GAAP Accounting & Reporting Update

FORVIS Insurance Virtual Seminar – Day Two

December 7, 2023

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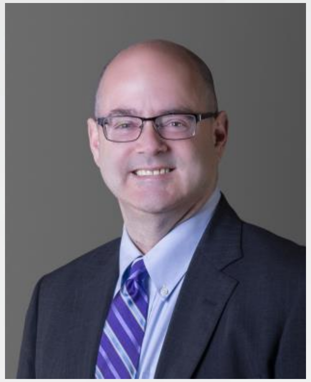
Meet the Presenters



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Learning Objectives

1

Understand the most recent FASB agenda activities

2

Understand select recent GAAP accounting updates impacting financial statements for 2023 & beyond

3

Identify selected new rules from the SEC

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FASB Accounting Standards – Status Update

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New FASB Standards – PBEs

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[Accounting for Convertible Instruments – Refresher for Private Companies]

[Prepared for New Fair Value Guidance for Restricted Equity Securities?]

[FASB Finalizes Common Control Lease Relief]

December 15, 2022	December 15, 2023	December 15, 2024	January 1, 2025
ASC 325 CECL (SRCs)	2020-06 Convertibles (SRCs)	2018-12/2022-05 Insurance & Transition (SRCS)	2023-05 JV's
2017-04 Goodwill (SRCs)	2022-03 Restricted Equity Securities		
2018-12/2022-05 Insurance & Transition (SEC filers not SRCS)	2023-01 Common Control Leases		
2021-08 Contract Assets & Liabilities	2023-02 Tax Credits		
2022-01 FV Portfolio Hedging	2023-07 Segment Reporting		
2022-02 TDR Accounting			
2022-04 Supplier Finance			

2023-06 Disclosure Improvements

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New FASB Accounting Standards – Private Companies

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[Accounting for Convertible Instruments – Refresher for Private Companies]

[Refresher on Contract Assets & Liabilities in a Business Combination]

[Updates on Hedge Accounting for Private Companies]

[FASB Finalizes Common Control Lease Relief]

December 15, 2022
- ASC 325 CECL
- 2017-04 Goodwill
- 2022-02 TDR
- 2022-04 Supplier Finance

December 15, 2023
- 2020-06 Convertibles
- 2021-08 Contract Assets & Liabilities
- 2022-01 Portfolio Hedging
- 2023-01 Common Control Leases

December 15, 2024
- 2018-12/2022-05 Insurance & Transition
- 2022-03 Restricted Equity Securities
- 2023-02 Tax Credits

January 1, 2025
- 2023-05 JV's

2023-06 Disclosure Improvements

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Exposure ~~Drafts~~ Draft Outstanding

Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses

- Intended to improve disclosures about a PBE's expenses & provide detailed information about the types of expenses (including employee compensation, depreciation, & amortization) in commonly presented expense captions (such as costs of sales, SG&A, & research & development)

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Select Other FASB Projects

Initial Deliberations

- Accounting for and Disclosure of Software Costs
- Accounting for Environmental Credit Programs
- Accounting for Government Grants
- Interim Reporting – Narrow-Scope Improvements
- Statement of Cash Flows – Targeted Improvements

Comment Period or Redeliberation

- Financial Instruments – Credit Losses – Purchased Financial Assets
- Disaggregation – Income Statement Expenses

Balloting – Awaiting Final Issuance

- Accounting for and Disclosure of Crypto Assets
- Improvements to Income Tax Disclosures
- ~~Segment Reporting –~~ **ISSUED NOVEMBER 27**
- Scope Application of Profits Interest Awards

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FASB’s Research Agenda

- Accounting for and Disclosure of Intangibles
- Accounting for Commodities
- Consolidation for Business Entities
- Definition of a Derivative
- Financial Key Performance Indicators for Business Entities
- Statement of Cash Flows

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Select Final FASB Standards

ASC 326 – CECL – Not Just for Banks

CECL impacts all entities holding financial assets & net investment in leases that are not accounted for at fair value

