



# **Quarterly Perspectives: Financial Reporting & Beyond / Q1 2024**

April 18, 2024

# Meet the Presenters From the FORVIS A&A Professional Standards Group



**Greg Faucette**

Partner

National Financial Reporting



**Liz Gantnier**

Partner

Regional Assurance Quality Leader

# Special Guest



**Nate White**

Director

ESG & Climate Risk

**FORV/S**

# Looking Back

---

**FORV/S**

FORVIS is a trademark of FORVIS, LLP, registered with the U.S. Patent and Trademark Office.

# What Has Caught Our Eye

- Goodbye lease implementation, hello CECL implementation
  - CECL was applicable even if not a bank
  - Some disclosures required (if material) on the face of the balance sheet and in the notes
    - Allowance on the face
    - Rollforward of allowance by portfolio segment
- Felt like a lot of additional focus on the statement of cash flows
- A “relatively” quiet quarter for formal standard setting and regulatory activity following a busy Q4 2023 ... at least until March

# Here & Now

---

**FORV/S**

FORVIS is a trademark of FORVIS, LLP, registered with the U.S. Patent and Trademark Office.

# SEC Climate and Disclosure Rule – What Is It?

- Rules to enhance and standardize climate-related disclosures by public companies and in public offerings
- Proposed rule – March 2022
  - Comment letters
- Finalized rule – March 2024
- Timeline and applicability
- Legal implications

Registrant Type	Disclosure & Attestation Compliance Dates (assuming December 31 fiscal year-end)				
	Disclosures		Scope 1 & 2 Emissions	Attestation- Scope 1 & 2	
	Reg. S-K & S-X	Material Expenditures & Impacts (Mitigation, Transition, & Targets)		Limited Assurance	Reasonable Assurance
LAF	Fiscal year 2025	Fiscal year 2026	Fiscal year 2026	Fiscal year 2029	Fiscal year 2033
AF	Fiscal year 2026	Fiscal year 2027	Fiscal year 2028	Fiscal year 2031	N/A
Non-Accelerated, SRC& EGC	Fiscal year 2027	Fiscal year 2028	N/A	N/A	N/A

In a change from the proposal- and to not discourage business combinations- the final rules will not apply to private companies that are parties to business combination transactions, as defined by Securities Act Rule 165(f), 2481 involving a securities offering registered on Forms S-4 and F-4.

# SEC Climate and Disclosure Rule – Requirements

## Regulation S-K

- Climate related risks and impacts
- Activities to mitigate climate-related risk
- Governance/oversight of climate-related risks
- Goals and targets
- Scope 1 and 2 GHG emissions
  - Attestation over Scope 1 and Scope 2 for large accelerated and accelerated filers

## Regulation S-X

- Capitalized costs, expenditures, and losses related to severe weather events and other natural conditions
- Estimates and assumptions



# SEC Climate and Disclosure Rule – Estimated Costs

Compliance	SEC Estimated Costs	
	1 <sup>st</sup> Year of Compliance	Subsequent Years
<b>Regulation S-X</b>		
Upper bound of compliance cost	\$500,000	\$375,000
Upper bound of incremental audit fees (from financial audit)	\$23,000	\$23,000
<b>Regulation S-X Subtotal</b>	<b>\$523,000</b>	<b>\$398,000</b>

Compliance	SEC Estimated Costs	
	1 <sup>st</sup> Year of Compliance	Subsequent Years
<b>Regulation S-K</b>		
Impacts of climate-related risks on strategy, business model, and outlook (Items 1502 (a) through (e) and (g)); and risk management disclosure (Item 1503)	\$327,000	\$183,000
Scenario analysis (if conducted)	\$12,000	\$6,000
GHG reporting	\$151,000	\$67,000
Limited GHG assurance (reasonable assurance is estimated at \$150k)	\$50,000	\$50,000
Voluntary targets or goals establishment	\$10,000	\$5,000
<b>Regulation S-K Subtotal</b>	<b>\$550,000</b>	<b>\$311,000</b>

# SEC Climate and Disclosure Rule – Attestation

## Attestation Provider Requirements §1506(b) and Costs

- The SEC set minimum standards for attestation services.
- A GHG emissions attestation provider must be an expert in GHG emissions by virtue of having significant experience in measuring, analyzing, reporting, or attesting to GHG emissions.

	Limited Assurance	Reasonable Assurance
When	Fiscal year 2029 for LAFs Fiscal year 2031 for AFs	Fiscal year 2033 for LAFs
	<i>AFs and LAFs would not be prevented from obtaining reasonable assurance for climate disclosures earlier than required</i>	
Objective	To express a conclusion about whether it is aware of any material modifications that should be made to the subject matter—Scopes 1 and 2 emissions disclosure—for it to be fairly stated or in accordance with the relevant criteria	To express an opinion on whether the subject matter is in accordance with the relevant criteria, in all material respects, <i>i.e.</i> , same as the audited financial statements
Procedures Performed	Analytical procedures and inquiry	Risk assessments and detail testing procedures
Conclusion	Provides <b>negative assurance</b> regarding whether any material misstatements have been identified	Provides <b>positive assurance</b> that the subject matter is free from material misstatement
	1506 will not apply to a private company that is a party to a business combination transaction, as defined by Securities Act Rule 165(f), involving a securities offering registered on Form S-4 or F-4.	

