agenda under Chair Gensler is still packed with unfinished items, although it's unclear how many of those will be addressed in the waning days of Gensler's tenure.

Hill, who will replace outgoing Financial Services Committee Chair Patrick McHenry (R-NC) next year, is currently the committee's vice chairman and chairs the Digital Assets subcommittee. The latter role positioned him as an influential critic of Gensler's cryptocurrency industry enforcement. Hill also urged rulemaking halts at the Treasury Department, Federal Reserve, Department of Housing and Urban Development, Federal Deposit Insurance Corp., National Credit Union Administration, Federal Housing Finance Agency, and Consumer Financial Protection Bureau.

Warren Slated to Become Top Senate Banking Democrat

Senator Elizabeth Warren (D-MA) will serve as the top Democrat on the Senate Banking Committee in the next Congress, following the ouster of Chairman Sherrod Brown (D-OH) in the November elections. Warren, a progressive advocate for tougher financial industry regulation, will lead her party's opposition on the panel to the GOP majority's legislative agenda next year, which will likely include a broad deregulatory push for the capital markets. The move also positions her as the chief Democratic interrogator of the incoming Trump Administration's nominees to head financial regulators, including the SEC, in upcoming hearings. Brown and another senior Democrat on the panel, Jon Tester (D-MT), both lost their Senate seats as part of an election that gave Republicans control of the House, Senate and White House.

OCC Bank Supervision Operating Plan

On October 1, 2024, the OCC released its bank supervision operating plan for fiscal year (FY) 2025. This plan guides the OCC's priorities and objectives for supervising national banks, federal savings associations, federal branches and agencies of foreign banking organizations, and third-party service providers under OCC examination. It also supports the implementation of supervisory strategies for these entities. OCC staff will use the plan to guide priorities, planning, and resource allocation throughout the year.

The heightened focus areas for supervisory strategies include financial (credit, allowance for credit losses, asset and liability management, capital, climate-related financial risk for banks with over $100 billion in total assets); operational (cybersecurity, enterprise change management, operations, third-party risks, payments); compliance (BSA/AML, consumer compliance, Community Reinvestment Act, and fair lending).

OCC Releases Bulletin on Refinance Risk in Commercial Lending

On October 3, 2024, the OCC issued a bulletin to provide guidance on managing credit risk associated with refinancing commercial lending. Refinance risk refers to the risk that borrowers will not be able to replace existing debt under reasonable terms due to unfavorable market conditions or rising interest rates. This risk increases for loans that are not fully amortizing, such as interest-only loans, commercial real estate loans, leveraged loans, and revolving credit lines. Refinance risk can be driven by external factors like interest rates, inflation, and market liquidity, as well as borrower-specific factors like high leverage and poor financial performance.

The bulletin emphasizes the importance of risk management practices related to refinance risk. To manage refinance risk, banks need processes for identifying, measuring, monitoring, and controlling it at both the individual loan and portfolio levels. This includes assessing refinance risk during loan origination, ongoing monitoring, and near maturity. Tools like stress testing can help evaluate a borrower's ability to refinance under adverse conditions. Banks should also use risk ratings and adjust for the likelihood of refinancing based on factors like market conditions, borrower performance, and financial health.

The Fed Releases Supervision and Regulation Report

On November 2024, the Fed published its semiannual *Supervision and Regulation Report* to provide transparency about its policies, actions and the state of the banking system. The report highlights that he banking system remains sound, with strong capital levels, stable liquidity, and sound asset quality. However, there are concerns over weakening credit performance in commercial real estate and some consumer lending sectors, prompting banks to increase credit loss reserves. The Federal Reserve is committed to improving the speed and agility of supervision and closely monitoring risks, including credit, liquidity, and interest-rate risks. The report covers three main areas: 1) Banking System Conditions, 2) Regulatory Developments, and 3) Supervisory Developments.