- Loans
- Held-to-maturity debt securities
- Trade receivables
- Sales-type leases
- Direct financing leases
- Reinsurance receivables
- Off-balance-sheet credit exposures
- Anything where there is a contractual right to receive cash (that is not explicitly excluded)

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ASC 326 – CECL – Not Just for Banks (continued)

Certain financial assets are specifically excluded from CECL including

- Financial assets measured at fair value through net income
- Available for sale (AFS) debt securities – included in this document as credit losses for AFS debt securities are addressed in ASC Topic 326-30
- Loans made to participants by defined contribution employee benefit plans
- Policy loan receivables of an insurance entity
- Loans & receivables between entities under common control
- Receivables arising from operating leases

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ASC 326 – CECL – Not Just for Banks (continued)

Pooling

- May be evaluated on a pooled basis when similar risk characteristics exist
  - Customized contracts might preclude pooling & require individual analysis
- Pooling criteria for reinsurance receivables include
  - Credit ratings
  - Geographic concentrations
  - Size of the business
  - Types of agreements written

Factors to Consider When Determining the Allowance Include

- Expected term & potential exposure of the contract, including termination clauses
- Historical losses for similar reinsurers
- Embedded provisions of the contract
- Concentrations of the reinsurer including location & coverage
- Ability & history of government program funding to keep the program viable

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ASC 326 – CECL – Not Just for Banks (continued)

OTTI Model Is Replaced – Key Changes Include

- Recognize credit losses through an allowance account. Credit losses are limited to the amount by which a security's fair value is less than its amortized cost basis
- Evaluation of whether credit losses exist does not consider
  - Length of time the fair value has been less than amortized cost
  - Changes in fair value after reporting date
  - Historical or implied volatility of fair value
- When an entity purchases an available-for-sale debt security, an entity must evaluate whether the security is a purchased financial asset with credit deterioration

Applied at the Individual Security Level

- Individual security level means the level & method of aggregation used by the entity to measure realized & unrealized gains & losses on its debt securities
- For example, debt securities with the same CUSIP that were purchased in separate lots may be aggregated on an average cost basis by some entities (accounting policy election)

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ASU 2022-03 – Equity Securities With Restrictions

ASU 2022-03, *Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*, issued June 2022

Clarifies that a contractual restriction on the sale of an equity security is not considered part of the security's unit of account & should not be considered in measuring fair value & cleans up ambiguous language & a previous illustrative example in ASC 820, *Fair Value Measurement*

Includes new disclosures for these restricted investments

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ASU 2022-03 (continued)

A contractual sale restriction only affects the behavior of the equity holder & does not affect the security itself

Contractual versus regulatory restriction

- Contractual restriction is characteristic of the entity holding the security
- Regulator restriction is a characteristic of the asset itself

Common examples of contractual restrictions include

- Underwriter lock-up agreements
- Market standoff agreement
- A provision within a broad shareholder’s agreement
- Private investments in public equity or a business combination involving a special-purpose acquisition company

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ASU 2022-01 – Portfolio Layer Method Hedge

ASU 2022-01, *Fair Value Hedging – Portfolio Layer Method*, issued March 2022

Updates the “last of layer” method from ASU 2017-01

Key points

- Allows designation of multiple layers (no longer restricted to only one layer) expected to be outstanding over different periods of time
- May be applied to closed portfolios of both prepayable & non-prepayable financial assets
- Eligible hedging instruments in a single-layer hedge may include spot-starting or forward-starting constant-notional or amortizing-notional swaps
- Additional guidance is provided on the accounting for & disclosure of hedge basis adjustments that are applicable to the portfolio layer method
- Prohibits considering basis adjustments in an existing closed portfolio hedge when determining credit losses or when considering impairment of the individual assets in the closed portfolio

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ASU 2022-01 (continued)

Closed portfolio characteristics

- Assets can be removed from the closed portfolio without dedesignating the hedge, but assets cannot be added
- Hedging relationships within the closed portfolio can be designated & redesignated

Some helpful accommodations

- Can exclude prepayment risk in the accounting in the layer if supported by analysis of the assets
- Simplified approach to the “similar asset test” for the portfolio using combination of benchmark interest rate & partial term fair value hedge assumption

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ASU 2023-02 – Accounting for Investments in Tax Credit Structures

FASB added as EITF project in September 2021

Proposed ASU released in August 2022

Final ASU issued March 2023

Extension of proportional amortization method to tax credit structures other than affordable housing projects, *i.e.*, Renewable Energy Credits, New Markets Tax Credits, Historic Rehabilitation Credits, etc.

