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# Highlights of the 2021 AICPA & CIMA Conference on Current SEC and PCAOB Developments

## Executive Summary

The annual AICPA & CIMA Conference on Current SEC and PCAOB Developments returned to Washington, D.C., this year. The conference brings together key stakeholders to discuss developments in accounting, financial reporting, auditing, and other related matters, serving as a platform to address emerging areas of focus and trends affecting the profession.

While the effects of the COVID-19 pandemic were a theme at last year's conference, this year they largely took a back seat to other issues. Environmental, social, and governance (ESG) matters emerged as a key topic. The importance of attracting and retaining professionals to support high-quality financial reporting was also frequently mentioned. Further, the importance of enhancing diversity, equity, and inclusion (DEI) in the profession was highlighted by leaders throughout the conference as well as during the discussions of a panel dedicated to the topic. And as they do each year, key stakeholders discussed the ever-changing landscape of accounting, financial reporting, and capital formation.

In a keynote session, SEC Acting Chief Accountant Paul Munter gave remarks in addition to his [statement](#) issued in connection with the conference. Mr. Munter described three elements of high-quality financial reporting: (1) high-quality accounting standard setting, (2) high-quality implementation and application of those standards, and (3) high-quality audits.

Presenters acknowledged the continuing boom in special-purpose acquisition companies (SPACs) along with the complexities in accounting and financial reporting that are commonly associated with SPACs. The SEC staff provided perspective on the application of the guidance in [SAB Topic 1.M](#) (SAB 99) and emphasized the importance of an unbiased evaluation of relevant qualitative and quantitative factors.

Representatives from the Office of the Chief Accountant (OCA) shared perspectives on trends in recent consultations regarding accounting topics, professional practice matters such as auditor independence, and international developments. Individuals from the SEC's Division of Corporation Finance (the "Division") also provided important updates on recent rulemaking as well as their expectations regarding disclosures associated with emerging issues such as supply chain disruption, comment letter trends, and other insights into capital formation activities.

During the PCAOB standard-setting update, PCAOB Acting Chief Auditor Barbara Vanich addressed the Board's current research and standard-setting projects. Ms. Vanich observed that the Board has had recent changes in composition and will revisit its agenda. She discussed the Board's standard-setting projects on quality control and the supervision of audits involving other auditors and gave an update on the Board's research projects related to data and technology and audit evidence.

These and other topics of discussion are summarized throughout this *Heads Up*. For additional details, see the [published speeches](#) from the conference.

## ESG Reporting

During the opening session of the conference, former AICPA Chair Tracey Golden discussed investors' and consumers' changing expectations and the shift in focus from financial results to a business's impact on the world around it. She highlighted the need for the profession to lean in and seize the opportunity to provide assurance services that will enhance the reliability of ESG information for investors and other stakeholders, build trust, and protect the public interests.

SEC Acting Chief Accountant Munter observed that while a large number of issuers are currently providing some form of sustainability reporting, investors are looking for consistency in that reporting. The information provided in the reports is typically not included in SEC filings, and lack of consistent reporting from issuer to issuer leads to lack of comparability. Further, Mr. Munter noted that less than a third of companies that currently provide sustainability reporting have some form of assurance over the information, and the level and type of assurance are not consistent.

## SEC Reporting Considerations

Throughout the conference, presenters discussed the SEC's September 2021 ["Dear Issuer" letter](#) that highlights the types of comments the Division may issue to public companies regarding their climate-related disclosures. The sample comments in the letter, which are for illustrative purposes and are not exhaustive, are consistent with the guidance in the SEC's 2010 [interpretive release](#) on climate-change disclosures, which covered four key topics: (1) the impact of legislation and regulations, (2) international accords, (3) indirect consequences of regulation or business trends, and (4) physical impacts of climate change. The "Dear Issuer" letter further establishes that the SEC may review information disclosed outside of a public company's SEC filings, including in separate sustainability reports, and asks public companies to consider whether they should also disclose such information in their SEC filings.

The sample comments serve as an early warning to registrants that have not yet received any company-specific comments. Division Director Renee Jones emphasized that the SEC staff often focuses on the following themes, as further discussed in the "Dear Issuer" letter:

- The registrant provided significant disclosure in corporate social responsibility reports (or similar publications) or on its Web site but has not provided similar information in its SEC filings. (See comment #1 in the "Dear Issuer" letter.)

- The registrant did not provide disclosures regarding significant legislative or regulatory developments that are applicable to the registrant or its industry. (See comment #4 in the “Dear Issuer” letter.)
- The registrant did not quantify material capital expenditures for climate-related projects. (See comment #5 in the “Dear Issuer” letter.)

In addition to mentioning the “Dear Issuer” letter, Ms. Jones and Mr. Munter both discussed rulemaking on climate-change disclosures, citing SEC Chair Gary Gensler’s inclusion of climate-related disclosures in the SEC’s recent [rulemaking agenda](#) and then SEC Acting Chair Allison Herren Lee’s March 2021 [request for input](#) on climate-change disclosures, which has resulted in over 6,500 comment letters, including over 600 unique letters. Mr. Munter also discussed the establishment of the [International Sustainability Standards Board](#) (ISSB) and the OCA’s plans to monitor the ISSB’s progress. However, he noted that to be responsive to investor demands for climate disclosures, the SEC staff believes that it will need to move forward with proposing rules while also monitoring the ISSB’s progress rather than following a “sequential” process that needs to occur in a specific order.

## International Standard Setting

During a panel discussion focused on the international standard setting associated with ESG and sustainability, Executive Director Lee White of the IFRS Foundation summarized three significant developments made by the IFRS Foundation to provide the global financial markets with high-quality disclosures on climate and other sustainability issues:

- The IFRS Foundation’s announcement of the creation of the ISSB to develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors’ information needs.
- Consolidation of the Climate Disclosure Standards Board (an initiative of the Carbon Disclosure Project) and the Value Reporting Foundation (which houses the Integrated Reporting Framework and the standards of the Sustainability Accounting Standards Board) into the ISSB by June 2022.
- Publication of prototype climate and general disclosure requirements developed by the Technical Readiness Working Group, a group formed by the IFRS Foundation Trustees to undertake preparatory work for the ISSB.

Several panelists emphasized and supported the ISSB’s goal of developing a set of sustainability standards that could be used by stakeholders regardless of the geography and regulatory environment in which they operate. Martin Moloney, secretary general of the International Organization of Securities Commissions, further noted that the standards will be developed to facilitate disclosure of the key metrics that are important to stakeholders across the globe and to allow for tailoring as required by specific jurisdictions.

Mr. White highlighted three next steps that the ISSB needs to undertake to achieve its key objectives:

- Appointment of board members. Mr. White stated that the trustees are at advanced stages in appointing a chair and vice-chair(s) to the ISSB and anticipates an announcement on that before the end of 2021. The search for remaining board positions is expected to be completed by the end of the first quarter of 2022.
- Further development of prototype climate and general disclosure requirements to allow for issuance of a disclosure draft in the third or fourth quarter of 2022.
- Engagement with developing and emerging economies to allow for the establishment of a global and multilocation presence.

Mr. Munter cautioned that while there certainly is a degree of urgency for the ISSB to begin developing its initial standards, it is also critical to both the credibility and quality of its work to ensure that due process is followed and not circumvented in the name of expediency.

## **Key Takeaways for Preparers, Assurers, and Those Charged With Governance**

Throughout the conference, multiple participants emphasized the real market demand for ESG information while also highlighting the need for further development of the information infrastructure that supports the dissemination of reliable ESG information to decision makers. With this in mind, in a panel discussion focused on providing insights into how companies and auditors are preparing to meet market demands, panelists emphasized the need for financial statement preparers to engage in ESG reporting and to obtain an understanding of what their organizations are currently doing in the area of ESG monitoring and reporting. Preparers may ask questions such as:

- What ESG information is material to stakeholders?
- What are the current reporting processes related to ESG reporting?
- What processes, data, controls, and IT infrastructure are needed to facilitate periodic reporting to internal and external stakeholders?
- What ESG-related risks, opportunities, and associated business impacts are being included in current ESG reporting and is such ESG-related information material for disclosure in SEC filings?

Deloitte Partner Kristen Sullivan, chair of the AICPA Sustainability Task Force, also emphasized the important role that the board of directors and, specifically, the audit committee will play in influencing the development of more rigorous and disciplined infrastructures that generate high-quality ESG information by operationalizing governance and oversight.

Various presenters observed that assurance by auditors of ESG-related information can bring the independence, expertise, institutional knowledge, and experience necessary to enhance the reliability of ESG reporting, which is increasingly important to investors in executing on investment strategies. Given the increasing market demands for ESG information, developing preparer and auditor skill sets and knowledge of ESG standards and frameworks will be important to effectively serve the capital markets.

For more information about ESG reporting, see the following Deloitte publications and resources:

- [\*Heads Up — #DeloitteESGNow — Setting the Standard: When ESG and Climate Reporting Meet Financial Reporting.\*](#)
- [\*Financial Reporting Alert 21-1, Financial Reporting Considerations Related to Environmental Events and Activities.\*](#)
- [\*Heads Up — SEC Publishes Sample Comments on Climate-Change Disclosures.\*](#)
- [\*Heads Up — SEC Requests Input on Climate-Related and Other ESG Disclosures.\*](#)
- [\*Defining the Role of the Audit Committee in Overseeing ESG.\*](#)

See also:

- [\*Sustainability and Business — The Call to Action: Build Back Better.\*](#)
- [\*Sustainability Frameworks & Standards: Sustainability Accounting Standards Board.\*](#)
- [\*Sustainability and Business — Environmental Protection Introduction: Putting the E in ESG.\*](#)
- [\*Considerations of ESG-Related Matters in an Audit of Financial Statements.\*](#)
- [\*ESG Reporting and Attestation: A Roadmap for Audit Practitioners.\*](#)

## DEI Matters

In the opening session of the conference, former AICPA Chair Golden indicated that the AICPA is focused on maintaining the strength of the accounting profession, an integral component of which is fostering a diverse and inclusive workforce. During a panel discussion on DEI, CAQ board member Brian Anderson further stated that building a more diverse and inclusive workforce should be a strategic priority and focus area for organizations across various industries as the demand for transparency and accountability regarding these initiatives grows in the market. Mr. Anderson emphasized the need for a strong tone at the top — including support from the board, the CEO, and other members of senior management — for significant progress to be made on DEI initiatives. He also noted that it is important for senior leadership to view progress on DEI initiatives as a strategic business priority that drives a long-term competitive advantage. Other panelists supported Mr. Anderson's views and also emphasized the attention that external stakeholders are paying to DEI initiatives and progress within organizations.

