SEC Issues & Trends

AICPA & CIMA Conference on Current SEC and PCAOB Developments

December 2022

Three days of discussion and analysis

- Over the course of the conference (Dec 12-14), we heard from regulators, standard-setters and practitioners.
- SEC representatives reiterated recent themes and concerns, in particular the need for registrants to focus on quality in the current economic environment.
- The SEC Division of Corporation Finance staff unveiled updated guidance on non-GAAP financial measures – clarifying certain issues and providing increased transparency about what it considers in its reviews.
- SEC representatives highlighted areas of particular scrutiny in filings. Overall, SEC staff provided a good indication of some of the key areas for registrants to look out for in their 2022 year-end reporting.
- Remarks by FASB officials pointed to an increased focus on the needs of investors, which suggests they may play a more prominent role in its technical agenda going forward. And PCAOB representatives laid out an ambitious agenda.
- Lastly, a number of practitioner panels touched on topical issues – including ESG reporting, cybersecurity and issues arising in the current environment.
- This highlights summary provides an easy-to-digest snapshot of select discussions, organized by theme. Key issues that we think should be top of mind as we head into the 2022 reporting season.
- For more insights about the discussions, see our full listing of conference blogs published on KPMG Financial Reporting View.
- As we sit back and reflect on this week's proceedings, stay tuned for further KPMG insights and analysis to help inform your decision-making this reporting season.

Timothy Brown

SEC Regulatory Matters Topic Team Leader

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1. Top takeaways from the conference

We listened to regulators, standard-setters and practitioners. These are the headline messages we heard.

The SEC's primary focus is investors and it expects registrants to focus on providing decision-useful information to investors.

Quality amidst economic uncertainty

Don't expect this filing season to be 'business as usual'. Registrants may need additional resources to consider and address complex judgments and estimates created by the current economic environment. Have you planned for the incremental effort involved?

Transparency through disclosure

Disclosures should be company-specific and transparent. Registrants and their disclosure committees should take a fresh look and consider disaggregation. Do your disclosures reflect today's environment without simply relying on past views or boilerplate language?

The reporting landscape is changing

Technology is rapidly changing the financial reporting and auditing functions, and cybersecurity is creating significant risk. Is your governance and oversight sufficient, and are investors adequately informed about the risks?

Emerging areas remain in the spotlight

ESG, crypto, digitalization… Wait and see is not a sound strategy. But whatever your status or stage of adoption, does your accounting reflect the economics and/or do your disclosures adequately inform investors?

Talent was a pervasive theme

We are united in a desire to grow the accounting profession – to maintain and enhance quality.

We are committed to attracting, nourishing and retaining diverse talent. And seeing our professionals grow and mature to become our future leaders.

We invite you to join the conversation and contribute to our growth as a purpose-driven organization.

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2. Financial reporting in economic uncertainty

Inflationary pressures, rising interest rates, potential recession were some of the drivers of the discussion.

Current economic trends will increase the complexities of applying some accounting principles and may require more resources than the financial reporting function has needed in the past.

Accounting examples

Impairment. Increasing interest rates may lead to lower fair values and more impairments. Certain fact patterns may be particularly susceptible – e.g. little headroom in prior assessments.

Revenue recognition/receivables. Revenue contracts may have to be reassessed based on the inability of customers to pay.

Stock compensation. Adjusting incentive-based compensation plans can create punitive outcomes in the income statement.

Disclosure reminders

- Main concern is transparency.
- Disclosures about estimation uncertainties and the underlying basis for critical judgments are important.
- Disclosures should be company-specific, not boilerplate, and should explain the effect of current pressures.
- Revisit and update risk disclosures in MD&A and risks and uncertainties.
- Consider whether certain risks, which may have previously been discussed hypothetically, should be framed differently given recent current events.