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Proportional Amortization Method (PAM) vs. Equity Method

Proportional Amortization Method (PAM)

- Investor entities recognize amortization on the initial cost of the tax credit investment in proportion to anticipated total tax credits & benefits over the life of the investment
- Amortization is calculated as the initial investment balance less any expected residual, multiplied by the percentage of tax credits or any benefits allocated in the current year to total anticipated tax credits & benefits over the life of the investment
- Investment amortization & tax credits presented on a net basis within the income statement as a component of income tax expense or benefit

Equity Method

- Separate reporting for the investment's performance & related tax credits
- Underlying investment performance &/or impairment reported in pretax income or loss
- Tax credits or other tax benefits reported in income tax expense or benefit
- Nature of investment structures may result in pre-tax losses being reported, even though investment is meeting goals via tax benefits generated

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Qualifying for PAM

Must meet all five criteria to make election

- Probable the tax credits will be available to the investor
- The investor does not have the ability to exercise significant influence over the investment
- Substantially all (+90% ASC 840) of the projected benefits are from tax credits or other tax benefits
- Projected yield is positive
- Investor has limited liability

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“Electing” PAM

Accounting policy election to apply PAM

- Election made on a tax-credit-program-by-tax-credit-program basis rather than electing to apply the proportional amortization method at the reporting entity level or to individual investments
- Note some elements of the standard are not elections as a result of some accounting methods being eliminated for some types of ITC investments

Adoption methods (with some exceptions)

- Full retrospective
- Modified prospective

Effective dates

- PBEs – fiscal years beginning after December 15, 2023, including interim periods in those fiscal years
- Non-PBEs – fiscal years beginning after December 15, 2024, including interim periods in those fiscal years
- Early adoption permitted for all entities, including early adoption in any interim period as of the beginning of the fiscal year that includes that interim period

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ASU 2023-05 – Joint Venture Accounting

- ASU 2022-05, *Business Combinations – Joint Venture Formations*, issued August 2023
- Introduces ASC 805-60 addressing the accounting for contributions made to a joint venture, upon formation, in the joint venture's separate financial statements
- Reduces the diversity in practice that developed in the absence of specific authoritative guidance prior to this standard
- Does not change the definition of a joint venture or impact the accounting by the venturers (equity method investors) for their investments in the joint venture

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ASU 2023-05 – Key Concepts

Definitional & foundational elements

- Definition of a joint venture
- Formation date & consideration of multiple arrangements
- Determining what is (or is not) part of the formation, *e.g.*, future compensation arrangements with venturers

General concept is measurement of contributed assets & assumed liabilities by the joint venture in a new basis event

- Determine the formation date
- Recognize & measure the identifiable assets, the liabilities, & any noncontrolling interest in the net assets recognized by the joint venture
- Recognize & measure goodwill, if any, using the fair value of the joint venture as a whole immediately following formation

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ASU 2023-05 – Key Concepts (continued)

Guidance applies whether joint venture is a business or not

- If not a business, generally the business combination recognition/measurement guidance applied (as opposed to asset acquisition guidance)

Joint venture that is a private company may elect to apply the private company accounting alternatives for identifiable intangible assets

Incremental disclosures

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ASU 2023-05 – Effective Date & Transition

Effective prospectively for all joint venture formations with a formation date on or after January 1, 2025

A joint venture formed before January 1, 2025 may elect to apply the amendments retrospectively if it has sufficient information

Early adoption is permitted in any interim or annual period in which financial statements have not yet been issued (or made available for issuance) either prospectively or retrospectively

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FASB Trend???