AICPA Diversity and Inclusion Director Crystal Cooke discussed DEI issues specific to the accounting profession and emphasized how important it is for everyone within an organization to own the strategic initiatives focused on DEI. Ms. Cooke also highlighted the AICPA's [Web page](#) describing its involvement in DEI.

Deloitte remains steadfast in our commitment to fulfilling our organization's purpose and creating a lasting impact that matters for our people, our clients, and our community. The [2021 Deloitte Diversity, Equity, and Inclusion \(DEI\) Transparency Report](#) is an important first step on our path forward — providing transparency on our DEI data, progress to date, and goals for the future.

## Accounting and Financial Reporting

### Accounting for Shares and Warrants Issued by a SPAC

During the OCA's keynote session, OCA Deputy Chief Accountant John Vanosdall observed that registrants continue to consult with the OCA on complex accounting issues related to SPACs, including the accounting for warrants issued by a SPAC and the application of the SEC's temporary equity guidance in ASC 480-10-S99-3A to shares issued by a SPAC. During the session on current OCA projects, OCA Senior Associate Chief Accountant Kevin Vaughn reiterated this theme by providing details on recent consultations related to certain financial instruments issued by a SPAC.

Mr. Vaughn summarized the views previously expressed by the SEC staff in its April 2021 [Staff Statement on Accounting and Reporting Considerations for Warrants Issued by Special Purpose Acquisition Companies \(“SPACs”\)](#) (the “SPAC Statement”), which describes certain features that would require warrants issued by SPACs to be accounted for as derivative liabilities. Mr. Vaughn remarked that after the issuance of the SPAC Statement, the staff received consultations related to warrants issued by SPACs with *different* facts and circumstances from those discussed in the SPAC Statement. In those cases, the staff did not object to conclusions that resulted in balance sheet classifications that were different from those addressed in that statement.



### Connecting the Dots

It is important to consider the specific facts and circumstances of both the entity and the instrument in the SEC’s conclusions. Although warrants issued by SPACs commonly require derivative liability treatment, as is consistent with the SEC staff’s comments, we have observed some fact patterns in which the public warrants qualify for classification within equity. Consultation with accounting advisers is encouraged.

See the [Public Warrants](#) and [Private Placement Warrants](#) discussions in Deloitte’s October 2, 2020 (last updated December 2, 2021), [Financial Reporting Alert](#) for further guidance and additional considerations related to the SEC’s conclusion in the SPAC Statement.

Mr. Vaughn also discussed a recent consultation related to the application of the SEC’s temporary equity guidance for redeemable shares issued by a SPAC. In this fact pattern, the registrant had appropriately concluded that its redeemable shares were required to be classified within temporary equity on its balance sheet. The SPAC in this consultation had a provision in its charter that required it to maintain net tangible assets above a certain minimum level. Because redeeming all of its shares would result in a violation of this contractual provision, the registrant concluded that the minimum net tangible asset requirement in its charter represented a floor for permanent equity since the charter limited the redemptions of shares to this level. In this case, each redeemable share was determined to be a freestanding financial instrument (i.e., a separate unit of account, since each redeemable share is legally detachable and separately exercisable). However, the registrant believed that because of the charter provision, the redeemable shares subject to this floor should be evaluated as a combined, single unit of account that was not redeemable and, therefore, a portion of the shares should be classified in permanent equity. The SEC staff objected to the registrant’s conclusion that certain redeemable shares issued by the SPAC would not have to be classified outside of permanent equity because of a contractual provision to maintain a minimum level of net tangible assets.



### Connecting the Dots

If the terms of an equity instrument require or may require the issuer to redeem the instrument for cash or other assets upon the occurrence of an event that is not solely within the issuer’s control, the instrument is classified as temporary equity, irrespective of the likelihood that the event will occur.

For further discussion, see [Section 9.4.2](#) of Deloitte’s Roadmap [Distinguishing Liabilities From Equity](#). For further information related to redeemable shares issued by a SPAC and the related application of temporary equity guidance for such shares, see Deloitte’s October 2, 2020 (last updated December 2, 2021), [Financial Reporting Alert](#).



## Revenue Recognition

During the session on current OCA projects, OCA Senior Associate Chief Accountant Jonathan Wiggins discussed recent themes of OCA accounting consultations related to revenue recognition. As in previous years, Mr. Wiggins noted that the most frequent topics of consultation on the application of ASC 606 are the identification of performance obligations, principal-versus-agent analysis, identification of an entity's customer, and consideration payable to a customer. While Mr. Wiggins did not share specific OCA consultations, he made the following observations about these aspects of ASC 606 that may involve the use of judgment:

- *Identification of performance obligations* — Complex consultations on the identification of performance obligations have included fact patterns in which an entity promises to provide (1) a good or service up front, such as a software license or a “smart” device, and (2) a related service over time, such as postcontract customer support for the software license or a cloud-based service for the smart device.



### Connecting the Dots

During the panel discussion on hot topics in accounting and financial reporting, Deloitte Partner Sandie Kim shared her views on indicators that an entity should evaluate to determine whether the entity's smart device is distinct from its cloud-based service.

For a discussion of indicators to evaluate, see Deloitte's April 2021 [Technology Spotlight](#). See also Deloitte's brief [video](#) on identifying performance obligations.

- *Principal-versus-agent analysis* — An entity may conclude that it is a principal because it takes a good or service from a third party and integrates that good or service into its own offering. In his discussion of entities' contracts with customers involving a good or service from a third party, Mr. Wiggins highlighted the importance of determining (1) whether the entity is performing an integration service, (2) the nature of the integration service, (3) the significance of the integration service, and (4) whether the entity controls the third party's good or service. He noted that if an entity does not control a promised good or service from a third party, it would be unclear how the entity can significantly integrate that promised good or service with its own offering. Mr. Wiggins also cautioned that the indicators of control in the principal-versus-agent analysis as outlined in ASC 606-10-55-39 are neither a checklist nor a substitute for an entity's assessment of control; rather, an entity should consider whether these indicators support its control assessment.



### Connecting the Dots

When using goods or services as inputs to produce or deliver a combined output, an entity evaluates the level of integration between the various inputs in identifying its performance obligations. However, an entity should also consider whether any of the inputs are provided by a third party and, if so, whether the entity has sufficient control over those inputs to significantly integrate them into its offering.

For discussion of additional principal-versus-agent considerations, see [Chapter 10](#) of Deloitte's Roadmap [Revenue Recognition](#).

- *Identification of a customer and consideration payable to a customer* — An entity that operates a marketplace platform and is acting as an agent must determine which party or parties are the entity's customers. This assessment is particularly important when the entity offers incentives to one or more parties involved in the arrangement. Mr. Wiggins referred to isolated fact patterns in which platform entities have concluded that they are seller agents and were able to support the presentation of certain incentives paid to the end user as a marketing expense rather than as a reduction of revenue. He cautioned that an entity's specific facts and circumstances may not support this accounting and financial reporting conclusion and that the SEC staff has objected to recognizing incentives as a marketing expense in certain circumstances. In addition, he advised that an entity acting as a seller agent should consider whether it has multiple customers, including whether it receives consideration from both the seller and the end user. Mr. Wiggins noted that even if the entity concludes that it has only one customer (i.e., the seller), the entity should consider whether it has made an implicit or explicit promise to provide incentives to the end user on the seller's behalf. Further, the entity should consider whether incentives are an in-substance price concession because the seller has a valid expectation that the entity will provide the incentives to the end user buying the good or service.



### Connecting the Dots

Determining whether there is an implicit promise to provide incentives to the end users on the seller's behalf or whether the seller has a valid expectation that the entity (i.e., the entity acting as a seller agent) will provide incentives to the end users requires an understanding of the entity's facts and circumstances. During the panel discussion on hot topics in accounting and financial reporting, Ms. Kim shared her views that an entity should analyze all communications with the seller and the type of information that the seller might have about the entity's incentive program.

For further discussion of consideration payable to a customer, see [Section 6.6](#) of Deloitte's Roadmap *Revenue Recognition*.

## Digital Assets

During the SEC staff's discussion of digital assets, SEC Acting Chief Accountant Munter indicated that such assets, primarily crypto assets, are becoming a frequent topic of discussion and consultation with the OCA. Mr. Vanosdall highlighted that digital assets that are not securities and are not subject to specialized industry guidance are likely to be accounted for as indefinite-lived intangible assets under ASC 350. He also stated that the SEC staff has not objected to the accounting for Bitcoin as an indefinite-lived intangible asset.



### Connecting the Dots

Impairment testing of indefinite-lived intangible assets is required whenever events or changes in circumstances indicate that it is more likely than not that impairment has occurred. When determining the fair value of crypto assets, entities should consider the principal market or, in the absence of a principal market, the most advantageous market, under ASC 820.

In a panel session on digital assets, Deloitte Partner Amy Steele highlighted unique challenges associated with the existence, ownership, and valuation of such assets. She emphasized the importance of competencies and skill sets both for management and auditors in this field and encouraged entities to use specialists. The cochairs of the AICPA's Digital Assets Working Group, including Ms. Steele, also highlighted the group's [Practice Aid Accounting for and](#)



*Auditing of Digital Assets*, which provides nonauthoritative guidance for preparers and auditors to consider when accounting for and auditing digital assets. The working group will continue to develop new content to add to the practice aid.

See [Section 3.2.4](#) of Deloitte's Roadmap *Fair Value Measurements and Disclosures (Including the Fair Value Option)* for more information about identifying the principal or most advantageous market.

## Share-Based Payments

During the session on current OCA projects, Mr. Wiggins discussed the November 29, 2021, issuance of [SAB 120](#). He observed that SAB 120:

- Provides the SEC staff's views on the measurement and disclosure of certain share-based payment awards granted when entities possess material nonpublic information to which the market is likely to react positively when the information is announced (i.e., "spring-loaded" awards).
- Revises [SAB Topic 14](#) to conform references to guidance from ASC 718 to the current wording in ASC 718 and to rescind guidance that no longer applies.

