HOT TOPIC

SAB 74 reminders

Disclosures required about yet-to-be adopted ASUs

January 2024

This year's SAB 74 disclosures could be numerous given the number of upcoming ASUs.

Staff Accounting Bulletin (SAB) 74 requires public companies to disclose the potential material effects of issued accounting standards that have not yet been adopted. Several recently issued accounting standards (i.e. Accounting Standard Updates (ASUs)) have effective dates in 2024 and 2025 for public companies. Therefore, as companies assess the effect these standards may have, they will also need to determine whether SAB 74 disclosures are required.

The list of standards with effective dates in 2024 and 2025 for public companies includes two disclosure-only standards: ASU 2023-07, Segment reporting, and ASU 2023-09, Improvements to income tax disclosures. These standards – like the others on the list – need to be assessed under SAB 74 because it requires disclosures for standards that will have a material effect on a company's financial statements*, including on the accompanying notes*.

Besides identifying all the accounting standards with effective dates in 2024 and 2025 for public companies, this Hot Topic explains the SEC staff's expectations for SAB 74 disclosures. Those expectations include providing both quantitative and qualitative information and explaining the company's progress toward implementing these standards.

Disclosures required by SAB 74 (Topic 11.M)

When assessing whether the effect of a new or updated standard is material, companies must consider the full scope of the standard, including recognition, measurement, presentation and disclosure requirements. This means – as noted above – a new or updated disclosure-only standard, to the extent it will have a material effect, is in the scope of SAB 74.

The disclosures should generally include:

- a brief description of the standard;
- the date adoption is required and the date the company plans to adopt (if earlier);
- a discussion of the method of adoption;
- a discussion of the effect adoption is expected to have on the financial statements, unless not known or reasonably estimable. In that case, a statement to that effect may be made; and
- the potential effect of other significant matters the company believes may result from adoption of the standard (e.g. technical violations of debt covenant agreements, planned or intended changes in business practices), which is encouraged but not required.

SEC staff expectations

On several occasions in recent years, often following the issuance of significant accounting standards, the SEC staff has announced that public companies are expected to provide additional qualitative disclosures when they cannot reasonably estimate the effect of adopting the new standards.[1] Most recently, the staff reminded companies about their obligations under SAB 74 at the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments. These additional disclosures include:

- a description of the effect of the accounting policies the company expects to apply, if determined, and a comparison with the current accounting policies; and
- the company's progress in implementing the new standard and the significant implementation matters it still needs to address.

The SEC staff also has stated that it expects these disclosures to become increasingly more informative as the effective date of a new standard approaches.[2] This means that companies are expected to disclose additional and more precise quantitative and qualitative information as the effective date gets closer. The disclosures should be transparent about where the company is in its implementation process, enabling financial statement users to evaluate what progress has been made toward implementation.

Further, the SEC staff has encouraged public companies to disclose known or reasonably estimable quantitative information about adopting a new standard, even if that information may differ from the ultimate effect of adoption, and even if it is for only a portion of the company's arrangements.[3] Therefore, if the quantitative impact of the adoption of a new accounting standard is known or reasonably estimable, that information should be disclosed, even if the impact of adoption on the financial statements as a whole is not yet reasonably estimable.

While SAB 74 refers to 'financial statements', the SEC staff has frequently remarked that this term includes the accompanying notes to the financial statements as required by Reg S-X Rule 1-01(b). We interpret this to mean that the effect of disclosure-only standards needs to be evaluated under SAB 74. While judgment is required regarding the extent of disclosure, we do not interpret SAB 74 to mean that early adoption of an accounting standard (including a disclosure-only standard) is required.

We do not believe that SAB 74 requires a company to provide a complete disclosure that would be required under a fully effective standard (which would effectively result in early adoption of the standard). However, we do expect that companies will make comprehensive qualitative disclosures consistent with SAB 74 about expected changes as a result of the upcoming adoption of a disclosure-only standard.

SAB 74 reminders for upcoming ASUs to be adopted

The following ASUs are effective in 2024 and 2025 for public companies. For these ASUs, companies must consider what SAB 74 disclosures, if any, should be made in upcoming filings.

- ASU 2023-01, Common control [lease] arrangements (effective in 2024)
- ASU 2023-02, Expanding the proportional amortization method (PAM) (effective in 2024)

---

[1] Codified in the FASB's Accounting Standards Codification at paragraph 250-10-S99-6

[2] Addressing Implementation Matters to Improve Financial Reporting, Sagar Teotia, September 21, 2017

[3] Remarks before the 2016 AICPA National Conference on Current SEC and PCAOB Developments, Sylvia E. Alicea

- ASU 2023-03, Fair value measurement of equity securities subject to contractual sale restrictions (effective in 2024)
- ASU 2023-05, Joint venture formations (effective in 2025)
- ASU 2023-07, Segment reporting (effective in 2024 for annual periods only)
- ASU 2023-08, Accounting for/disclosure of crypto assets (effective in 2025)
- ASU 2023-09, Improvements to income tax disclosures (effective in 2025 for annual periods only)

Internal control over financial reporting

New accounting standards may require public companies to adjust their internal controls over financial reporting. A best practice is to determine whether changes or additions to internal controls are necessary for a new standard at the same time the required changes to the company's accounting and disclosure practices are being determined.

Audit committee responsibilities

The SEC staff frequently addresses the important role that an audit committee has in overseeing management's financial reporting efforts and the external audit process, often emphasizing how the audit committee needs to set the right 'tone at the top'. This oversight function extends to overseeing the implementation of new accounting standards that will have a material effect on the company's financial statements and ensuring the SAB 74 disclosures provide decision-useful information to investors. To effectively perform this oversight role, audit committee members should spend the necessary time to understand and assess the quality and status of management's implementation efforts.

Contact us

Timothy D. Brown
Partner, Audit

tdbrown@kpmg.com

Erin McCloskey
Partner, Audit

emccloskey@kpmg.com

Jane Murray
Senior Manager, Audit

janemurray2@kpmg.com

kpmg.com/socialmedia