FASB's Proposed Income Tax Disclosure Project – Proposed Disclosure for All Companies (Public & Private)

Disclosure of income taxes paid (net of refunds) – Annual basis only disaggregated by federal, state, & foreign jurisdictions

Separate disclosure for jurisdictions comprising 5% of total taxes paid

Disclose income (loss) from continuing operations before tax expense (benefit) disaggregated by federal, state, & foreign jurisdictions

Disclose tax expense (benefit) from continuing operations disaggregated by federal, state, & foreign jurisdictions

Private companies include qualitative disclosures about items & jurisdictions with material impact on rate reconciliation

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FASB’s Proposed Income Tax Disclosure Project – Proposed Disclosure for Public Companies

Disclosure of effective tax rate

Disaggregate rate reconciliation into eight newly defined categories

Separate disclosure of jurisdictions & other items based on 5% threshold (5% of pretax income [or loss] multiplied by the applicable statutory tax rate)

Present rate reconciliation in both percentages <u>&</u> dollar amounts

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FASB's Proposed Income Tax Disclosure Project – Eight Newly Defined Rate Reconciliation Categories

- State & local income tax (net of FBOS)
- Enactment of new tax laws
- Effects of cross-border tax laws
- Tax credits
- Changes in valuation allowances
- Nontaxable or nondeductible items
- Changes in reserves for uncertain tax positions (can aggregate all jurisdictions)
- Foreign tax effects (separately disclosed by material jurisdiction & item)

Items above 5% threshold that do not fall within any specified category must still be disclosed

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FASB's Proposed Income Tax Disclosure Project – Example

	Year Ended December 31, 20X2		Year Ended December 31, 20X1		Year Ended December 31, 20X0	
	Amount	Percent	Amount	Percent	Amount	Percent
U.S. Federal Statutory Tax Rate	$ AA	aa %	$ BB	bb %	$ CC	cc %
State and Local Income Taxes, Net of Federal Income Tax Effect [1]	AA	aa	BB	bb	CC	cc
Foreign Tax Effects						
United Kingdom						
Tax rate differential	(AA)	(aa)	(BB)	(bb)	(CC)	(cc)
Share-based payment awards	AA	aa	BB	bb	CC	cc
Changes in unrecognized tax benefits	(AA)	(aa)	(BB)	(bb)	CC	cc
Other	(AA)	(aa)	BB	bb	(CC)	(cc)
Ireland						
Tax rate differential	(AA)	(aa)	(BB)	(bb)	(CC)	(cc)
Valuation allowances adjustments	(AA)	(aa)	(BB)	(bb)	CC	cc
Enactment of new tax laws	-	-	BB	bb	-	-
Other	AA	aa	(BB)	(bb)	(CC)	(cc)
Switzerland	(AA)	(aa)	(BB)	(bb)	(CC)	(cc)
Mexico	AA	aa	BB	bb	CC	cc
Other foreign jurisdictions	(AA)	(aa)	(BB)	(bb)	CC	cc
Enactment of New Tax Laws						
Change in tax rate	-	-	-	-	(CC)	(cc)
Effect of Cross-Border Tax Laws						
Global intangible low-taxed income	AA	aa	BB	bb	CC	cc
Foreign-derived intangible income	(AA)	(aa)	(BB)	(bb)	(CC)	(cc)
Base erosion and anti-abuse tax	AA	aa	BB	bb	CC	cc
Other	AA	aa	-	-	-	-
Tax Credits						
Research and development tax credits	-	-	(BB)	(bb)	(CC)	(cc)
Energy-related tax credits	(AA)	(aa)	-	-	-	-
Foreign tax credits	(AA)	(aa)	(BB)	(bb)	(CC)	(cc)
Other	-	-	(BB)	(bb)	-	-
Valuation Allowances	AA	aa	(BB)	(bb)	(CC)	(cc)
Nontaxable or Nondeductible Items						
Share-based payment awards	AA	aa	BB	bb	CC	cc
Goodwill impairment	AA	aa	BB	bb	-	-
Other	AA	aa	(BB)	(bb)	CC	cc
Changes in Unrecognized Tax Benefits	(AA)	(aa)	BB	bb	(CC)	(cc)
Other Adjustments	AA	aa	(BB)	(bb)	(CC)	(cc)
Effective Tax Rate	$ AA	aa %	$ BB	bb %	$ CC	cc %

(1) State taxes in California and New York contributed to the majority of the tax effect in this category.