FDIC Quarterly Banking Profile Third Quarter 2024

On December 12, 2024, the FDIC released its most recent Quarterly Banking Profile covering the third 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 4,517 commercial banks. Highlights from the Third Quarter 2024 Quarterly Banking Profile are included below:

- In the third quarter of 2024, net income for FDIC-insured commercial banks and savings institutions dropped by 8.6%, or $6.2 billion, to $65.4 billion, primarily due to the absence of $10 billion in one-time equity security gains from the previous quarter. However, strong net interest income partially offset this decrease. The industry's return on assets (ROA) decreased slightly to 1.09%, a decline from both the prior quarter and the previous year.
- Community banks saw a 6.7% increase in quarterly net income, driven by higher net interest income and noninterest income. The community bank pre-tax ROA improved to 1.21% which was an increase of 8 basis points from last quarter.
- Net interest income for the entire banking industry rose by $4.5 billion, with all bank size groups reporting a higher net interest margin (NIM). Despite this growth, the NIM was still below pre-pandemic levels.
- Asset quality remained favorable overall, though certain portfolios, particularly non-owner occupied commercial real estate loans, showed signs of weakness. The industry's past-due and nonaccrual loans increased slightly but remained well below pre-pandemic averages.
- Loan balances grew modestly from the prior quarter, driven by higher loans to non-depository financial institutions and consumer loans. On an annual basis, loan balances increased by 2.2%, with a significant rise in loans to non-depository financial institutions and credit cards. Community banks saw a 5.5% annual increase in loan balances, driven by commercial real estate and residential mortgage loans.
- Domestic deposits grew by $194.6 billion (1.1%) from second quarter, with increases in savings and transaction deposits, although brokered deposits continued to decline for the third consecutive quarter. Insured deposits were flat, but uninsured deposits saw a notable increase with most banks (59.3%) reporting an increase in uninsured deposits from prior quarter.

OCC Issues Semiannual Risk Perspective

The OCC released its Fall 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. The report focuses on the following risk themes:

- Special topic focused on the increasing external fraud activity targeting consumers and the banking system. The report highlights both traditional and novel fraud activities which require banks to maintain sound fraud risk management practices.
- Commercial credit risk is moderate and stabilizing, but risks persist in commercial real estate (especially office and luxury multifamily sectors). Retail credit risk is stable, though delinquency rates are rising in credit cards and auto loans.
- Operational risk is elevated due to evolving cyber threats targeting the financial industry and the need for robust third-party risk management and operational resilience.
- From a compliance risk perspective, banks must adapt to changes in customer needs and ensure compliance with laws like the Bank Secrecy Act (BSA) and anti-money laundering (AML) requirements.
- Banks' net interest margins have varied, with funding costs rising and deposit trends stabilizing as banks manage liquidity.

PCAOB Releases Investor Bulletin on Audit Committee and Independent Auditor Dialogue

On October 25, 2024, the PCAOB released an investor bulletin, "Audit Committee and Independent Auditor Dialogue." The bulletin aims to provide guidance for investors regarding the importance of dialogue between audit committees and independent auditors. It encourages investors to engage with audit committees to ensure effective audit oversight, which enhances audit quality and benefits investors and capital markets. The bulletin highlights importance of audit committee having meaningful discussions with auditors about auditing and accounting risks, audit firm independence, and critical audit matters. The bulletin also includes suggested questions for audit committees to consider discussions with their independent auditors as it relates to PCAOB inspection findings. The bulletin notes various PCAOB staff publications which provide additional resources to use as reference points when engaging with independent auditors.

PCAOB Spotlight on Auditor Responsibilities Related to Illegal Acts

On November 7, 2024, the PCAOB issued a spotlight focused on the responsibilities of auditors in detecting, evaluating, and communicating illegal acts during the audit of financial statements. It outlines the procedures auditors must perform to provide reasonable assurance of detecting illegal acts that have a direct and material effect on financial statement amounts. Once a possible illegal act is identified, auditors are required to understand its nature and circumstances, consult with legal counsel if necessary, and evaluate its effect on the financial statements. The document emphasizes the importance of communication with management, the audit committee, and potentially the SEC. In the banking industry, where regulatory compliance is critical, understanding these responsibilities helps ensure that financial statements are free from material misstatements due to illegal acts, thereby maintaining stakeholder trust and confidence.