Additional resources

Conference blogs, A look at accounting issues in challenging times and SEC's Corp Fin explains its priorities and concerns

Hot Topic, Nonfinancial asset impairment in a period of economic uncertainty

Handbooks on a wide variety of topics in our Library, including:

- Impairment of nonfinancial assets
- Revenue
- Credit impairment
- Share-based payment
- Financial statement presentation

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3. Updated guidance on non-GAAP measures

Non-GAAP financial measures continue to be in focus.

The updated guidance is intended to provide additional transparency on how the staff thinks about non-GAAP measures.

New and updated Compliance & Disclosure Interpretations

Nature of registrant's business considered when evaluating if an adjustment is a normal, recurring, cash operating expense that may result in the measure being misleading. [C&DI 100.01]	Additional examples of individually tailored accounting principles, clarifying that guidance extends beyond revenue recognition. [C&DI 100.04]
Guidance on how non-GAAP measures that are not appropriately labeled or clearly described may be misleading. [C&DI 100.05]	Measure may mislead such that presenting it along with extensive disclosure would not cure a violation of Reg G. [C&DI 100.06]
Additional examples of non-GAAP measures being featured more prominently than the GAAP measure. [C&DI 102.10]	Examples of reconciliation presentations that may violate the prominence requirement; clarification on a non-GAAP income statement. [C&DI 102.10]

Additional resources

C&DIs (updated Dec 13), Non-GAAP Financial Measures

Conference blog, SEC's Corp Fin explains its priorities and concerns

Defining Issues, Clarifying non-GAAP financial measures

Handbook (not yet updated for the latest C&DI amendments but broadly applicable), Non-GAAP financial measures

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4. Taking due care with MD&A discussion

Discussions highlighted deficiencies in MD&A disclosures across a variety of topics.

The SEC staff reads public statements made outside of SEC filings (e.g. press releases, social media) and compares to information provided in SEC filings.

Emerging economic issues

Enhanced, company-specific disclosures were encouraged:

- Revisit and update disclosures about future risks in MD&A with consideration of the current environment.
- Clearly communicate specific factors that are contributing to identified risks – e.g. explain that cause of order backlog issues is supply chain disruptions.
- Consider role of the board of directors in oversight of significant areas of these risks.
- See also #2.

Covid lingering effects, Russia-Ukraine war

Example considerations when determining appropriate disclosures:

- The costs of returning to normalcy.
- Ways in which the company has materially changed the way it operates or its business focus.
- Direct effects on operations in the war region.
- Indirect effects from political and economic instability due to the war – e.g. heightened cyber risks, supply chain issues, volatility of commodity prices.

SEC staff reminded registrants to consider whether certain risks, which may have previously been discussed hypothetically, should be framed differently in light of current events.

Additional resources

Conference blog, SEC explains comment letter and enforcement trends

Article, Impact of the Russia-Ukraine war on SEC disclosures

Article, SEC disclosure guidance about effects of Covid-19

5. Reflecting on segment reporting and CAEs*

It was clear from the discussion that self-scrutiny in both of these areas could be improved.

The identification of operating segments continues to be an area of focus as SEC staff ask probing questions about the level of granularity disclosed.

Segment reporting questions

- At what level does the CODM* review information and does that align with the operating segments?
- What information is provided to the board?
- What reports are provided on a regular basis?
- What is the organizational structure and how does that inform the information reported?
- On what basis is compensation determined?
- What information is presented on earnings calls and on the company's website?

Critical accounting estimates questions

- Is both quantitative and qualitative information disclosed?
- Have financial statement accounting policies simply been regurgitated?
- Can investors understand why an estimate is critical?
- Has the estimate been quantified (that is, does the disclosure include amounts or percentages)?
- Can investors understand the sensitivity of the estimate?

* CAE = critical accounting estimate; CODM = chief operating decision maker

Additional resources

Conference blog, SEC's Corp Fin explains its priorities and concerns

Handbook, Segment reporting

6. The complex landscape of crypto markets

The unique risks of crypto markets were mentioned in a number of discussions.

An expectation that existing guidance can usually be applied by analogy to determine the appropriate accounting for the economics of the arrangement.