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FASB's Proposed Income Statement Expense Disaggregation Disclosures Project

"The Board is issuing this proposed Update to improve the disclosures about a public business entity's expenses and address requests from investors for more detailed information about the types of expenses (including employee compensation, depreciation, and amortization) in commonly presented expense captions (such as cost of sales, SG&A, and research and development).

The Board expects that nearly all public business entities, particularly those that present expense captions, such as cost of sales and SG&A on the face of their income statements, would disclose more information under the amendments in this proposed Update about the components of those expense captions than is disclosed in financial statements today."

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FASB’s Proposed Income Statement Expense Disaggregation Disclosures Project – Example

Cost of products sold

Cost of products sold	20X3	20X2	20X1
Inventory and manufacturing expense [a]	$ 53,688	$ 51,935	$ 48,680
Employee compensation	2,046	1,827	1,279
Depreciation	1,395	1,311	1,232
Warranty expense	4,394	3,952	3,894
Other cost of products sold [b]	1,933	1,873	2,159
Total cost of products sold	$ 63,456	$ 60,898	$ 57,244

(a) The company defines manufacturing expenses (other than inventory expense) as those that are incurred for the purpose of producing units of inventory, but are not capitalizable. Other manufacturing expenses include costs incurred related to idled manufacturing plants.

(b) Other cost of products sold consisted primarily of amounts paid to carriers for freight services related to contract fulfillment for the years ended December 31, 20X3, 20X2, and 20X1.

Cost of products sold: inventory and manufacturing expense			
Purchases of inventory	$ 20,213	$ 19,199	$ 16,319
Employee compensation	15,532	14,712	12,799
Depreciation	8,795	8,678	8,418
Intangible asset amortization	3,914	4,050	3,929
Other inventory and manufacturing costs (directly expensed or capitalized to inventory) [c]	5,619	5,733	5,834
Total inventory and manufacturing costs (directly expensed or capitalized to inventory)	54,073	52,372	47,299
Other adjustments and reconciling items [d]	(542)	424	538
Changes in inventories	157	(861)	843
Total inventory and manufacturing expense	$ 53,688	$ 51,935	$ 48,680

(c) Other inventory and manufacturing costs consisted primarily of power, fuel, and other utilities costs for the years ended December 31, 20X3, 20X2, and 20X1.

(d) Other adjustments and reconciling Items consisted of reconciling adjustments attributable to differences in the foreign exchange rates used to translate beginning inventory, ending inventory, and costs incurred from various functional currencies into the reporting currency for the years ended December 31, 20X3, 20X2, and 20X1. For the year ended December 31, 20X3, other adjustments and reconciling items also included the carrying amount of inventory sold to noncustomers in connection with a disposal transaction.

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FASB's Proposed Income Statement Expense Disaggregation Disclosures Project – Example

Cost of services			
Cost of services			
Employee compensation	$ 6,598	$ 5,654	$ 4,354
Depreciation	763	765	742
Intangible asset amortization	642	670	650
Other cost of services [(e)]	2,493	2,479	3,152
Total cost of services	$ 10,496	$ 9,568	$ 8,898

(e) Other cost of services consisted primarily of operating lease and travel costs for the years ended December 31, 20X3, 20X2, and 20X1.

Selling, general, and administrative			
Selling, general, and administrative			
Employee compensation	$ 13,242	$ 11,379	$ 10,764
Depreciation	1,454	1,755	1,737
PP&E impairment	412	-	-
Intangible asset amortization	523	596	-
Other SG&A [(f)]	5,218	5,141	5,615
Total selling, general, and administrative	$ 20,849	$ 18,871	$ 18,116

(f) Other SG&A consisted primarily of professional services fees, operating lease expense, and the costs paid to third parties for printing, publications, and advertising for the years ended December 31, 20X3, 20X2, and 20X1.