PCAOB Issues an Audit Focus on Critical Audit Matters

In December 2024, the PCAOB issued an Audit Focus: Critical Audit Matters which addresses the identification and communication of Critical Audit Matters (CAMs) in audit reports, as required by PCAOB standards. It highlights common deficiencies, such as not analyzing all matters communicated to the audit committee or failing to perform procedures to determine CAMs for the current period's financial statements. The document outlines factors auditors should consider when determining if a matter involves especially challenging, subjective, or complex auditor judgment. It also provides guidance on how CAMs should be communicated in the auditor's report, emphasizing the need for detailed documentation. For the banking industry, understanding CAMs is vital as they often relate to significant estimates and judgments in areas like allowance for credit losses and fair value measurements.

PCAOB Releases an Audit Focus on Audit Committee Communications

In December 2024, the PCAOB issued an Audit Focus: Audit Committee Communications providing an in-depth look at the essential communication practices between auditors and audit committees, particularly for smaller public companies. It emphasizes the importance of adhering to PCAOB standards, such as AS 1301, which require auditors to discuss their responsibilities, obtain relevant information, outline the audit strategy, and share significant observations related to financial reporting. Common deficiencies identified by the PCAOB include failures to provide management representation letters, communicate the overall audit strategy, and disclose significant deficiencies or material weaknesses. The document suggests using structured templates and providing training to improve communication quality, which is crucial for maintaining transparency and trust in financial reporting.

PCAOB Spotlight Outlining Staff Priorities for 2025 Inspections

The PCAOB's Staff Priorities for 2025 Inspections spotlight outlines the key areas of focus for upcoming inspections. The PCAOB's inspection program is continuous and risk-based, focusing on reviewing selected audits of public companies and SEC-registered broker-dealers. Key priorities include addressing audit execution challenges, such as deficiencies and firm culture, and adapting to new auditing standards effective for fiscal years ending on or after December 15, 2024. The document also discusses the increased use of technology in audits and the associated risks, such as cybersecurity threats and the integration of generative AI in financial reporting processes.

other developments

FASB Continues Discussions on Purchased Financial Assets

On October 2, 2024, the FASB began deliberations on the proposed ASU *Financial Instruments – Credit Losses (Topic 326): Purchased Financial Assets*. The discussions focused on the gross-up model and its application to various asset categories. The board reached consensus on several items:

- Held-to-maturity debt securities: The board affirmed that HTM debt securities are within the scope of the gross-up approach and considered all purchased HTM debt securities seasoned. However, HTM beneficial interests under Subtopic 325-40, *Investments—Other—Beneficial Interests in Securitized Financial Asset,* should follow its specific guidance and would only be subject to the gross-up approach when an HTM beneficial interest is accounted for under Subtopic 326-20, *Financial Instruments—Credit Losses—Measured at Amortized Cost*.
- Loan commitments and forward contracts: The board decided that off-balance-sheet credit exposures related to loan commitments and forward contracts should be recognized under the gross-up approach in other comprehensive income.
- Contract assets and lease receivables: The board excluded these from the gross-up approach and clarified that any initial credit losses should be recognized through the income statement and not through purchase accounting.
- Trade receivables: The board decided to exclude trade accounts receivable from the scope of the gross-up approach.

Additional meetings are required to address concerns about seasoning criteria and transition. The board instructed the staff to investigate credit cards, other consumer revolving credit, and commercial revolving credit to identify which assets should be included in the scope exception. Additionally, the staff was tasked with conducting further research on credit-impaired available-for-sale debt securities.

FASB Advisers Highlight Free Cash Flow, EBITDA as Priority Areas for Reform

A FASB advisory panel, comprising senior accounting professionals and finance executives, has identified free cash flow and Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) as two key performance indicators (KPIs) that warrant attention in a potential project slated for next year. In a meeting in December, members of the Financial Accounting Standards Advisory Council (FASAC) expressed concerns that metrics for both free cash flow and EBITDA lack comparability and transparency across companies, despite being widely utilized by investors, analysts, and corporations to evaluate performance.