# Lease Accounting – Year Two!

- What leases?
  - Company didn't have leases at the effective date, but does now ...
  - Transition expedients/elections don't apply
- Modifications to leases as remeasurement events
  - Most common:
    - Modifications not considered a separate contract
    - Triggering event within lessee's control changing certainty of options
    - An event in the contract occurs that obligates the lessee
  - If modified contract is reassessed as a lease:
    - Reassess lease classification
    - Reallocate consideration
    - Remeasure lease liability using a new (current) discount rate

# Leases – Sale Leaseback Transactions

- Seller/lessee sells asset and enters a second contract with the buyer/lessor to lease the asset back
- Accounting model – ASC 606 and ASC 842 considerations
  - Does the transaction qualify for sale leaseback accounting?
    - Use the guidance in ASC 606 to determine if first contract is a sale
    - Lease contract must result in operating lease classification under ASC 842 for seller/lessee
    - Special considerations for seller/lessee purchase options
  - If transaction does not qualify (a “failed sale”) then accounted for as a financing
    - Asset is not removed from books and continues to be depreciated/amortized

# FASB's New Profits Interest Standard

- FASB issued ASU 2024-01: *Compensation—Stock Compensation (Topic 718) - Scope Application of Profits Interest and Similar Awards*, on March 21, 2024
- Intended to clarify the applicability of the various accounting models to profits interests
- Diversity in practice in finding a home in the literature for profits interests led to this ASU

“Currently, entities evaluate the terms, conditions, and characteristics of a profits interest award and apply judgment to determine whether to account for the award under Topic 718 or Topic 710. However, stakeholders indicated that there is diversity in practice even when evaluating similar fact patterns.”

# What Is a Profits Interest?

## Does ASU 2024-01 Apply to Me?

- “Profits interest” is not defined for GAAP but is for tax (Revenue Procedure 93-27)
- Broadly represents an interest in a partnership’s or LLC’s future profits and/or equity appreciation
- Common terms and characteristics of profits interest awards include, but may not be limited to:
  - Management’s intent is to award the recipient compensation upon a defined event
    - High hurdle for distributions in the normal course of business
    - More likely to receive residual value upon a sale or liquidity event
  - Frequently have an explicit performance condition linked to a liquidity event.
  - May or may not have an explicit service condition required for vesting
  - Forfeiture and repurchase provisions vary significantly
  - Typically, do not grant voting rights, contain various transfer restrictions, and require no initial monetary investment by the grantee
  - May qualify the recipient for beneficial tax treatment

# ASU 2024-01 Effective Dates

- Public Business Entities (PBEs) – Annual periods beginning after December 15, 2024, and interim periods within those annual periods
- Entities other than PBEs – Annual periods beginning after December 15, 2025, and interim periods within those annual periods
- Early adoption permitted for both interim and annual financial statements that have not yet been issued or made available for issuance
  - For early adoption in an interim period, the change should be made as of the beginning of that annual period that includes that interim period

# Conversations You Should Be Having

---

**FORV/S**

FORVIS is a trademark of FORVIS, LLP, registered with the U.S. Patent and Trademark Office.



# What's on the Horizon?

- Bandwidth issues with financial reporting
  - Design and operation of internal controls
  - Communication and reporting (with investors, regulators, auditors, etc.)
  
- Preparing for new accounting standards implementation
  - Segments
  - Income tax disclosures

# Selected FORsights™

[forvis.com/forsights](https://forvis.com/forsights)

**FORsights** – Tax & Advisory  
Articles, Resources, Podcasts,  
Webinars, & News

Our thought leadership program focused on articles, webinars, podcasts, & videos aimed at helping our clients navigate the financial landscape. FORsights spans across key topics in assurance, tax, & consulting that reflects our industry intelligence, technical knowledge, & our forward vision to keep clients informed & on top of issues that affect them.

**FORV/S**

- [Key Details on SEC's New Climate Disclosure Rules](#)
- [ASC 842 Refresher: Modifications & Impairment](#)
- [FASB Clarifies Profits Interest Accounting](#)
- [Quarterly Perspectives: FASB 1Q 2024](#)
- [Quarterly Perspectives: SEC 1Q 2024 Registrants](#)

# Thank you!

Please join us again on Thursdays at 11 a.m. (Eastern) for the rest of the 2024 Quarterly Perspective webinar series!

July 18, 2024

October 17, 2024

January 9, 2025

Don't miss our next invitation, [subscribe](#) to FORsights today!

**forvis.com**

The information set forth in this presentation contains the analysis and conclusions of the author(s) based upon his/her/their research and analysis of industry information and legal authorities. Such analysis and conclusions should not be deemed opinions or conclusions by FORVIS or the author(s) as to any individual situation as situations are fact specific. The reader should perform its own analysis and form its own conclusions regarding any specific situation. Further, the author(s) conclusions may be revised without notice with or without changes in industry information and legal authorities.

FORVIS is a trademark of FORVIS, LLP, registered with the U.S. Patent and Trademark Office. © 2024 FORVIS, LLP. All rights reserved.

# FORVIS

Assurance / Tax / Consulting