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FASB's Proposed Income Tax Disclosure Project – Effective Dates & Transition (Expected)

Public Companies

- Fiscal years beginning after December 15, 2024
- Interim periods within fiscal years beginning after December 15, 2025

Private Companies

- Fiscal years beginning after December 15, 2025
- Interim periods within fiscal years beginning after December 15, 2026

Early adoption permitted

Prospective application (retrospective application permitted)

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Before Newest ASU 2023-07 – Segment Reporting

	Auto Parts	Motor Vessels	Software	Electronics	Finance	All Other	Totals
Revenues from external customers	$ 3,000	$ 5,000	$ 9,500	$ 12,000	$ 5,000	$ 1,000 (a)	$ 35,500
Intersegment revenues	-	-	3,000	1,500	-	-	4,500
Interest revenue	450	800	1,000	1,500	-	-	3,750
Interest expense	350	600	700	1,100	-	-	2,750
Net interest revenue (b)	-	-	-	-	1,000	-	1,000
Depreciation and amortization	200	100	50	1,500	1,100	-	2,950
Segment profit	200	70	900	2,300	500	100	4,070
Other significant noncash items:							
Cost in excess of billings on long-term contracts	-	200	-	-	-	-	200
Segment assets	2,000	5,000	3,000	12,000	57,000	2,000	81,000
Expenditures for segment assets	300	700	500	800	600	-	2,900

(a) Revenue from segments below the quantitative thresholds are attributable to four operating segments of Diversified Company. Those segments include a small real estate business, an electronics equipment rental business, a software consulting practice, and a warehouse leasing operation. None of those segments has ever met any of the quantitative thresholds for determining reportable segments.

(b) The finance segment derives a majority of its revenue from interest. In addition, management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that segment. Therefore, as permitted by paragraph 280-10-50-22, only the net amount is disclosed.

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After Newest ASU 2023-07 – Segment Reporting

	Auto Parts	Motor Vessels	Software	Electronics	Finance	Total
Revenues from external customers	$ 3,000	$ 5,000	$ 9,500	$ 12,000	$ 5,000 (a)	$ 34,500
Intersegment revenues	-	-	3,000	1,500	-	4,500
	3,000	5,000	12,500	13,500	5,000	39,000
Reconciliation of revenue						
Other revenues						1,000 (b)
Elimination of intersegment revenues						(4,500)
Total consolidated revenues						$ 35,500
Less: (c)						
Cost of revenue	1,700	3,100	2,000	6,800	-	
Segment gross profit	1,300	1,900	10,500	6,700	- (d)	$ 20,400
Less: (c)						
Research and development expense	-	-	3,300	-	-	
Nonmanufacturing payroll expense (e)	500	900	2,600	2,700	750	
Professional services expense	-	-	1,700	500	800	
Interest expense (finance segment)	-	-	-	-	3,000	
Other segment items (f)	700	1,130	2,300	1,600	(50)	
Segment profit/(loss)	100	(130)	600	1,900	500	$ 2,970
Reconciliation of profit or loss (segment profit/(loss))						
Other profit or loss						100 (b)
Interest income/(expense), net (excluding finance segment)						1,125 (g)
Elimination of intersegment profits						(500)
Unallocated amounts:						
Litigation settlement received						500
Other corporate expenses						(750)
Adjustment to pension expense in consolidation						(250)
Income before income taxes						$ 3,195
Reconciliation of profit or loss (segment gross profit)						
Total segment gross profit						$ 20,400
Segment operating expenses, net (excluding finance segment)						(17,930) (h)
Segment profit (finance segment)						500
Other profit or loss						100 (b)
Interest income/(expense), net (excluding finance segment)						1,125 (g)
Elimination of intersegment profits						(500)
Unallocated amounts:						
Litigation settlement received						500
Other corporate expenses						(750)
Adjustment to pension expense in consolidation						(250)
Income before income taxes						$ 3,195

(a) The revenue from external customers for the finance segment relates to interest and noninterest income.