FASAC members also voiced concerns over inconsistent definitions and adjustments across companies and industries, hindering standardization of KPIs in general. Opinions were divided on whether the FASB should mandate certain KPIs or let companies choose, with some supporting mandatory disclosure of key KPIs like EBITDA and free cash flow, and others favoring a management approach.

The discussion comes on the heels of the FASB's release of an Invitation-to-Comment (ITC) on standardizing non-GAAP financial metrics, which is open for feedback until April 30, 2025. The ITC is seeking input on defining and reporting non-GAAP financial KPIs, which are not reflected in official financial statements.

FASAC members stressed the need for consistent, auditable KPIs, with some advocating for a standardized baseline that companies can adjust to fit their specific needs. They debated whether KPIs should be part of audited financials or the MD&A section, recognizing their role in storytelling. Members also discussed the importance of distinguishing between recurring and non-recurring items and sought a balance between standardization and flexibility.

on the horizon

The following selected FASB exposure drafts and projects are outstanding as of December 31, 2024.

Relief for Private Companies Related to CECL

In December 2024, the FASB issued a proposed ASU on the measurement of credit losses for accounts receivable and contract assets for private companies and certain not-for-profit entities. The FASB and the Private Company Council (PCC) have undertaken this project to address challenges with applying the guidance in ASC 326, *Financial Instruments—Credit Losses (CECL),* to current accounts receivable and current contract assets arising from revenue transactions. Private companies and not-for-profit entities have indicated that estimating expected credit losses for these balances can be costly and complex. Specifically, stakeholders noted that identifying, analyzing, and documenting macroeconomic data as part of developing reasonable and supportable forecasts is challenging, and generally does not have a material effect on the allowance for shorter-term receivables.

The proposal will cover "current" accounts receivables and contract assets arising from transactions accounted for under ASC 606, Revenue from Contracts with Customers. Under the proposal, "current" would be defined as the longer of a one-year period or an entity's operating cycle if it exceeds 12 months. Determining whether a contract asset is a current asset should be based on when the asset is expected to be realized, rather than when it is expected to be converted to a receivable.

Stakeholders also observed that estimating expected credit losses for current accounts receivable and current contract assets requires significant effort and documentation even for assets that are collected before the issuance date of the financial statements. The ability to consider collections after the balance sheet date in estimating expected credit losses would significantly reduce complexity for preparers while still providing investors and other financial statement users with decision-useful information.

To address this feedback, the amendments in the proposed ASU introduce a practical expedient and an accounting policy election for private companies and certain not-for-profit entities related to the application of CECL to current accounts receivable and current contract assets arising from revenue transactions.

Potential GAAP Guidance for Environmental Credits

In December 2024, the FASB issued a proposed ASU that is intended to improve the financial accounting for, and disclosure of financial activities related to environmental credits and environmental credit obligations. The changes are expected to provide investors with additional decision-useful information by improving the (1) understandability of financial accounting and reporting information about environmental credits and environmental credit obligations and (2) comparability of that information by reducing diversity in practice.

During the FASB's 2021 agenda consultation project and other outreach, stakeholders noted that entities are increasingly subject to additional government mandates and regulatory compliance programs related to emissions, which often result in obligations that are settled with environmental credits. Additionally, some entities voluntarily purchase environmental credits from third parties. Stakeholders also emphasized that generally accepted accounting principles do not provide specific authoritative guidance on how to recognize and measure this financial activity, resulting in diversity in practice.

The proposed ASU provides recognition, measurement, presentation, and disclosure requirements for all entities that purchase or hold environmental credits or have a regulatory compliance obligation that may be settled with environmental credits. Because the FASB's mission is to establish and improve financial accounting and reporting standards, the proposed ASU addresses only amounts reported in the financial statements. As a result, measuring or tracking an entity's voluntary emissions initiatives or the entity's actual greenhouse gas emissions are not addressed by the FASB or by these proposed amendments.

Potential GAAP Guidance on Government Grants

In November 2024, the FASB issued a proposed ASU that would establish authoritative guidance on the accounting for government grants received by business entities. U.S. Generally Accepted Accounting Principles (GAAP) does not provide specific authoritative guidance about the recognition, measurement, and presentation of a grant received by a business entity from a government. Consequently, many businesses currently apply International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*, by analogy, at least in part, to account for government grants.