Mr. Wiggins emphasized that spring-loaded awards present various legal, governance, and financial reporting complexities. Before issuing such awards, an entity should evaluate whether doing so is consistent with the terms of the entity's compensation plan and governance policies and satisfies other legal requirements. He also explained that when determining the grant-date fair value of a spring-loaded award, a company should consider the impact of the material nonpublic information.

In a separate session, Mr. Vanosdall commented that although nonroutine awards should be subject to particular scrutiny in the consideration of the interpretive guidance in SAB 120, an entity should also assess awards issued in the "normal course" of its operations.

For more information about SAB 120, see Deloitte's December 3, 2021, [Financial Reporting Alert](#).

## Consolidation and VIEs

Mr. Vanosdall commented on issuers' consolidation of China-based variable interest entities (VIEs). He focused on a scenario in which a China-based VIE is structured in a specific way as a result of Chinese government prohibitions against (1) foreign ownership of China-based companies in certain industry sectors and (2) the direct listing of those companies on exchanges outside China. To access foreign capital, a China-based VIE may establish a shell company abroad, enter into contracts with the shell company, and arrange for the shell company to issue shares of its own to public investors. The issuer (i.e., the shell company) then consolidates the China-based VIE. However, an investor in the issuer may not be aware of the nature of the relationship between the issuer and the China-based VIE. Mr. Gensler described this complexity and its impacts in his July 2021 [statement](#) on investor protection related to recent developments in China.

Mr. Vanosdall observed that in these circumstances, the issuer is the primary beneficiary of the China-based VIE under ASC 810 and satisfies the primary-beneficiary power criterion by virtue of an interest in a contract rather than through voting rights associated with equity ownership in the VIE. He emphasized that transparent disclosure is of paramount importance to convey specific information about the rights and obligations of those that hold interests in the China-based VIE, particularly if the enforceability of the contract conveying power has

not been tested in a court of law. This sentiment was echoed by Division Director Jones at the session on Division developments, during which she stated that the Division is focused on disclosures related to China-based VIEs. Mr. Vanosdall further observed that the SEC's Office of Investor Advocacy issued a [bulletin](#) discussing the risks associated with investing in issuers that consolidate China-based VIEs. For more information, see the [China-Based Issuer Disclosures](#) discussion.

See [Chapter 7](#) and [Section 11.2](#) of Deloitte's Roadmap [Consolidation — Identifying a Controlling Financial Interest](#) for primary-beneficiary considerations and VIE-specific disclosure considerations, respectively.

## Segment Reporting

During the session on current OCA projects, Mr. Vaughn commented that segment reporting continues to be an area of frequent engagement with investors as well as a topic of frequent consultation with the OCA. These consultations touch on all aspects of ASC 280, which prescribes a management approach to identifying operating segments. Mr. Vaughn noted that companies should be considering all of the information that the chief operating decision maker (CODM) uses on a regular basis when determining operating segments. The evaluation of what information the CODM uses is a continual process, and companies should take this into consideration as they evolve and as new or different information is provided to the CODM.

See [Section 2.3.2.2](#) of Deloitte's Roadmap [Segment Reporting](#) for guidance on information that is provided to and reviewed by the CODM.

During the panel session on Division developments, the Division staff provided observations about its recent comments related to segment reporting. The three main areas of comment and associated fact patterns included:

- *Identification of reportable segments* — When reviewing segment disclosures, the Division staff looks at all parts of the Form 10-K to ensure consistency and reviews information provided by the registrant outside the Form 10-K, such as the company's Web site, earnings calls, or press releases. Deputy Chief Accountant Melissa Rocha noted two factors that may lead the Division staff to comment on a company's reportable segments:
  - A company either has only one reportable segment or has multiple reportable segments but one reportable segment constitutes the vast majority of its business.
  - No change in a company's segments has been reported, but the company discloses changes in its management or business — such as significant restructuring activities, acquisitions, or dispositions — or there is other publicly available information indicating that the company's reportable segments should be reconsidered.

Division Chief Accountant Lindsay McCord also discussed the reporting implications of a retrospective change in reportable segments. Specifically, she reminded companies that in addition to updating their financial statements to reflect the change in reportable segments for all periods presented, they must update all other affected financial statement information (e.g., description of business, MD&A).

See [Section 6.5](#) of Deloitte's Roadmap [Segment Reporting](#) for further guidance on the reporting implications of retrospective changes in reportable segments.

- *Aggregation of operating segments* — Ms. Rocha described a recent example in which a foreign private issuer reporting under IFRS® Standards identified two reportable segments. The first reportable segment was composed of the company's mature business and represented a substantial portion of the company's consolidated revenue. The second consisted of the company's portfolio of start-up businesses that did not constitute a significant portion of revenue but was reporting significant losses. The portfolio of businesses in the second reportable segment included operating segments that the company had aggregated into one single reportable segment. The aggregated operating segments did not have similar products or services, customers, or economic characteristics. The Division staff objected to the conclusion that all the criteria necessary for aggregation under paragraph 12 of IFRS 8 had been satisfied. As a result, the company was required to restate its segment disclosures to break up the aggregated reportable segment into multiple segments.



### Connecting the Dots

The requirements for aggregating operating segments under IFRS 8 are similar to those under ASC 280.

- *Multiple measures used by the CODM* — Ms. Rocha noted that the Division staff has been seeing an increasing number of companies presenting more than one measure of segment profit or loss. Ms. Rocha described a fact pattern in which a foreign private issuer reporting under IFRS Standards disclosed three measures of segment profit or loss for each of its reportable segments: (1) operating income, (2) adjusted EBITDA, and (3) adjusted EBIT. The Division staff objected to the disclosure of three measures of segment profit or loss for each reportable segment, and the company was required to present one measure, which it determined to be operating income in accordance with IFRS 8.



### Connecting the Dots

In instances in which the CODM receives multiple measures of profit or loss, both ASC 280 and IFRS 8 require the measure presented for each reportable segment to be the one that most closely reflects the measurement principle applied to the consolidated financial statements. This measure would not be considered a non-GAAP measure. However, any additional measures of segment profit or loss may be disclosed outside of the financial statements (e.g., within MD&A) provided that they meet the non-GAAP rules and regulations.

See Deloitte's Roadmap [Segment Reporting](#) for guidance on identifying operating segments ([Chapter 2](#)), information on evaluating operating segments for aggregation ([Section 3.2](#)), and guidance on disclosing a measure of profit or loss for each reportable segment ([Section 4.3](#)). [Section 2.5](#) of Deloitte's Roadmap [Non-GAAP Financial Measures and Metrics](#) also provides guidance on the segment information required by GAAP.

## Reference Rate Reform

Mr. Vanosdall discussed how reference rate reform continued to be a top priority for the SEC's offices and divisions and encouraged issuers to continue consultation on complex implementation issues related to the transition away from LIBOR.

FASB Technical Director Hillary Salo discussed the FASB's standard-setting activities related to reference rate reform. Since the issuance of ASC 848 in 2020, the cessation date of certain tenors of LIBOR has been deferred to June 30, 2023. Ms. Salo noted that as a result of this deferral, the FASB is contemplating alternatives for extending the effect of ASC 848 beyond its

current sunset date, December 31, 2022. As markets transition away from LIBOR, the FASB will continue to monitor developments to identify the potential impacts on accounting standards, including how the FASB's definition of a benchmark interest rate may evolve as alternative reference rates gain prominence.



### Connecting the Dots

The FASB plans to discuss the sunset date of ASC 848 at its December 15, 2021, Board meeting.

The SEC staff's December 7, 2021, [statement](#) on LIBOR transition was also referred to during the conference. This statement discusses (1) the obligations of investment professionals when recommending LIBOR-linked securities and (2) the obligations of public companies and issuers of asset-backed securities to provide certain disclosures related to LIBOR transition.

The SEC staff expects that a registrant's disclosures regarding LIBOR transition will continue to evolve and become more robust as LIBOR cessation approaches. Such disclosures should include the steps taken to assess and identify LIBOR exposure and to mitigate risks and impacts resulting from LIBOR transition. Further, Ms. McCord emphasized that a registrant's disclosures should provide investors with insight into the status of the overall transition process.

For more information about the accounting and reporting impacts of reference rate reform, see Deloitte's [August 6, 2019](#); [March 23, 2020](#); and [January 11, 2021](#), *Heads Up* newsletters.

Visit Deloitte's [LIBOR transition resources Web site](#) and [subscribe](#) to our monthly LIBOR transition newsletter to stay up to date on the latest U.S. regulatory and market developments related to reference rate reform.

## Tax Reform

Mr. Vanosdall provided some considerations related to the proposed Build Back Better Act (the "proposed Act"). He reminded companies that ASC 740 requires entities to account for changes in income tax laws as of the enactment date of the new legislation. Mr. Vanosdall noted that in response to the significant changes made in 2017 by the Tax Cuts and Jobs Act (TCJA), the SEC issued [SAB 118](#) to give entities additional time to analyze and record the tax effects. However, Mr. Vanosdall emphasized that SAB 118 was specific to the TCJA and that the changes contemplated by the proposed Act did not appear as significant. He encouraged companies to monitor the proposed Act and evaluate the impact of any tax legislation ultimately enacted on the basis of the requirements in ASC 740. Mr. Munter echoed Mr. Vanosdall's remarks and emphasized that the SEC is actively monitoring the proposed Act. He also stated that the SEC staff will not take any action or assess the significance of the changes unless or until the legislation is enacted.

See [Section 3.5.1](#) of Deloitte's Roadmap [Income Taxes](#) for information about accounting for changes in tax laws and rates.

## SEC Reporting

### Materiality and Assessment of Errors

The evaluation of errors in previously issued financial statements was one of the SEC staff's topics of focus during the conference, particularly the importance of performing an unbiased, fact-based evaluation that takes into account both the qualitative and quantitative factors

in [SAB Topic 1.M](#). Further, the staff emphasized that as an error's quantitative significance increases, it becomes more challenging to rely on qualitative factors in the assessment of an item's materiality. When the previously issued financial statements are materially misstated and must be restated and reissued, the restatement is commonly referred to as a "big R" restatement.

Alternatively, if the error is not material to the previously issued financial statements and correcting the error in the current period would be material to the current-period financial statements, companies may restate the prior-period information in the current-period comparative financial statements and disclose the error. Such a restatement is commonly referred to as a "little r" restatement.