(b) Revenue and profit or loss from segments below the quantitative thresholds are attributable to four operating segments of Diversified Company. Those segments include a small real estate business, an electronics equipment rental business, a software consulting practice, and a warehouse leasing operation. None of those segments has ever met any of the quantitative thresholds for determining reportable segments.

(c) The significant expense categories and amounts align with the segment-level information that is regularly provided to the chief operating decision maker. Intersegment expenses are included within the amounts shown.

(d) For the finance segment, the chief operating decision maker uses only pretax profit or loss as the measure to allocate resources and assess segment performance. As a result, segment gross profit is not reported for the finance segment.

(e) The nonmanufacturing payroll expense does not include amounts capitalized on the balance sheet or included within other expense categories.

(f) Other segment items for each reportable segment includes:
Auto parts—maintenance, professional services expense, and repairs expense and certain overhead expenses.
Motor vessels—marketing expense, professional services expense, occupancy expense, and certain overhead expenses.
Software—depreciation and amortization expense, travel expense, office supplies expense, and certain overhead expenses.
Electronics—depreciation and amortization expense, marketing expense, occupancy expense, and certain overhead expenses.
Finance—depreciation and amortization expense, property tax expense, certain overhead expenses, and other gains or losses.

(g) Interest income/(expense), net (excluding finance segment) of $1,125 comprises (i) consolidated total interest revenue (excluding finance segment) of $3,825 and (ii) consolidated total interest expense (excluding finance segment) of $2,700.

(h) Segment operating expenses, net (excluding finance segment) of $17,930 includes research and development expense, nonmanufacturing payroll expense, professional services expense, and other segment items for the auto parts, motor vessels, software, and electronics segments.

	Auto Parts	Motor Vessels	Software	Electronics	Finance	Total
Other segment disclosures (see paragraphs 280-10-50-22 and 280-10-50-25)						
Interest revenue	$ 450	$ 800	$ 1,000	$ 1,500	$ 4,000	$ 7,750
Interest expense	350	600	700	1,100	3,000	5,750
Depreciation and amortization (a)	200	100	50	1,500	150	2,000
Other significant noncash items:						
Cost in excess of billings on long-term contracts	-	200	-	-	-	200
Segment assets	2,000	5,000	3,000	12,000	57,000	79,000
Expenditures for segment assets	300	700	500	800	600	2,900

(a) The amounts of depreciation and amortization disclosed by reportable segment are included within the other segment expense captions, such as cost of revenue or other segment items.

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New SEC Rules

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New SEC Final Rule – Share Repurchase Disclosure Modernization

Rule adopted by Commission May 3, 2023 & effective July 31, 2023

Requires registrant to

- Disclose daily repurchase activity quarterly or semiannually
- Check a box if certain directors/officers traded within four business days before or after public announcement of plan
- Provide narrative disclosure about repurchase programs & practices in periodic reports
- Quarterly disclosures in Forms 10-K & 10-Q related to adoption & termination of 10b5-1 trading arrangements

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New SEC Final Rule – Share Repurchase Disclosure Modernization (continued)

To be disclosed quarterly in Fo [illegible] gistrants for each day shares are repurchased

- Class of shares
- Average price paid per share
- Total number of share purchased, [illegible] ublicly announced plan
- Aggregate maximum number of sh [illegible] et be purchased under a public plan
- Total number of shares purchased [illegible]
- Total number of shares purchase i [illegible] oor rules (10b-18 & 10b5-1(c))

For domestic corporate registra [illegible] ng covering the first full fiscal quarter that begins on or after [illegible]

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New SEC Final Rule – Share Repurchase Disclosure Modernization (continued)

October 31, 2023 – U.S. Court of Appeals for the Fifth Circuit issued an opinion ordering the SEC "to correct the defects" the court identified in the rule

- Alleged the SEC "failed to respond to petitioners' comments & failed to conduct a proper cost-benefit analysis" in the final rule under the Administrative Procedure Act
- Directed the SEC to remedy deficiencies in the rule within 30 days (November 30, 2021)

November 23, 2023 – SEC issued an order postponing the effective date of the rule under Section 705 of the Administrative Procedure Act

- 5 U.S.C. § 705 – "When an agency finds that justice so requires, it may postpone the effective date of action taken by it, pending judicial review."

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SEC Rule – Listing Standards for Recovery of Erroneously Awarded Compensation (aka Compensation Clawbacks)

Directs each national securities exchange to establish listing standards requiring each issuer to develop & implement a clawback policy

Required by Dodd-Frank

- Effective January 27, 2023
- ***<u>Exchanges have 90 days from then to publish proposed standards to be effective no later than one year from their publication</u>***

If an issuer is required to prepare an accounting restatement, whether Big "R" or Little "r," the issuer must recover from any current or former executive officers' incentive-based compensation that was erroneously awarded during the three years preceding the date such a restatement was required

Recoverable amount is that compensation received in excess of the amount that otherwise would have been received had it been determined based on the restated financial measure

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SEC Rule – Compensation Clawbacks – Recent Development

- NYSE & NASDAQ proposed clawback rules in February
- Both exchanges filed amended proposed rules in early June
- SEC approved rules from each exchange on June 9 with an effective date of October 2, 2023
- NYSE & NASDAQ issuers must adopt appropriate exchange-compliant clawback policies by December 1, 2023

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SEC Rule – Compensation Clawbacks (continued)

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

- SEC clarified the above checkboxes (already on Form 10-K) are not to be used until the respective exchange rules are effective
- Carefully consider how to respond if the registrant chooses to correct "an immaterial error" on either the face of the financial statements or the footnote

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New SEC Final Rule – Cybersecurity Risk Management, Strategy, Governance, & Incident Disclosure

Final rule issued July 26, 2023 (proposed in March 2022)

Background

- Diversity in practice on cybersecurity disclosures even after interpretive guidance issued in 2011 & 2018

Purpose

- To enhance & standardize disclosures regarding cybersecurity risk management, strategy, governance, & incidents

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New SEC Final Rule – Cybersecurity Risk Management, Strategy, Governance, & Incident Disclosure (continued)

New Reg S-K Item 106 requires disclosures regarding

- Processes to assess, identify, manage material cybersecurity risks
- Management's role in assessing & managing material cybersecurity risks
- Board's oversight of cybersecurity risks
- Required for fiscal years ending on or after December 15, 2023

New Item 1.05 to Form 8-K requires

- Disclose material cybersecurity events & related impact
- To be filed within four business days after determination that an event will have or is reasonably likely to have a material impact
- Required after December 18, 2023 (for Smaller Reporting Companies required after June 15, 2024)

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SEC's "New" Pay Versus Performance Rule Update

Pay vs. Performance Table

- How are executive & other officers compensated?
- New narrative & quantitative disclosures detailing compensation related to registrant's financial performance

Actual Compensation Paid

- New Regulation S-K Item 402(v) requires a five-year table that includes "actual" compensation paid & several performance measures
  - Registrant's total shareholder return (TSR)
  - TSR for the registrant's peer group
  - Registrant net income
  - Registrant's selected performance measure that represents the most important metric to link pay to performance

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SEC's "New" Pay Versus Performance Rule Update (continued)

Most Important Performance Measures List

- List *at least three* & *up to seven* of its most important performance measures used to link compensation actually paid to performance for the most recently completed fiscal year
- Consider GAAP & non-GAAP financial measures

Registrants first included these new disclosures in proxy & information statements for fiscal years ending on or after December 16, 2022

The SEC has continued to provide guidance on these disclosures

- On February 10, 2023, the SEC issued an updated Compliance & Disclosure Interpretations (C&DI) with 15 new questions related to the rule
- On September 27, 2023, the SEC issued an updated C&DI with 10 additional questions

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Final Thoughts

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Thank you!

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