In 2022, the FASB issued an Invitation to Comment, *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*. In response, most stakeholders supported leveraging the guidance in IAS 20 to develop accounting guidance for government grants in GAAP, noting that it would reduce diversity in practice because entities would apply the guidance instead of analogizing to it or other guidance, thus narrowing the variability in accounting for government grants.

The proposed ASU would leverage the guidance in IAS 20 with targeted improvements to establish guidance on how to recognize, measure, and present a government grant including (1) a grant related to an asset and (2) a grant related to income. It also would require, consistent with current disclosure requirements, disclosure about the nature of the government grant received, the accounting policies used to account for the grant, and significant terms and conditions of the grant, among others.

Changes to Interim Period Disclosures

In November 2024, the FASB issued a proposed ASU that would improve the navigability of the disclosures that are required to be provided in interim reporting periods and clarify when that guidance is applicable and what disclosures are required to be provided in interim reporting periods. The proposed ASU is not intended to change the fundamental nature of interim reporting or expand or reduce current interim disclosure requirements. Rather, the proposed ASU would provide clarity about the current interim reporting requirements.

The amendments in the proposed ASU would:

- Clarify that the guidance in ASC 270, Interim Reporting, applies to all entities that provide interim financial statements and notes in accordance with U.S. GAAP.
- Create a comprehensive list in ASC 270 of interim disclosures that are required in interim financial statements and notes in accordance with GAAP.
- Incorporate a disclosure principle, which is modeled after a previous SEC principle, that would require entities to disclose events and changes that occur after the end of the most recent fiscal year that have a material impact on the entity.
- Improve guidance about information included in and the format of interim financial statements.

Clarification of Business Combination Guidance

In October 2024, the FASB issued a proposed ASU intended to improve the requirements for identifying the accounting acquirer in ASC 805, *Business Combinations*. The proposed ASU is based on a recommendation of the Emerging Issues Task Force (EITF). In a business combination, the determination of the accounting acquirer can significantly affect the carrying amounts of the combined entity's assets and liabilities, which can affect the combined entity's post-transaction net income. The proposed ASU would establish more consistent requirements for determining the accounting acquirer when a business is acquired in a transaction achieved by exchanging equity interests.

The proposal would more closely align the requirements for determining the accounting acquirer in the acquisition of a variable interest entity (VIE) with the current requirements that apply to transactions that do not involve a VIE. The proposal is expected to enhance financial statement comparability by providing consistent requirements for economically similar transactions.

Update to GAAP Guidance for Software Development

In October 2024, the FASB issued a proposed ASU to update the guidance on accounting for software. When software accounting guidance was first issued, companies developing software generally followed a prescriptive and sequential development method (for example, waterfall). Since then, many companies have adopted a more incremental and iterative development method (for example, agile). As a result, many stakeholders noted the challenges of applying current internal-use software accounting requirements that do not specifically address software developed using an incremental and iterative method, which has led to diversity in practice in determining when to begin capitalizing software costs.

Based on the feedback, the proposed ASU would remove all references to a prescriptive and sequential software development method (referred to as “project stages”) throughout Subtopic 350-40, *Intangibles—Goodwill and Other—Internal-Use Software*. The proposed amendments would specify that a company would be required to start capitalizing software costs when both of the following occur:

- Management has authorized and committed to funding the software project.
- It is probable that the project will be completed and the software will be used to perform the function intended (referred to as the “probable-to-complete recognition threshold”).

In evaluating the probable-to-complete recognition threshold, a company may have to consider whether there is significant uncertainty associated with the development activities of the software. The proposed amendments also would require a company to separately present cash paid for capitalized internal-use software costs as investing cash outflows in the statement of cash flows.

Improvements to Share-Based Payment Guidance

In September 2024, the FASB issued a proposed ASU to improve the accounting guidance for share-based consideration payable to a customer in conjunction with selling goods or services. The proposed changes are expected to improve financial reporting results by requiring revenue estimates to more closely reflect an entity’s expectations. In addition, the proposed changes would enhance comparability and better align the requirements for share-based consideration payable to a customer with the principles in ASC 606, *Revenue from Contracts with Customers*.