Dear Issuer letter probes disclosures

- SEC staff is seeking disclosures that are geared toward the needs of investors, and which are therefore tailored and specific.
- Overarching comment: “Provide disclosure of any significant crypto asset market developments relevant to understanding or assessing the business, financial condition and results of operations, or share price since the last reporting period, including any impact from the price volatility of crypto assets.”
- Another 15 detailed comments that cover description of business, MD&A and risk factors.

Fit for purpose accounting

- A crypto lending arrangement that has the economics of a traditional lending agreement should be accounted for in a manner similar to traditional lending.
- This includes derecognizing the loaned crypto assets and recording a crypto asset loan receivable, and the recognition of an allowance for credit losses to reflect borrower credit risk.
- In addition to disclosures under the credit loss and fair value standards, provide disclosures that adequately describe the nature and risks of the crypto loan arrangement.
- Plus a reminder on SAB 121 dealing with the accounting by custodians of crypto assets.

Additional resources

Dear Issuer letter (Dec 2022), Sample SEC comment letter on crypto market developments

Conference blogs, SEC stresses quality amidst economic uncertainty and SEC’s Corp Fin explains its priorities and concerns

Hot Topics and other resources in our Crypto Library, including:

- SEC staff guidance on accounting for digital asset safeguarding obligations (SAB 121)
- Updates on the FASB’s project on digital assets.

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7. Scrutiny of climate-related disclosures

Lots of ESG* discussion, but no word on the timing of a final climate rule.

Investors are interested, and addressing investor concerns before receiving a shareholder proposal could be key to managing reputation.

Dear Issuer letter probes disclosures

- Overarching comment: “We note that you provided more expansive disclosure in your corporate social responsibility report (CSR report) than you provided in your SEC filings. Please advise us what consideration you gave to providing the same type of climate-related disclosure in your SEC filings as you provided in your CSR report.”
- Another 8 detailed comments that cover risk factors and MD&A.
- The letter was issued in Sept 2021 and inquiries will continue.

KPMG observations on 2022 trends

- A majority of responses back to the SEC have received follow-up questions, notably on transition risks and business trends.
- Over 90% of registrants receiving comments have been questioned about differences between their ESG or sustainability reports and their filings.
- The staff has been seeking more information (quantification) about carbon credits or offsets.
- The staff has sought more granular information about capital expenditure, severe weather impacts to insurance premiums and compliance costs.

* ESG = environmental, social, governance

Additional resources

Dear Issuer letter, Sample Letter to Companies Regarding Climate Change Disclosures

Conference blogs, The multiverse of ESG and SEC explains comment letter and enforcement trends

Handbook, Climate risk in the financial statements

Other resources in our ESG Library, including:

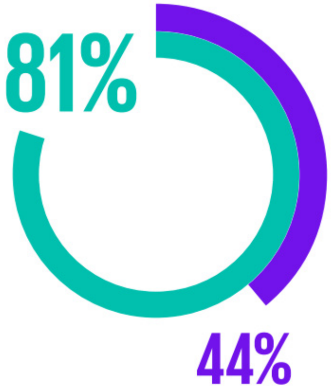
- US company impact of EU ESG reporting requirements
- Analysis of responses to the SEC’s climate proposal

8. The significant risks of cybersecurity

Discussions focused on governance and disclosure with no word on the timing of a final cyber disclosure rule.

Regarding the proposal, at issue is not only disclosure of cyber attacks, but also disclosure of policies and procedures to identify and manage cybersecurity risks.

KPMG 2022 CEO Outlook results



While 44% of US CEOs felt their organizations were under-prepared for a cyber attack, 81% said that geopolitical uncertainty was raising concerns of a cyber attack.

Some ideas for better protection

- Obtain cyber expertise at board or upper management level.
- Provide cyber awareness training to leaders in the company.
- Trust but verify the information reported by the Chief Information Officer function and by third-party cyber service providers.
- Ensure cyber professionals are receiving continuing education.
- Consider engaging an external auditor to perform a ‘SOC for Cybersecurity’ engagement.