In the OCA keynote session and his conference statement, SEC Acting Chief Accountant Munter noted that "while the total number of restatements by U.S.-based public companies has declined each year for the past six years, we note that 'little r' restatements as a percentage of total restatements rose to nearly 76% last year, up from about 35% in 2005." During the session, Mr. Munter questioned whether this trend indicates a potential bias toward "little r" restatements and emphasized that it is important for companies to remain objective when evaluating whether an error is material. This was reinforced during the SEC's Division of Enforcement session. The SEC staff also reminded registrants not to forget about the evaluation of the effects of the error on ICFR. Most notably, the registrant should carefully and objectively evaluate the severity of the identified deficiencies that are associated with a known error as well as the type or magnitude of errors that are reasonably possible as a result of the identified control deficiency.

During the panel session on Division developments, Division Chief Accountant McCord provided perspective on how the Division staff approaches its assessment of materiality of errors during its periodic review of a registrant's filing. She shared two examples in which the Division had objected to a registrant's conclusion that an error identified was not material and was addressed through a "little r" restatement. In both cases, the registrant was required to restate its previously issued financial statements (i.e., a "big R" restatement). The errors were quantitatively large (e.g., 50 percent of earnings per share, 20 percent of net income), and the SEC staff objected to the registrant's conclusion that the error was immaterial because qualitative factors had overcome the quantitatively significant error.

Ms. McCord indicated that there were two main types of qualitative factors that the registrant had asserted: (1) passage-of-time considerations and (2) lack-of-relevance considerations. Registrants that assert "passage of time" contend that historical financial statements are no longer relevant once more recent financial statements are filed since investors primarily focus on the most recent financial statements available. Ms. McCord noted that, in her experience, while investors do place emphasis on the most recent financial statements, they may also consider the registrant's history of identifying and correcting errors in evaluating whether the current financial statements are reliable. Ms. McCord did not dismiss the relevance of passage-of-time considerations in the evaluation of the materiality of an error; however, she indicated that, in this case, such considerations alone were not sufficient to overcome the quantitative significance of the error. Registrants that assert "lack of relevance" contend that the historical financial statements may be less relevant for certain registrants since investors focus on other information or considerations. For example, the Division staff has reviewed analysis from a registrant suggesting that investors in a SPAC primarily focus on the perceived prospects of completing a business combination rather than the historical financial statements. The Division staff does not believe that any single qualitative factor could be so determinative that any accounting error discovered, no matter how quantitatively significant, would be assessed as immaterial. Ms. McCord reminded registrants that the evaluation of the materiality of errors should be based on the specific facts and circumstances.

## Disclosure Areas of Focus and Comment Letter Trends

### ***Disclosure Considerations Related to Emerging Issues***

Registrants are encountering challenges resulting from inflation, supply chain disruptions, and labor shortages. They are also undergoing permanent operational changes such as a remote workforce or a fully online business. Division Chief Accountant McCord emphasized that as a result of these challenges and changes, CF Disclosure Guidance [Topics 9](#) (issued March 25, 2020) and [9A](#) (issued June 23, 2020) remain relevant for registrants to consider when preparing disclosures in their upcoming SEC filings.

See Deloitte's December 2, 2021, [Financial Reporting Alert](#) for further guidance and additional considerations related to operational and financial challenges associated with the effects of the COVID-19 pandemic on the economy.

### ***Non-GAAP Measures and Metrics***

#### **Prominence**

Division Deputy Chief Accountant Sara Lowe noted that over the past year, the SEC staff has continued to see presentations in which non-GAAP measures were disclosed more prominently than GAAP results. She reminded registrants to disclose the most directly comparable GAAP measure with equal or greater prominence when they present non-GAAP measures. She also emphasized that GAAP information is the focal point of the SEC's financial disclosure requirements and should therefore be central to a registrant's disclosures.

The SEC staff has commented about discussions of non-GAAP results that do not include corresponding discussions of GAAP results or are presented in greater detail than those of the GAAP results, including results within charts or graphs that contain such measures. Further, the staff views presentations of a full non-GAAP income statement, and reconciliations of non-GAAP measures that begin with amounts other than the most directly comparable GAAP measure, as unduly prominent.

See [Section 3.3](#) of Deloitte's Roadmap [Non-GAAP Financial Measures and Metrics](#) for further guidance on the prominence of non-GAAP measures.

#### **Mislabeling**

Ms. Lowe noted that titles of non-GAAP measures or non-GAAP adjustments often do not match their description, which she referred to as mislabeling. The title of a non-GAAP measure or adjustment should align with its nature. Mislabeling may include describing contribution margin or non-GAAP gross margin as "net revenue" or referring to an earnings measure that excludes material costs of revenue or other expenses directly tied to business operations as "core earnings." She provided an example of a mislabeled measure related to a bank that described a non-GAAP measure as "core earnings" when that measure excluded the provision for loan losses.

Ms. Lowe also observed that as non-GAAP adjustments evolve over time, it is important to consider clearly labeling and describing them. For example, while many registrants disclose an adjusted EBITDA non-GAAP measure, the actual adjustments included in it may differ greatly among individual registrants. She noted that such variability and the number of adjustments in a registrant's calculation of non-GAAP measures may add complexity for investors and that clearly labeled adjustments and sufficiently detailed descriptions may facilitate comparison with other registrants' similar measures.



See [Section 3.5](#) of Deloitte's Roadmap *Non-GAAP Financial Measures and Metrics* for further guidance on clear labeling of non-GAAP measures.

## Metrics

The SEC staff has seen a rise in comments related to the improper presentation of a non-GAAP measure as a metric, and vice versa. Ms. Lowe therefore recommended that registrants review the non-GAAP rules and the SEC's January 2020 [interpretive release](#) on metrics to develop a firm basis for distinguishing between such amounts. Once the amount has been appropriately identified, registrants should clearly label it and provide the suitable corresponding disclosures.

Ms. Lowe stated that if registrants use metrics to manage their business, the SEC staff will continue to assess whether the discussion related to such metrics is consistent throughout the document, particularly when they are used to support changes in financial statement line items. In addition, registrants should continually monitor metrics disclosed outside of SEC filings (i.e., within press releases and investor presentations) to evaluate whether such information may be beneficial to investors and thus appropriate for inclusion in SEC filings.

See [Section 2.4](#) of Deloitte's Roadmap *Non-GAAP Financial Measures and Metrics* for more information about financial or operating metrics.

She also reminded registrants of the importance of maintaining effective disclosure controls and procedures (DCPs) and internal control over financial reporting (ICFR) when presenting non-GAAP measures and metrics within SEC filings.



### Connecting the Dots

As defined in both SEC and PCAOB rules, ICFR focuses on controls related to the “reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.” DCPs, on the other hand, are more broadly defined and pertain to all information required to be disclosed by the company.

Because the starting point for non-GAAP measures and certain metrics is a GAAP measure, it would be appropriate for a registrant to consider ICFR up to the point at which the GAAP measure that forms the basis of the non-GAAP measure has been determined. However, controls over the adjustments to the GAAP measure (and the related calculation of a non-GAAP measure or metric) — including the oversight and monitoring of the measure's presentation — are within the realm of DCPs.

See [Chapter 5](#) of Deloitte's Roadmap *Non-GAAP Financial Measures and Metrics* for more information about disclosure controls and procedures.

## Segments

For a discussion of the Division staff's focus areas related to segments, see [Segment Reporting](#).

## ***Income Statement Presentation***

Ms. Lowe indicated that the Division staff continues to focus on income statement presentation and placement and that it considers consistency and relationships between the income statement presentation and other related disclosures in a registrant's SEC filings (e.g., financial statement footnotes, business section, MD&A). As companies evolve, some business models may not clearly fit into the SEC's financial statement presentation requirements in Regulation S-X, Article 5, Article 7, or Article 9. Therefore, the staff has accepted income statement presentations that represent a hybrid of Article 5 and either Article 7 or Article 9 if such presentation more appropriately fits the registrant's facts and circumstances. For example, the staff has not objected when a registrant in the financial technology industry with material lending activity presented its financial statements by using a hybrid of Articles 5 and 9.

Ms. Lowe also noted that some registrants may present on the income statement disaggregated revenue beyond the five subcaptions included in Article 5 and that the Division staff has not objected to such disaggregation as long as the revenues presented are consistent with U.S. GAAP. Similarly, registrants may present a level of disaggregation applied to the expense line items; however, it may not always be clear whether such expenses are a part of costs associated with revenue or represent other operating costs and expenses (e.g., selling, general, and administrative expenses). If it is not clear, the staff may inquire further about the nature and classification of the costs. For example, a technology platform company may include an expense line item for "technology costs," which include expenses related to maintaining and enhancing the company's platform technology. If the company discusses its technology platform elsewhere (e.g., MD&A, business section) as important to the growth of the business, the staff may ask why technology costs are not classified as costs of revenue. To the extent that a registrant's technology cost line item includes a mix of expenses, the registrant should provide quantitative disclosure of (1) the technology cost amount related to the cost of revenue and (2) the technology cost amount related to other line items.

In addition, Ms. Lowe reminded registrants to comply with the requirements of [SAB Topic 11.B](#) when they elect not to allocate depreciation, depletion, and amortization (DD&A) to cost of sales. In these circumstances, the line item for cost of sales should be labeled to make it clear that cost of sales is exclusive of the applicable DD&A associated with cost of revenue. If a registrant presents both costs of products and cost of services in its income statement and excludes DD&A from its cost of sales, the Division staff will expect the registrant to quantify DD&A related to both types of cost of revenue.



### **Connecting the Dots**

Under Regulation S-X, Rule 5-03, a subtotal line item for gross margin (or a similar measure, such as gross profit) is not required on the face of the income statement. However, in a manner consistent with SAB Topic 11.B, if a registrant presents a subtotal for the measure, it should not exclude depreciation and amortization since such exclusion would result in the presentation of a "figure for income before depreciation."

## ***Risk Factors Related to Potential Restatements***

Deputy Chief Accountant Rocha noted that in its recent review of certain registration statements in which an accounting error has been disclosed, the SEC staff has identified boilerplate risk factors related to the accounting error. These risk factors often disclose that (1) the accounting error represents a change in "accepted accounting" and the entity cannot assure that the accounting treatment in the registration statement is appropriate or (2) an auditor of a target company, in the case of a potential merger, may not agree with the accounting treatment. In such instances, the SEC staff may comment on the appropriateness of the disclosures. In addition, the SEC staff may question how management was able to certify, or how auditors were able to opine, that the financial statements were prepared in

accordance with GAAP given the disclaiming statements. Further, Ms. Rocha emphasized that the SEC staff may comment when the risk factors disclose that a material accounting error represents a significant deficiency rather than a material weakness in ICFR. See the [Materiality and Assessment of Errors](#) discussion for more information.

## Update on Rulemaking

Division Director Jones discussed the SEC's rulemaking agenda and noted that the Division has nearly 20 rulemaking activities underway. She referred to the issuance of several final and proposed SEC rules, including those addressing the Holding Foreign Companies Accountable Act (HFCAA), proxy voting advice, universal proxies, and recovery of erroneously awarded compensation ("clawbacks"). She also mentioned other topics about which the Division is developing proposed rules, including climate change, human capital, board diversity, cybersecurity disclosures, and SPACs. See the SEC's June 11, 2021, [press release](#) announcing its annual regulatory agenda for additional information. For a summary of recent final rules and relevant Deloitte resources, see [Appendix A](#).

## Management's Discussion & Analysis

Ms. McCord commented on the SEC's November 2020 [final rule](#) that modernizes and simplifies MD&A and certain financial disclosure requirements in Regulation S-K. Specifically, Ms. McCord addressed implementation matters related to the final rule's amendments to disclosure requirements for contractual obligations and critical accounting estimates:

- *Contractual obligations* — Under the final rule, a registrant is no longer required to disclose the aggregate amount of its contractual obligations in a tabular format; however, Regulation S-K, Item 303(b), specifies that a registrant must provide an analysis of "material cash requirements from known contractual and other obligations." Ms. McCord emphasized that the amendments in the final rule do not eliminate the need to disclose, and should not result in the loss of, information about material cash requirements; rather, the amendments let registrants choose how to present such information. Thus, while there is no longer a specific requirement to include a tabular presentation of contractual obligations, if information previously included in the table is material to investors, registrants must disclose this information in the format the issuer identifies as most effective (i.e., tabular, narrative, or a mix of both). A registrant may also consider referencing disclosures in the footnotes to the financial statements that include some or all of this information.

Ms. McCord also referred registrants to Instruction 4 to Item 303(b) for examples of material cash requirements. Instruction 4 states, in part:

For the liquidity and capital resources disclosure, discussion of material cash requirements from known contractual obligations may include, for example, lease obligations, purchase obligations, or other liabilities reflected on the registrant's balance sheet.

- *Critical accounting estimates* — Ms. McCord noted that the amendments in the final rule codify the guidance in the SEC's 2003 [interpretive release](#) on MD&A and require registrants to describe why critical accounting estimates are subject to uncertainty, how much those estimates have changed during the relevant period, and the sensitivity of reported amounts to the methods and assumptions underlying the estimates. In addition, Instruction 3 to Item 303(b) states, in part, that disclosure of critical accounting estimates should "supplement, but not duplicate, the description of accounting policies or other disclosures in the notes to the financial statements." Accordingly, Ms. McCord commented that the extent of the implementation effort needed for a registrant to adopt the amendments in the final rule will depend on the degree to which the registrant's historical disclosures were (1) boilerplate or (2) duplicative of disclosures in the financial statements.

For a comprehensive discussion of the final rule's requirements, see Deloitte's November 24, 2020, [Heads Up](#).

## ***Acquisitions and Dispositions of a Business, and Equity Method Investments***

The Division staff addressed several implementation matters related to the SEC's May 2020 [final rule](#) that amends the financial statement requirements for acquisitions and dispositions of businesses, including real estate operations, and related pro forma financial information. While the final rule did not amend Regulation S-X, Rule 3-09, it may affect the application of the significance tests for EMIs.

### **Investment Test for Acquisitions and Dispositions**

Registrants must calculate significance under the investment test by comparing the consideration transferred or received for an acquisition or disposition with the aggregate worldwide market value (AWMV) of the registrant's voting and nonvoting common equity computed as of the last five trading days of the month before the announcement or agreement date of the transaction. A registrant that has no AWMV (e.g., when common equity is not publicly traded, including during the IPO process) should determine significance by comparing the consideration transferred or received with the registrant's total assets. Craig Olinger, senior advisor to the Division chief accountant, stated that once an entity completes its IPO, it should use its AWMV when performing the investment test. For example, if a registrant completes its IPO on June 15, 2022, and consummates an acquisition on November 15, 2022, it should use its AWMV to perform the investment test. Mr. Olinger also reminded registrants that only publicly traded common equity should be used in the calculation. Convertible preferred stock and nontraded classes of common stock exchangeable into traded classes of common stock should be excluded from the calculation of the AWMV because such securities do not represent traded common equity until the actual conversion or exchange occurs.

### **Acquisitions Early in the Year**

A registrant may consummate a business acquisition shortly after its most recent fiscal year-end but before it files its Form 10-K for that recently completed fiscal year. In such cases, when determining its initial Form 8-K filing requirements (i.e., four business days after the consummation of the acquisition), the registrant should use the financial statements included in its prior year's Form 10-K to assess significance. However, as described in Regulation S-X, Rule 11-01(b)(3)(i)(C), the registrant may reevaluate significance by using its financial statements for the most recent fiscal year reported in the Form 10-K filed after the initial Form 8-K filing as long as the Form 10-K is filed before the due date of the amended Form 8-K (i.e., 71 calendar days after the registrant was required to file the initial Form 8-K). Mr. Olinger clarified that when the registrant elects to reevaluate significance for the income and asset tests by using its financial statements for the most recent fiscal year reported in the Form 10-K, the registrant may use the financial statements of the acquiree for either (1) the most recent fiscal year or (2) the preceding fiscal year. That is, the registrant may continue to use the financial statements of the preceding fiscal year for the acquiree **even if** it uses the financial statements for the most recent fiscal year for the registrant. For example, assume that a registrant consummates a transaction on February 13, 2022, and files its Form 10-K for the year ended December 31, 2021, on February 28, 2022. If the registrant elects to reevaluate significance on the basis of its financial statements for the year ended December 31, 2021, it may use the acquiree's financial statements for either the year ended December 31, 2020, or the year ended December 31, 2021.

See [Section 2.3](#) of Deloitte's Roadmap *SEC Reporting Considerations for Business Acquisitions* for additional guidance on the significance tests for acquisitions.

## EMIs for Which the Fair Value Option Has Been Elected

A registrant performs significance tests to determine whether it must present (1) separate financial statements of the EMI (under Regulation S-X, Rule 3-09), (2) summarized financial information of the EMI in its financial statement footnotes (under Rule 4-08(g)), or (3) both. Mr. Olinger noted that when applying the income test to EMIs for which a registrant has elected the fair value option in accordance with ASC 825-10-15-4, the registrant should calculate the income and revenue components as follows:

- *Income component* — Determined by using the change in fair value of the investee reflected in the registrant's income statement.
- *Revenue component* — Determined by using the registrant's proportionate share of the investee's revenue (i.e., the registrant's ownership interest in the investee multiplied by the investee's revenue).

For more information, see [Chapter 2](#) of Deloitte's Roadmap *SEC Reporting Considerations for Equity Method Investees*.

## Pro Forma Financial Information

Mr. Olinger addressed considerations related to distinguishing between autonomous entity adjustments and management's adjustments. He noted that changes to a spinnee's cost structure that are supported by a contractual arrangement may be considered autonomous entity adjustments (e.g., a new lease agreement, a transition services agreement with the former parent). By contrast, changes in spinnee costs that are not supported by contractual arrangements generally do not represent autonomous entity adjustments. However, such changes may represent synergies or dis-synergies that may be presented as management's adjustments if they meet the conditions in Regulation S-X, Rule 11-02(a)(7). Mr. Olinger also clarified that a registrant that presents synergies must separately present any related dis-synergies; the dis-synergies may not be presented "net" against the synergies.



### Connecting the Dots

Autonomous entity adjustments, which are only required if a registrant was previously part of another entity (e.g., a registrant in a spin-off transaction, or spinnee), include incremental expense or other changes necessary to reflect the spinnee's financial condition and results of operations as if it were a separate stand-alone entity. In addition, registrants may, but are not required to, disclose management's adjustments, which reflect synergies and dis-synergies identified by management, in the explanatory notes to the pro forma financial information.

See [Chapter 4](#) of Deloitte's Roadmap *SEC Reporting Considerations for Business Acquisitions* for additional guidance on pro forma financial information.

## Waiver Letters Related to Significant Acquisitions

Regulation S-X, Rule 3-13, gives the SEC staff the authority to permit the omission or substitution of certain financial statements otherwise required under Regulation S-X "where consistent with the protection of investors." Mr. Olinger discussed best practices for registrants that request modifications to their financial reporting requirements related to a

significant acquisition under Regulation S-X, Rule 3-05. He emphasized that registrants should provide detailed information regarding all relevant facts and circumstances in their initial waiver requests. Such information should include:

- A description of the significant details of the transaction, including the structure of the transaction; relevant information about the seller and about the consideration transferred; and, if less than all of a business is acquired, the portion of the business being acquired.
- A description of the operations, assets, and liabilities of the business acquired, including the composition of the assets (e.g., primarily tangible or intangible assets), the preliminary purchase price allocation, how the assets and liabilities identified are related to the acquiree's historical financial statements, and how the assets and liabilities identified will be recognized in the registrant's financial statements (e.g., amortized).
- The results of the significance tests, including both the income component and revenue component of the income test, as well as information about how the test calculations were performed and the inputs that were used if it is not otherwise clear.
- An analysis of why the significance tests do not reflect the size of the acquisition or its significance to the registrant and why the required financial statements would not be material or meaningful to investors.
- A description of the information the registrant proposes to present in lieu of the required financial statements.

In addition, Ms. McCord recommended that a registrant clearly explain the specific filings for which it is requesting relief from the financial statement requirements (e.g., registration statements, Form 8-K).

Mr. Olinger noted that although the above best practices are related to waivers for significant acquisitions (Rule 3-05), the SEC staff may also grant waivers for significant acquisitions of real estate operations (Regulation S-X, Rule 3-14) and significant EMLs (Regulation S-X, Rule 3-09). Some of the best practices above may also apply in those circumstances.

See [Section 1.5](#) of Deloitte's Roadmap *SEC Reporting Considerations for Business Acquisitions* for more information about waivers and other requests.

## Capital Formation Activities

### ***SPAC and IPO Transactions***

During a panel discussion of Division developments, Ms. Jones discussed the high volume of capital-raising activity that has occurred over the past year. She noted that in the SEC's fiscal year ended September 30, 2021, the Division reviewed filings for approximately twice as many traditional IPOs, four times as many SPAC IPOs, and six times as many de-SPAC transactions (i.e., the merger of a private operating company with a public SPAC) as it did in the previous fiscal year.

Ms. Jones also highlighted the reporting considerations for SPACs and emphasized the importance of providing disclosures so that investors understand the financial incentives of the SPAC's sponsors and underwriters and how such incentives may differ from the incentives of the SPAC's nonredeeming shareholders. She also discussed concerns regarding whether sufficient disclosures about conflicts of interest, projections, valuations, and assumptions are being provided both during the IPO of the SPAC and throughout the de-SPAC transaction.





## Connecting the Dots

In December 2021, Mr. Gensler gave a [speech](#) reinforcing the need for robust disclosure in SPAC transactions, among other topics.

See Deloitte's October 2, 2020 (last updated December 2, 2021), [Financial Reporting Alert](#) for more information about SEC reporting considerations related to SPAC transactions.

## Spin-Off Transactions

Mr. Olinger highlighted the importance of appropriately identifying the financial statements to be filed in the initial registration statement for a spin-off transaction and the basis of presentation of the spinnee's financial statements. Such identification may be difficult if the operations to be spun off are not aligned with the registrant's existing legal or segment structure or when the legal spinnor is the accounting spinnee (i.e., a reverse spin-off). Given the potential complexities, Mr. Olinger identified several topics for registrants to consider in determining which financial statements may be required:

- *Acquisitions and dispositions* — Registrants should carefully evaluate acquisitions or dispositions during the historical periods presented. This evaluation should include an assessment of any reporting requirements in Regulation S-X, Rule 3-05, for significant acquisitions or Regulation S-X, Article 11, for significant dispositions.
- *Carve-out financial statements* — Carve-out financial statements are often necessary to reflect the portion of a parent entity's balances and activities that is subject to the spin-off. To determine the scope of carve-out financial statements, a registrant must consider both the history and composition of the spinnee's business on a go-forward basis. Mr. Olinger referred registrants to [SAB Topic 1.B](#), which addresses the allocation of all costs of a spinnee but does not explicitly discuss the scope of operations or revenue activities that should be included in carve-out financial statements.
- *Ongoing reporting of the spinnee and spinnor* — Registrants should also evaluate the ongoing reporting obligations of the spinnee and spinnor, which may be particularly complex in a reverse spin-off. Mr. Olinger reminded registrants that [SAB Topic 5.Z.7](#) prohibits an existing SEC reporting company from treating the spin-off transaction as a change in the reporting entity in which the spinnee's operations would be removed from the spinnor's financial statements as if the spinnor never held the business.

See Deloitte's Roadmap [Carve-Out Transactions](#) for more information about spin-off transactions.

## China-Based Issuer Disclosures

The SEC staff discussed several China-related matters, including:

- *VEs* — Ms. Jones highlighted the SEC staff's focus on issuers' consolidation of China-based VEs, the accounting for which is addressed in the [Accounting and Financial Reporting](#) discussion. Registrants with such arrangements should provide prominent and detailed disclosures about the risks to investors associated with them.

See [Section 5.3](#) of Deloitte's Roadmap [SEC Comment Letter Considerations, Including Industry Insights](#) for further discussion of disclosures related to China-based operating companies.

- *The HFCAA* — Mr. Munter addressed the recent implementation of the HFCAA, including (1) the PCAOB's process for identifying audit firms that it is unable to inspect or investigate, (2) the SEC's process for publicizing a list of "commission-identified issuers" (i.e., issuers that are audited by those firms) and for suspending trading for registrants that have been commission-identified issuers for three consecutive years, and (3) the special disclosures required of commission-identified issuers. Specifically, Mr. Munter clarified that the first reporting period covered by the HFCAA is 2021 and that the first round of commission-identified issuers will be identified in early 2022 as calendar-year-end companies file Forms 10-K and 20-F with the SEC. The first trading suspensions that could take place would be in early 2024 as calendar-year-end companies file Forms 10-K and 20-F for 2023, which would be the third consecutive year in which a registrant may have been named a commission-identified issuer. OCA Deputy Chief Accountant Diana Stoltzfus also emphasized that a commission-identified issuer subject to a trading suspension would continue to be subject to SEC reporting obligations as long as the entity continues to be defined as an issuer.

Mr. Munter noted that the U.S. Senate passed a bill, which is now being considered by the U.S. House of Representatives, that would impose trading suspensions on commission-identified issuers that have been categorized as such for two consecutive years (as opposed to three consecutive years under current requirements).

Ms. Jones further outlined that the SEC staff is focused on disclosures related to the risks associated with being a commission-identified issuer, including potential trading suspension and delisting. She also referred registrants to Item 9C (newly added to Form 10-K) and Item 16I (newly added to Form 20-F) and the associated instructions and disclosure requirements, which will apply to any commission-identified issuer for fiscal year 2022 (i.e., upon having been determined to be a commission-identified issuer after filing Form 10-K or Form 20-F for fiscal year 2021).

## Accounting Standard Setting

### Remarks of FASB Chair Richard Jones and FASB Technical Director Hillary Salo

Mr. Jones [discussed](#) his priorities for the FASB and emphasized the importance of continuing stakeholder engagement in determining the course for maintaining accounting standards. He observed that as a result of broad-based stakeholder feedback across a variety of sources, the FASB identified four areas on which to focus standard setting:

- Providing more disaggregation of financial information.
- Providing more guidance in emerging areas of financial reporting.
- Reevaluating specific areas of GAAP to reduce unnecessary costs and complexity.
- Reconsidering certain of the FASB's internal processes and procedures for potential improvement.

As part of its agenda prioritization process, the FASB sought feedback on these four categories by issuing an Invitation to Comment, [Agenda Consultation](#), on June 24, 2021. Mr. Jones observed that the FASB received considerable response to that invitation, noting that the Board will digest the feedback and discuss the results in future public meetings. He also stated that maintaining a balance between the costs and the benefits of providing plentiful and useful information remains a constant focus for the FASB.

Ms. Salo indicated that the staff plans to begin recommending changes to the FASB's technical agenda for the Board's consideration in the first half of 2022 after analyzing stakeholder feedback on the Invitation to Comment.

Mr. Jones further discussed investor engagement, including through the postimplementation review (PIR) process for the leases, current expected credit losses (CECL), and revenue recognition standards. He referred to the [2021 FASB Investor Outreach Report](#), which the Board issued in August 2021 to bring greater transparency to the outreach process. The report details how the FASB works with investors as a specific stakeholder group.

## **PIR Projects**

### **Revenue Recognition**

FASB Deputy Technical Director Helen Debbeler highlighted that the FASB is continuing to monitor feedback on the revenue standard through the PIR process and is assessing whether further standard setting is necessary, particularly in the areas of principal-versus-agent considerations, licensing implementation guidance, variable consideration, and disclosures. In addition, Ms. Debbeler noted that since most private companies have adopted ASC 606 by now, the FASB has begun its PIR of nonpublic entities' application of the revenue standard.

See [Section 20.3.4](#) of Deloitte's Roadmap [Revenue Recognition](#) for additional discussion of the PIR process.

### **Leases**

Ms. Salo summarized the ongoing PIR activities related to the leasing standard (ASC 842), including the recent activities that resulted in the FASB's issuance of [ASUs 2021-05](#) and [2021-09](#) this year. Mr. Jones emphasized that the Board is focusing on standard setting that leads to decision-useful information for investors. Ms. Salo also discussed a recent agenda request to delay the effective date of ASC 842 for certain private entities. Although the Board acknowledged the concerns of preparers regarding current resource constraints, it did not grant a deferral of the effective date.

For more information about ASUs 2021-05 and 2021-09, see Deloitte's [July 27, 2021](#), and [November 12, 2021](#), *Heads Up* newsletters, respectively. See also Deloitte's Roadmap [Leases](#).

### **Current Expected Credit Losses**

Ms. Salo summarized the ongoing PIR activities related to CECL (ASU 2016-13, codified in ASC 326). As part of this process, the Board held a public roundtable in May 2021 with investors, preparers, practitioners, and regulators. After considering the feedback received, in July 2021, the FASB added projects to its technical agenda on (1) the accounting for troubled debt restructurings (TDRs) by creditors that have adopted ASC 326 and (2) the accounting for acquired financial assets in accordance with ASC 326. In addition to these two projects, the FASB also has on its agenda a project related to vintage disclosures of gross write-offs and recoveries.

In November 2021, the FASB issued a [proposed ASU](#) that would expand the requirements related to vintage disclosures and remove the TDR accounting guidance. The FASB continues to work on finalizing the scope of the project on acquired financial assets.

For more information about implementing the CECL standard, see Deloitte's Roadmap [Current Expected Credit Losses](#).

## Recently Issued ASUs and Current Projects

Ms. Debbeler discussed the FASB's recently issued [ASU 2021-10](#) (on government assistance) and [ASU 2021-08](#) (on recognizing and measuring contract assets and contract liabilities from contracts with customers acquired in a business combination). Ms. Salo summarized the Board's recently issued exposure drafts and other projects on the current agenda.

For more information about ASUs 2021-10 and 2021-08, see Deloitte's [December 3, 2021](#), and [November 2, 2021](#), *Heads Up* newsletters, respectively. Also see Deloitte's [October 27, 2021](#), and [May 21, 2021](#), *Heads Up* newsletters, respectively, for details on the Board's proposals that would (1) clarify the fair value measurement guidance and (2) improve the hedge accounting guidance.

## Remarks of IASB Chair Andreas Barckow

In his [remarks](#), Dr. Barckow emphasized the importance of IFRS Standards to (1) entities in the United States that report under U.S. GAAP and (2) U.S. investors. For example, many businesses have global subsidiaries that report under IFRS Standards, and U.S. investors are increasingly investing in international entities that report under those standards.

Dr. Barckow highlighted the three key International Accounting Standards Board (IASB®) projects currently in process: (1) primary financial statements; (2) PIRs of IFRS 9 on the classification and measurement of financial instruments, IFRS 10 on consolidated financial statements, IFRS 11 on joint arrangements, and IFRS 12 on disclosure of interests in other entities; and (3) goodwill and impairment. He also discussed the IASB's agenda consultation process, noting that the key themes of stakeholder feedback included (1) balancing the volume of change the IASB imposes on stakeholders when issuing new standards, (2) reserving time to work with the ISSB and on emerging issues, and (3) addressing intangibles. High-priority topics suggested by stakeholders included accounting related to climate-related risks, cryptocurrencies, intangible assets, statement of cash flows, and going concern.

For additional information about the IASB's PIR projects related to IFRS 9 and IFRS 10, IFRS 11, and IFRS 12, respectively, see Deloitte's [October 2021](#) and [December 2020](#) *IFRS in Focus* newsletters. For a complete list of current IASB projects and additional information about them, see the IASB's [work plan](#).

In addition, Dr. Barckow noted that preserving convergence in standards is a challenge and requires the IASB and FASB to continue to work together. The boards also continue to actively communicate with each other about current projects that are similar in scope.

## PCAOB Developments and Other Auditing Matters

### PCAOB Developments

PCAOB Acting Chief Auditor Vanich addressed the PCAOB's current research and standard-setting projects and highlighted the swearing in of new Board members [Christina Ho](#) and [Kara M. Stein](#) in November 2021. The PCAOB staff looks forward to welcoming [newly appointed](#) chairperson Erica Y. Williams and Board member Anthony C. Thompson, as well as collaborating with the new Board members to align on priorities.

## Research and Standard-Setting Projects Update

Ms. Vanich provided an update on the Board's standard-setting projects related to quality control and to the supervision of audits involving other auditors. She noted that commenters on the 2019 [concept release](#) broadly supported the Board's proceeding with the quality control standard-setting project and that PCAOB staff members are working on a scalable proposed quality control standard to recommend to the Board.

On September 28, 2021, the PCAOB issued [Release 2021-005](#), which requested additional comments on proposed amendments to its auditing standards related to the supervision of audits that involve accounting firms and individual accountants outside the accounting firm that issues the auditor's report. Ms. Vanich noted that the comment period ended on November 30, 2021, and that PCAOB staff members are analyzing the comments received and will work with the Board to determine the next steps.

See Deloitte's October 15, 2021, [Heads Up](#), which discusses recent U.S. regulatory and standard-setting activities related to group audits.

Ms. Vanich also gave an update on the Board's research projects related to data and technology and audit evidence. In October 2021, the Board issued [staff guidance](#) related to evaluating the relevance and reliability of audit evidence obtained from external sources. It plans to continue conducting research and engaging in outreach activities to determine the areas in which additional guidance or changes to the audit evidence standard may be necessary. Regarding data and technology, Ms. Vanich discussed the staff [Spotlight](#) series that provides periodic research project updates. In the [May 2021 Spotlight](#), the staff shared its observations on auditors' use of technology-based tools in responding to identified risks of material misstatement, in auditing inventory, and in the confirmation process. Over the past year, research efforts have focused on how technology is being used for substantive analytical procedures and audit sampling to respond to risks of material misstatement. Ms. Vanich also highlighted the Board's focus on the use of technology to improve audit quality.

## PCAOB Inspections

During the session on PCAOB inspection updates, PCAOB Division of Registration and Inspections Director George Botic explained that the Board adjusted its 2021 inspections program by:

- Increasing both the number of audits selected randomly and the frequency of reviews of nontraditional focus areas (e.g., cash and cash equivalents) to introduce an element of unpredictability.
- Selecting audits from industries most affected by the COVID-19 pandemic or with heightened risk (e.g., transportation, entertainment and hospitality, manufacturing, retail, commercial real estate, and SPAC and de-SPAC transactions).
- Selecting audit areas most affected by the pandemic (e.g., impairments, going concern, allowance for loan losses, interim reviews, and fraud procedures). In a manner consistent with the 2020 inspection program, inspections of interim financial statement reviews were conducted to further understand how the pandemic affected the performance of procedures by auditors.

Inspectors also focused on the additional time needed to complete an audit in a remote environment, the availability of information, and the auditor's access to management.

Mr. Botic then outlined common themes from the 2021 inspection cycle, including business combinations, inventory, revenue, ICFR, allowance for loan losses, confirmations, audit committee preapproval of services, and independence. He pointed out that when service

providers are used in the confirmation process, auditors are still required to maintain control over the confirmation.

In his discussion of the 2022 inspections cycle, Mr. Botic indicated that audit risk resulting from the current economic environment would be an inspection focus. Such risks include the high volumes of IPOs, merger and acquisition activities, widespread disruption of supply chains, and the continued adverse effects of COVID-19 on certain industries. SPAC and de-SPAC transactions will also continue to be an area of focus because of the sustained volume of these transactions as well as the accounting complexities and significant judgments associated with them. Mr. Botic added that greater emphasis will be placed on firms' quality control systems, specifically citing the importance of a firm's system of quality control to support rapid growth and client acceptance, significant increases in staff turnover, and independence. In a manner consistent with its practices in 2021, the Board will continue to focus on audits of broker-dealers responsible for the custody and control of customers' funds and securities.

Mr. Botic concluded his remarks by reminding auditors to (1) maintain due professional care and skepticism in all aspects of the audit, (2) perform thorough and continuous risk assessment procedures and understand the impact of known or potential changes, or both, resulting from the current economic environment, and (3) remain focused on fraud procedures and incorporate unpredictability into the audit.

## **Internal Control Over Financial Reporting**

During the panel discussion on the OCA's current projects, OCA Senior Associate Chief Accountant Anita Doult highlighted the importance of evaluating (1) the impact on ICFR of using new (or making changes to) tools and technologies as part of the financial reporting process and (2) whether these tools and technologies materially affect ICFR and must be disclosed under Form 10-K, Item 9A, or Form 10-Q, Item 4. Similarly, auditors need to thoroughly understand such changes so that they can identify and respond to the risks of material misstatement.

Ms. Doult also addressed the relationship between ICFR and cybersecurity and highlighted the cybersecurity resources available on the [SEC spotlight page](#). She pointed out that cybersecurity risks pose not only operational risks to organizations but also risks to financial reporting processes. During a separate panel session addressing cybersecurity risks, Deloitte Partner Sandy Herrygers discussed the auditor's role in cybersecurity. Ms. Herrygers stressed the auditor's responsibility to understand the IT environment, identify cybersecurity risks relevant to the financial reporting process, and test IT controls that address those risks. She indicated that when a cybersecurity breach occurs, the auditor would first identify the deficiencies that enabled the breach and would then evaluate whether the deficiencies are relevant to ICFR. In line with Ms. Herrygers' comments, Ms. Doult emphasized that a breach affecting the financial reporting system would most likely result from a deficiency in ICFR that would need to be further evaluated.

In the update on SEC enforcement, Division of Enforcement Chief Accountant Matthew Jacques acknowledged the effect of the COVID-19 pandemic on the financial reporting process and made recommendations related to a company's transition to hybrid or in-person work models. He suggested that management increase its scrutiny during its annual assessment of ICFR effectiveness. In particular, he advised that management consider (1) ICFR changes made to return to the office or to a hybrid model, (2) the impact that working in a remote environment for an extended period has had on ICFR, and (3) any pandemic-related deficiencies or weaknesses in ICFR that are identified upon the return to work. For example, if internal auditors historically identified additional areas of interest when performing in-person site visits, they may identify new risks when they return to in-person site visits or the risks associated with the monitoring control (i.e., internal audit's monitoring of other controls) may increase the longer they operate in a remote environment.



## Auditor Independence

A company seeking to go public must consider auditor independence early in the process. If auditor independence issues arise, the company could be prohibited from using a particular auditor or there could be delays in the reporting timeline. While the SEC staff emphasized auditor independence throughout the conference, it specifically focused on the definition of the “audit and professional engagement period” under Regulation S-X, Rule 2-01, as amended by the SEC’s [final rule](#) that became effective June 9, 2021. Under the amended definition, the look-back period for domestic first-time filers (IPOs and SPACs) is shortened to one year. In addition, an auditor is required to be independent with respect to (1) Rule 2-01 in its entirety for the most recent fiscal year (the “current period”) and (2) only Rule 2-01(b) (the “general standard”) and home-country independence standards for earlier fiscal years (the “look-back period”) included in the filing.

When applying the general standard to circumstances not specifically covered elsewhere in Rule 2-01, the SEC staff considers the rule text in Rule 2-01(b) along with the four guiding principles specified in the introductory text of Rule 2-01, which refer to whether the relationship or the provision of the services:

- “[C]reates a mutual or conflicting interest between the accountant and the audit client.”
- “[P]laces the accountant in the position of auditing his or her own work.”
- “[R]esults in the accountant acting as management or an employee of the audit client.”
- “[P]laces the accountant in a position of being an advocate for the audit client.”

In his statement at the conference, SEC Acting Chief Accountant Munter acknowledged that the “OCA staff has consistently provided the view that it would be a high hurdle to reach a conclusion that the accountant could be viewed as objective and impartial under the general standard when an auditor has provided services in any of the periods included in the filing that are contrary to one of these guiding principles.”

The SEC staff also observed that in today’s environment, audit firms are engaging in more extensive and complex business and service relationships with nonaudit clients, which must be carefully monitored to avoid independence issues in capital transactions. Audit firms’ nonaudit relationships and services, and auditor independence implications, should be carefully considered when management is negotiating the timing and substance of a transaction with a third party. Therefore, all parties to the potential transaction need to understand (1) the filings that could be required as a result of the transaction, (2) the existing auditor’s relationship with counterparties, and (3) the potential impact of these factors on the existing auditor’s ability to continue to comply with the SEC’s auditor independence rules.

## Appendix A — Summary of Recent SEC Final Rules and Related Deloitte Resources

The table below summarizes recent SEC final rules related to financial reporting and provides links to relevant Deloitte resources that contain additional information about them.

Final Rules	Summaries and Relevant Resources
<a href="#"><i>Holding Foreign Companies Accountable Act Disclosure</i></a> (effective January 10, 2022; applies only to registrants whose principal auditor has been identified by the SEC as not having been subject to PCAOB inspection for a specific year)	<p><b>Summary:</b> The interim final rule states that if a company's auditors are located in a foreign jurisdiction and the PCAOB "is unable to inspect or investigate completely because of a position taken by an authority in that jurisdiction," the company will be identified, required to make special disclosures, and ultimately its shares will be suspended from trading on U.S. securities exchanges after three consecutive years of restricted PCAOB access.</p> <p><b>Deloitte Resources:</b> October 15, 2021, <a href="#">Heads Up</a>.</p>
<a href="#"><i>Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information</i></a> (effective February 10, 2021, and must be applied in the first fiscal year ending on or after August 9, 2021)	<p><b>Summary:</b> The final rule eliminates from Regulation S-K, Item 301 (on selected financial data); streamlines Regulation S-K, Item 302 (on supplementary financial information); and amends certain aspects of Regulation S-K, Item 303 (on MD&amp;A).</p> <p><b>Deloitte Resources:</b> November 24, 2020, <a href="#">Heads Up</a>.</p>
<a href="#"><i>Update of Statistical Disclosures for Bank and Savings and Loan Registrants</i></a> (effective for fiscal years ending on or after December 15, 2021)	<p><b>Summary:</b> The final rule amends the statistical disclosure requirements for bank and savings and loan registrants and eliminates disclosure requirements that overlap with the SEC's rules, U.S. GAAP, or IFRS Standards. The amendments also add disclosure requirements related to certain credit ratios and bank deposits, including uninsured amounts.</p> <p><b>Deloitte Resources:</b> October 8, 2020, <a href="#">Heads Up</a>.</p>
<a href="#"><i>Modernization of Regulation S-K Items 101, 103, and 105</i></a> (effective for filings on or after November 9, 2020)	<p><b>Summary:</b> The final rule amends the disclosure requirements related to a registrant's description of its business, legal proceedings, and risk factors. The amendments expand the use of a principles-based approach that gives registrants more flexibility to tailor their disclosures with respect to the description of their business and the risk factors. The final rule also adds human capital disclosures to the business section and requires risk factors to be organized under relevant headings.</p> <p><b>Deloitte Resources:</b> September 3, 2020, <a href="#">Heads Up</a>.</p>
<a href="#"><i>Amendments to Financial Disclosures About Acquired and Disposed Businesses</i></a> (effective for fiscal years starting after December 31, 2020)	<p><b>Summary:</b> The final rule amends the financial statement requirements for acquisitions and dispositions of businesses, including real estate operations and related pro forma financial information. The amendments are intended to improve the information that investors receive regarding businesses that are acquired or disposed of, reduce the complexity and costs of preparing the required disclosures, and facilitate timely access to capital.</p> <p><b>Deloitte Resources:</b> June 2, 2020, <a href="#">Heads Up</a>.</p>
<a href="#"><i>Amendments to the Accelerated Filer and Large Accelerated Filer Definitions</i></a> (effective for annual reports filed on or after April 27, 2020)	<p><b>Summary:</b> The final rule amends the accelerated filer and large accelerated filer definitions to exclude issuers with both annual revenues of less than \$100 million and public float of less than \$700 million. The amendments expand the number of issuers that qualify as nonaccelerated filers and are thus eligible to take advantage of certain reporting accommodations offered to such issuers. The most significant of these accommodations is an exemption from the requirement that an issuer obtain an audit report on ICFR from its independent auditor, as required under Section 404(b) of the Sarbanes-Oxley Act of 2002.</p> <p><b>Deloitte Resources:</b> March 19, 2020, <a href="#">Heads Up</a>.</p>

(Table continued)

Final Rules	Summaries and Relevant Resources
<i>Financial Disclosures About Guarantors and Issuers of Guaranteed Securities and Affiliates Whose Securities Collateralize a Registrant's Securities</i> (effective for fiscal periods ending after January 4, 2021)	<b>Summary:</b> The final rule amends and simplifies certain disclosure requirements in Regulation S-X, Rules 3-10 and 3-16. <b>Deloitte Resources:</b> March 10, 2020, <a href="#">Heads Up</a> .

## Appendix B — Titles of Standards and Other Literature

### AICPA Literature

Practice Aid, *Accounting for and Auditing of Digital Assets*

### FASB Literature

2021 FASB Investor Outreach Report

Invitation to Comment, *Agenda Consultation*

For titles of FASB Accounting Standards Codification references, see Deloitte's ["Titles of Topics and Subtopics in the FASB Accounting Standards Codification."](#)

See the FASB's Web site for the titles of citations to:

- [Accounting Standards Updates](#).
- [Proposed Accounting Standards Updates](#) (exposure drafts and public comment documents).
- [Superseded Standards](#) (including FASB Interpretations, Staff Positions, and EITF Abstracts).

### PCAOB Literature

Concept Release No. 2019-003, *Potential Approach to Revisions to PCAOB Quality Control Standards*

Release No. 2021-005, *Second Supplemental Request for Comment: Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors and Proposed Auditing Standard — Dividing Responsibility for the Audit With Another Accounting Firm*

*Spotlight: Data and Technology Research Project Update* (May 2021)

*Staff Guidance — Insights for Auditors, Evaluation Relevance and Reliability of Audit Evidence Obtained From External Sources*

### SEC Literature

#### **CF Disclosure Guidance**

Topic No. 9, "Coronavirus (COVID-19)"

Topic No. 9A, "Coronavirus (COVID-19) — Disclosure Considerations Regarding Operations, Liquidity, and Capital Resources"

#### **Final Rules**

No. 33-10762, *Financial Disclosures About Guarantors and Issuers of Guaranteed Securities and Affiliates Whose Securities Collateralize a Registrant's Securities*

No. 33-10786, *Amendments to Financial Disclosures About Acquired and Disposed Businesses*

No. 33-10825, *Modernization of Regulation S-K Items 101, 103, and 105*

No. 33-10835, *Update of Statistical Disclosures for Bank and Savings and Loan Registrants*

No. 33-10876, *Qualifications of Accountants*

No. 33-10890, *Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information*

No. 34-88365, *Accelerated Filer and Large Accelerated Filer Definitions*

No. 34-91364, *Holding Foreign Companies Accountable Act Disclosure*

#### **Interpretive Releases**

No. 33-8350, *Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations*

No. 33-9106, *Commission Guidance Regarding Disclosure Related to Climate Change*

No. 33-10751, *Commission Guidance on Management's Discussion and Analysis of Financial Condition and Results of Operations*

## **Regulation S-K**

Item 303, "Management's Discussion and Analysis of Financial Condition and Results of Operations"

## **Regulation S-X**

Rule 2-01, "Qualifications of Accountants"

Rule 3-05, "Financial Statements of Businesses Acquired or to Be Acquired"

Rule 3-09, "Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons"

Rule 3-13, "Filing of Other Financial Statements in Certain Cases"

Rule 3-14, "Special Instructions for Real Estate Operations to Be Acquired"

Rule 4-08, "General Notes to Financial Statements"

Article 5, "Commercial and Industrial Companies"

Rule 5-03, "Statements of Comprehensive Income"

Article 7, "Insurance Companies"

Article 9, "Bank Holding Companies"

Article 11, "Pro Forma Financial Information"

Rule 11-01, "Presentation Requirements"

Rule 11-02, "Preparation Requirements"

## **SAB Topics**

No. 1.B, "Allocation of Expenses and Related Disclosure in Financial Statements of Subsidiaries, Divisions or Lesser Business Components of Another Entity"

No. 1.M, "Materiality"

No. 5.Z.7, "Accounting and Disclosure Regarding Discontinued Operations; Accounting for the Spin-Off of a Subsidiary"

No. 11.B, "Depreciation and Depletion Excluded From Cost of Sales"

No. 14, "Share-Based Payment"

## **IFRS Literature**

IFRS 8, *Operating Segments*

IFRS 9, *Financial Instruments*

IFRS 10, *Consolidated Financial Statements*

IFRS 11, *Joint Arrangements*

IFRS 12, *Disclosure of Interests in Other Entities*

## Appendix C — Abbreviations

Abbreviation	Description
<b>AICPA</b>	American Institute of Certified Public Accountants
<b>ASC</b>	FASB Accounting Standards Codification
<b>ASU</b>	FASB Accounting Standards Update
<b>AWMV</b>	aggregate worldwide market value
<b>CAQ</b>	Center for Audit Quality
<b>CECL</b>	current expected credit losses
<b>CEO</b>	chief executive officer
<b>CIMA</b>	Chartered Institute of Management Accountants
<b>CODM</b>	chief operating decision maker
<b>COVID-19</b>	coronavirus disease 2019
<b>DCPs</b>	disclosure controls and procedures
<b>DD&amp;A</b>	depreciation, depletion, and amortization
<b>DEI</b>	diversity, equity, and inclusion
<b>EBIT</b>	earnings before interest and taxes
<b>EBITDA</b>	earnings before interest, taxes, depreciation, and amortization
<b>EMI</b>	equity method investment
<b>ESG</b>	environmental, social, and governance
<b>FASB</b>	Financial Accounting Standards Board
<b>GAAP</b>	generally accepted accounting principles

Abbreviation	Description
<b>HFCAA</b>	Holding Foreign Companies Accountable Act
<b>IASB</b>	International Accounting Standards Board
<b>ICFR</b>	internal control over financial reporting
<b>IFRS</b>	International Financial Reporting Standard
<b>IPO</b>	initial public offering
<b>ISSB</b>	International Sustainability Standards Board
<b>IT</b>	information technology
<b>LIBOR</b>	London Interbank Offered Rate
<b>MD&amp;A</b>	Management's Discussion & Analysis
<b>OCA</b>	SEC Office of the Chief Accountant
<b>PCAOB</b>	Public Company Accounting Oversight Board
<b>PIR</b>	postimplementation review
<b>SAB</b>	SEC Staff Accounting Bulletin
<b>SEC</b>	Securities and Exchange Commission
<b>SPAC</b>	special-purpose acquisition company
<b>TCJA</b>	Tax Cuts and Jobs Act
<b>TDR</b>	troubled debt restructuring
<b>VIE</b>	variable interest entity



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