The proposal would affect the timing of revenue recognition for entities that offer to pay share-based consideration (for example, equity instruments) to a customer (or to other parties that purchase the entity’s goods or services from the customer) to incentivize the customer (or its customers) to purchase its goods and services. Specifically, the proposed amendments would clarify the requirements for share-based consideration payable to a customer that vests upon the customer purchasing a specified volume or monetary amount of goods and services from the entity.

Clarification of Hedge Accounting Guidance

In September 2024, the FASB issued a proposed ASU that would clarify certain aspects of the guidance on hedge accounting and address several incremental hedge accounting issues arising from the global reference rate reform initiative. In 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, to better portray the economic results of an entity’s risk management activities in its financial statements and to make certain targeted improvements to simplify the application of the hedge accounting guidance.

During the FASB's 2021 agenda consultation project and other outreach, stakeholders expressed concerns that, in certain circumstances, the current guidance increases the risk of not being able to apply hedge accounting for otherwise highly effective hedging relationships, which results in less decision-useful information for investors. Stakeholders also identified some areas of hedge accounting guidance requiring further updates to address the effects of reference rate reform on hedge accounting.

The amendments in the proposed ASU would enable entities to apply hedge accounting to a greater number of highly effective economic hedges, thereby improving the decision-usefulness of information provided to investors.

Changes to Derivative Accounting and Share-Based Payments from Customers

In July 2024, the FASB issued a proposed ASU to address stakeholder feedback related to (1) the application of derivative accounting to contracts with features based on the operations or activities of one of the parties to the contract and (2) the diversity in accounting for a share-based payment from a customer that is consideration for the transfer of goods or services.

Issue 1: Derivatives Scope Refinements

During the FASB's recent agenda consultation and other outreach, stakeholders noted challenges in applying guidance in ASC 815, *Derivatives and Hedging*. ASC 815 establishes accounting requirements for contracts that meet the definition of a derivative based on certain characteristics and are not otherwise excluded from its scope. Because of the broad and evolving interpretation of the definition of a derivative, many types of contracts are evaluated and potentially accounted for as derivatives, including certain research and development funding arrangements and bonds in which interest payments may vary based on ESG-linked metrics.

The proposed ASU would improve this area by excluding from derivative accounting certain contracts with underlying that are based on the operations or activities of one of the parties to the contract. It would also change the predominant characteristics assessment applicable to certain contracts that are not traded on an exchange.

The proposed ASU is expected to (1) reduce the cost and complexity of evaluating whether these contracts are derivatives, (2) better portray the economics of those contracts in the financial statements, and (3) reduce diversity in practice resulting from changing interpretations of the existing guidance.

Issue 2: Scope Clarification for a Share-Based Payment from a Customer in a Revenue Contract

The proposed ASU would also clarify the applicability of ASC 606, *Revenue from Contracts with Customers*, and its interaction with other Topics, in the accounting for share-based payments, such as warrants or shares, received from a customer that are consideration for the transfer of goods or services. The proposed ASU would provide investors with more comparable information and would reduce accounting complexity and related reporting costs for preparers and auditors.

Potential ASU Related to KPIs

In November 2024, the FASB issued an Invitation to Comment (ITC) that gives stakeholders the opportunity to provide feedback on financial key performance indicators (Financial KPIs). For the purposes of the ITC, a Financial KPI is a financial measure that is calculated or derived from the financial statements and/or underlying accounting records that is not presented in the U.S. GAAP financial statements. This includes measures derived from amounts presented in the financial statements, measures derived from adjusting amounts presented in the financial statements, and measures derived from or calculations based on other information included in the financial statements or other financial records. Examples of Financial KPIs include earnings before interest, taxes, depreciation, and amortization (EBITDA); free cash flow (FCF); organic sales growth; and adjusted net income.