Additional resources

Conference blog, The increasing risks of cybersecurity

Defining Issues, SEC proposes cybersecurity rules

KPMG 2022 CEO Outlook

Insights, Conquer security threats and ignite innovation

9. Recent SEC rulemaking reminders

The discussion included reminders but no additional guidance or observations.

These recent rulemakings significantly impact financial reporting and involve important elements of quality financial reporting: materiality and transparency.

Compensation clawback rule

- Requires registrants to have a compensation recovery policy that 'claws back' incentive-based compensation when an accounting restatement changes the financial reporting measures that affect the amount of such compensation received by certain executives.
- The restatement that triggers a clawback can be either a 'Big R' or a 'little r'.
- Materiality is an important concept in restatements, and registrants are reminded to evaluate the materiality of errors through the lens of a 'reasonable investor' – considering both qualitative and quantitative factors.
- Not effective until issuers are required to have a policy under the applicable exchange's listing standard.

Pay versus performance rule

- Requires registrants to disclose information about the relationship between executive compensation and company performance through the lens of 4 specified financial performance measures for the most recent 5 years (among other requirements).
- Registrants need to focus on providing the appropriate level of transparency to investors when preparing for these disclosures, taking into account any impact that may stem from the uncertain economic conditions.
- Effective starting with the upcoming proxy season for Dec 31 fiscal year companies.

Additional resources

Conference blog, SEC's Corp Fin explains its priorities and concerns

Defining Issues, SEC finalizes rule for erroneously awarded compensation

Defining Issues, SEC issues final rule on pay vs performance disclosures

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10. FASB projects important to investors

Both SEC and FASB officials discussed financial reporting that meets investors' demands.

FASB has engaged with investors in all stages of its standard-setting process and is actively listening and responding to investor feedback.

Disaggregation projects

Segment reporting. Proposed improvements would require public entities to disclose the significant expense categories in each reportable segment, in addition to all of the segment disclosures currently required.

Income statement disaggregation. Project is based on the decision-usefulness of income statements through the disaggregation of relevant expense line items, such as employee compensation, depreciation and amortization.

Income tax disclosures. Project is aimed at helping users of the financial statements to better understand the rate reconciliation and taxes paid by multi-national corporations.

Going beyond compliance for transparency

- The SEC stressed the importance of communicating with stakeholders through the financial statements.
- Effective communication could include voluntarily providing the type of information investors have been asking for, and there is nothing precluding the disaggregation of disclosures now.
- For example, providing certain components that are a part of a statement of cash flows presented under the direct method, and providing disaggregated financial information in areas like income tax reporting and income statement line items.

Additional resources

Conference blog, FASB officials signal a new emphasis

Conference blog, SEC stresses quality amidst economic uncertainty

Defining Issues, FASB proposes improvements to segment disclosures

FASB projects:

- Income statement disaggregation
- Income tax disclosures

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Full listing of conference blogs

Day 1

[SEC stresses quality amidst economic uncertainty]
[The multiverse of ESG]
[The increasing risks of cybersecurity]

Day 2

SEC’s Corp Fin explains its priorities and concerns
The PCAOB’s ambitious agenda
FASB officials signal a new emphasis
Diversifying the profession: KPMG perspectives

Day 3

SEC explains comment letter and enforcement trends
A look at accounting issues in challenging times
Our top takeaways from the 2022 AICPA & CIMA Conference

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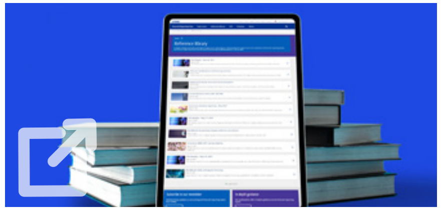
Defining Issues

Our collection of newsletters with insights and news about financial reporting and regulatory developments, including Quarterly Outlook and FRV Weekly.



Handbooks and Hot Topics

Our discussion and analysis of accounting topics – from short Hot Topics that deal with a topical issue, to our in-depth guides covering a broad area of accounting.

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