This ITC is being issued as part of the FASB's research project on financial key performance indicators for business entities. An ITC is a staff document prepared at the direction of the FASB chair in which the Board does not express any preliminary views. Responses to the questions in this ITC will help inform the Board as it considers whether to add a project on Financial KPIs to its technical agenda and, if added, to determine the objective and scope of the project. In previous outreach, including the 2021 Invitation to Comment, Agenda Consultation, the FASB received feedback from stakeholders that a project on Financial KPIs should be considered. However, respondents expressed diverse views on the nature and extent of the perceived issues, whether the Board should add a project to its technical agenda, and, if a project is added, the objective of the project.

The FASB staff is issuing this ITC to solicit additional feedback on potential standard setting for Financial KPIs, including the following:

- Should Financial KPIs be standardized and, if so, which ones?
- Should Financial KPIs be required or permitted to be disclosed in an entity's GAAP financial statements and, if so, when and for what types of entities?

EITF Agenda Items

The Emerging Issues Task Force (EITF) met on October 28, 2024 and deliberated the following topic:

- EITF Issue — "Issuance of New Debt to Repay Old Debt": The EITF recommended that the FASB add a project to its technical agenda to clarify when a transaction with multiple creditors involves the contemporaneous exchange of cash between the same debtor and creditor in connection with the issuance of a new debt obligation and satisfaction of an existing debt obligation by the debtor, the transaction should be accounted for as a debt extinguishment and issuance of new debt. The EITF recommended that when the following conditions are met, the debtor should account for the transactions separately as an extinguishment of the existing debt obligation and the issuance of new debt:

    1. The existing debt has been repaid in accordance with its original contractual terms or repurchased at market terms.
    2. The new debt was issued at market terms following the issuer's normal marketing process for new debt issuances.

The EITF recommended that the proposed changes apply to all entities. The EITF also recommended that the proposed changes be applied prospectively and that early adoption be permitted.

The EITF's recommendations do not constitute an amendment to generally accepted accounting principles. Amendments to the Codification are made only after extensive due process and deliberations by the FASB. The FASB will discuss this issue at a public board meeting to determine whether to add a project to the FASB's technical agenda.

The next EITF meeting has been scheduled for March 25, 2025.

PCC Activities

The Private Company Council (PCC) met on Tuesday, September 24, 2024. Below is a summary of topics discussed by PCC and FASB members at the meeting:

- The PCC continued discussing the topics identified and discussed at the April and June 2024 PCC meetings: 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.

- The PCC added a project to its technical agenda on the application of ASC 326, *Financial Instruments—Credit Losses (CECL),* to current accounts receivable and contract assets arising from revenue transactions. PCC members completed initial deliberations and made decisions on (1) scoping the project to current accounts receivable and contract assets resulting from transactions accounted for under ASC 606, *Revenue from Contracts with Customers*, for private companies, (2) providing a practical expedient that, as part of the development of a reasonable and supportable forecast, a private company need not adjust historical loss information to reflect changes related to relevant economic data and may assume that current economic conditions as of the balance sheet date persist throughout the forecast period, (3) providing an accounting policy election to consider subsequent cash collection if the practical expedient is elected, (4) requiring private companies to disclose when the practical expedient and the accounting policy has been elected, and (5) requiring prospective transition. The PCC asked the FASB staff to draft an Exposure Draft of a proposed ASU, subject to FASB endorsement.
- The PCC added a project to its technical agenda on the presentation of contract assets and contract liabilities for private companies in the construction industry. PCC members completed initial deliberations and made decisions on (1) providing a private company alternative that allows private construction companies within the scope of Subtopic 910-10, *Contractors—Construction—Overall*, to separately present contract assets and contract liabilities on a gross basis, at the contract level, on the balance sheet for all of a company's contracts with customers, (2) requiring a private construction company to disclose when it has elected the private company alternative, and (3) requiring retrospective transition and certain transition disclosures in the period of adoption. The PCC asked the FASB staff to draft an Exposure Draft of a proposed ASU, subject to FASB endorsement.
- PCC members discussed the outreach conducted with financial statement users on the financial reporting outcomes associated with applying Subtopic 470-50, *Debt—Modifications and Extinguishments*, to term loans that are exchanged or modified. PCC members requested the FASB staff to research a technically feasible solution to simplify the guidance for term debt, including an entity-wide accounting policy election to allow a private company to account for all modifications and exchanges under one model.
- PCC members discussed the recent formation of the leases working group, the objectives of the working group, and its activities to date. Working group members noted that during their first meeting, members discussed identifying private company challenges in applying the leases guidance, how the FASB's post-implementation review project on leases could help to inform the working group, and plans for future outreach, including the type of private company stakeholders with whom to perform outreach and content for outreach materials.
- PCC members provided several financial reporting areas for the Board to consider as part of its 2024 Agenda Consultation process. Those areas included (1) increased disaggregation of financial reporting information for private companies, (2) additional simplifications to debt modifications guidance beyond the current scope of the PCC research project, (3) expansion of the PCC's technical agenda projects on CECL and presentation of contract assets and contract liabilities to entities beyond private companies, (4) simplifications to distinguishing liabilities from equity guidance, (5) simplifications to consolidation guidance, and (6) increased disclosure around contingent liabilities, debt guarantees, and related party transactions.
- PCC members discussed feedback received during the September 2024 liaison meeting with the AICPA Private Companies Practice Section (PCPS) Technical Issues Committee (TIC). FASB staff also noted that the PCC will hold a liaison meeting with (1) the Risk Management Association (RMA) in October 2024, (2) the Auditing Standards Board Audit Issues Task Force (ASB AITF) in November 2024, and (3) representatives from the surety industry in January 2025.
- Other Business: The PCC Chair summarized the PCC's closed meeting discussion on the accounting for Common Interest Realty Associations (CIRAs) and noted that this issue will not be addressed by the PCC at this time. The PCC Chair also noted that during the December PCC meeting, members will reassess their ongoing agenda priorities.

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 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments	All entities that settle convertible debt instruments for which the conversion privileges were changed to induce conversion	Effective for all entities for annual reporting periods beginning after December 15, 2025, and interim reporting periods within those annual reporting periods. Early adoption is permitted for all entities that have adopted the amendments in ASU 2020-06. The amendments may be applied on either a prospective or a retrospective basis.
ASU 2024-03, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses	All public business entities	Effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. Early adoption is permitted. The amendments should be applied either (1) prospectively to financial statements issued for reporting periods after the effective date of this ASU or (2) retrospectively to any or all prior periods presented in the financial statements.
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.

Pronouncement	Affects	Effective Date and Transition
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.
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.

Pronouncement	Affects	Effective Date and Transition
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.
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.

Pronouncement	Affects	Effective Date and Transition
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.
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.

Pronouncement	Affects	Effective Date and Transition
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.
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.
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.

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 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 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.

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.

ASU 2024-03 – Applicable to all public business entities:

In November 2024, the FASB amended the *Income Statement—Reporting Comprehensive Income* topic in the Accounting Standards Codification to require public companies to disclose, in interim and annual reporting periods, additional information about certain expenses in the notes to financial statements. The amendments are effective for annual periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. Early adoption is permitted. The Company will apply the amendments *[prospectively to financial statements issued for reporting periods after the effective date.] [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.

ASU 2024-04 – Applicable to All entities that settle convertible debt instruments for which the conversion privileges were changed to induce conversion:

In November 2024, the FASB amended the *Debt* topic in the Accounting Standards Codification to clarify requirements for determining whether certain settlements of convertible debt instruments should be accounted for as an induced conversion. The amendments are effective for annual reporting periods beginning after December 15, 2025, and interim reporting periods within those annual reporting periods. Early adoption is permitted for all entities that have adopted the amendments in ASU 2020-06. The Company will apply the amendments *[prospectively to any settlements of convertible debt instruments that occur after the effective date of the guidance.] [retrospectively by recasting prior periods and recognizing a cumulative-effect adjustment to equity as of the later of the following dates: (1) the beginning of the earliest period presented and (2) the date the Company adopted the amendments in ASU 2020-06.]* 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.

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 December 31, 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*
- ***ASU 2024-03,*** *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*
- ***ASU 2024-04,*** *Debt—Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments*