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October 2023

Keeping you informed

Q3 accounting and financial reporting developments

Contents

Message from Sydney Garmong

Partner, National Office

Dear readers,

As we close the third quarter, we welcome fall, all things pumpkin, and the latest standard-setting, financial reporting, and regulatory updates. The FASB, SEC, and PCAOB have each been actively pursuing their strategic plans. The GASB issued a new proposal this quarter as well. As you digest the latest updates, we wish you the very best and hope you enjoy the harvest season.

I am grateful to my Crowe colleagues Tony Boras, Alissa Doherty, Jason Eaves, and Mark Shannon for their significant contributions to this publication. We hope you find this report useful, and we welcome any feedback.

Third quarter highlights

During the third quarter of the 2023 calendar year, the Financial Accounting Standards Board (FASB) issued a final standard on joint venture formations and two final standards covering amendments to Securities and Exchange Commission (SEC) paragraphs. The FASB also issued one new proposal on disaggregation of income statement expenses and issued a new chapter of its conceptual framework on recognition and derecognition.

The SEC remarked on climate risk disclosures, discontinuance of the London Interbank Offered Rate (LIBOR), risks assessments by auditors and management, crypto assets services, artificial intelligence (AI), cybersecurity, and shareholder matters. The SEC issued an order for a new national market data plan. The SEC chair gave testimony before the U.S. Senate Appropriations Subcommittee on Financial Services and General Government on the SEC's 2024 budget request. The Investor Advisory Committee held a meeting. In addition, the SEC issued sample letters on extensible business reporting language (XBRL) and China-specific disclosures, published a risk alert on investment adviser examinations, and issued new compliance and disclosure interpretations (C&DIs). It adopted final rules on cybersecurity incident, risk management, and governance disclosure; private fund advisors; and exchange exemptions. The SEC amended money market fund rules and the national market plan governing the consolidated audit trail. The SEC reopened the comment period on the custody rule proposal and proposed new rules for broker-dealer predictive analytics and conflicts of interest, amendments to internet-based investment adviser exemption, and amendments to the broker-dealer customer protection rule.

The Public Company Accounting Oversight Board (PCAOB) issued an audit committee resource spotlight document, published its annual broker-dealer inspection report, released a staff update and preview of 2022 inspection observations, announced an online tool to compare inspection report data, and held a meeting of the Standards and Emerging Issues Advisory Group.

In addition to these highlights from the quarter, we have included recent developments from the Governmental Accounting Standards Board (GASB).

Checklists for the effective dates of FASB Accounting Standards Updates (ASU) and GASB statements are provided in the appendix.

From the FASB

Final standards

Joint venture formations

On Aug. 23, 2023, the FASB issued ASU 2023-05, "Business Combinations – Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement," to amend the accounting for contributions made to a joint venture upon formation in a joint venture's separate financial statements. The amendments require that a joint venture apply a new basis of accounting upon formation. By applying a new basis of accounting, a joint venture, upon formation, will recognize and initially measure its assets and liabilities at fair value with exceptions to the fair value measurement that are consistent with the business combination guidance.

Effective dates

The amendments are effective prospectively for all joint venture formations with a formation date on or after Jan. 1, 2025. A joint venture that was formed before Jan. 1, 2025, may elect to apply the amendments retrospectively if it has sufficient information. Early adoption is permitted.

Amendments to SEC paragraphs related to liabilities

On Aug. 3, 2023, the FASB issued ASU 2023-04, "Liabilities (Topic 405): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121 (SEC Update)," to amend and add various SEC paragraphs pursuant to the issuance of SEC Staff Accounting Bulletin No. 121, which expresses the SEC staff's views on accounting for an entity's obligations to safeguard crypto assets for its platform users.

Effective date

This ASU was effective upon issuance.

Amendments to various SEC paragraphs

On July 14, 2023, the FASB issued ASU 2023-03, "Presentation of Financial Statements (Topic 205), Income Statement – Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities From Equity (Topic 480), Equity (Topic 505), and Compensation – Stock Compensation (Topic 718): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022 EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280 – General Revision to Regulation S-X: Income or Loss Applicable to Common Stock," to amend and add various SEC paragraphs pursuant to the issuance of SEC Staff Accounting Bulletin No. 120.

Effective date

This ASU was effective upon issuance.

Proposals

Disaggregation of income statement expenses

On July 31, 2023, the FASB issued a proposed ASU, "Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses," to improve the disclosures regarding a public business entity's expenses. The amendments in this proposed ASU would require public business entities to disclose additional information about specific expense categories on an annual and interim basis in the notes to the financial statements.

Comments are due Oct. 30, 2023.

Other activity

Conceptual framework: Recognition and derecognition

On Aug. 30, 2023, the FASB issued a new chapter of its Conceptual Framework, "Conceptual Framework for Financial Reporting Chapter 5, Recognition and Derecognition," to provide a framework on when an item should be incorporated into and removed from financial statements. An item must meet the following criteria to be recognized in the financial statements:

- **Definitions.** The item must meet the definition of an element of financial statements.
- **Measurability.** The item must be measurable and have a relevant measurement attribute.
- **Faithful representation.** The item must be measured and depicted with faithful representation.

The new chapter also addresses derecognition of an item from the financial statements of a reporting entity. An item is derecognized when it no longer meets any one of the listed recognition criteria.

From the SEC

Public statements and announcements

Order for new national market data plan

On Sept. 1, 2023, the SEC issued an order directing the equity exchanges and the Financial Industry Regulatory Authority (FINRA) to develop and file a new national market system (NMS) plan to govern consolidated equity market data. The SEC cited concerns about lack of efficiency and conflicts of interest inherent to the operation of the three existing NMS plans. The equity exchanges and FINRA are required to submit a new plan for public notice and comment by Oct. 23, 2023.

Statement on risk assessment by auditors and management

On Aug. 25, 2023, SEC Chief Accountant Paul Munter issued a statement on the importance of a comprehensive risk assessment that not only focuses on risks that directly affect financial statements but also considers broader issues such as cybersecurity breaches, nonfinancial regulatory breaches, and revision restatements that could result in a material risk.

Munter encouraged management to consider external inputs such as regulator observations and analyst reports, and he said auditors should consider factors such as an entity's changes in strategy and consistency of management's messaging to investors. In addition, Munter emphasized the importance of professional skepticism and cautioned auditors against unintentionally rationalizing away evidence that the root cause of a deficiency further indicates a pervasive, entitywide risk.

Speech on climate risk disclosure and discontinuance of LIBOR

SEC Chair Gary Gensler remarked on climate risk disclosure and the phase-out of the London Interbank Offered Rate (LIBOR) before the Financial Stability Oversight Council on July 28, 2023. Regarding the former, Gensler emphasized the role of the SEC in providing investors with fair and truthful disclosures, allowing investors to make informed investment decisions while remaining neutral on the merits of such investments. As such, Gensler noted that the SEC's role in climate risk disclosures is to mandate consistent and comparable disclosures.

Gensler commented on the discontinuation of LIBOR, comparing the previously ubiquitous rate, which often lacked meaningful underlying transactions, to the "emperor with no clothes." Gensler cited multiple cases of banks fraudulently manipulating the rate and called for new alternatives to LIBOR to be transparent, robust, and appropriately supported by underlying transactions.

Statement on crypto asset services

On July 27, 2023, Munter issued a statement that cautions accounting firms that perform nonaudit work for crypto asset clients to be aware of the risks presented by providing such services. Risks include:

- **Potential liability for antifraud violations.** Firms should consider the potential liability caused by statements made and language used by both the firm and its clients over the scope of work performed. Firms should take precautions during their client acceptance procedures, even with new clients with no previous history of misrepresentations.
- **Auditor independence.** Firms should consider whether their public statements, as well as any advocacy or lobbying efforts on behalf of an audit client, would lead a reasonable investor to believe that the firm's independence is impaired.

In addition, Munter emphasized that firms found in violation of antifraud provisions of the federal securities laws or applicable independence requirements could be censured or suspended from appearing or practicing before the SEC pursuant to Rule 102(e) of the commission's Rules of Practice.

Testimony before Senate subcommittee

On July 19, 2023, Gensler testified before the U.S. Senate Appropriations Subcommittee on Financial Services and General Government to summarize the SEC's fiscal year 2024 budget request. In his testimony, Gensler stated his support for the $2.4 billion budget request as well as for additional funding of $39.6 million requested to support General Services Administration-led real estate projects. Gensler detailed how the funds and proposed staffing levels would be allocated among the SEC's divisions.

Gensler stressed the evolving threats presented by the market and noted that the increase in budget would help maintain and add to current staffing levels to help the SEC fulfill its expansive and growing responsibilities.

Remarks on AI

On July 17, 2023, Gensler spoke on AI and exponential data growth before the National Press Club. Gensler highlighted examples of the some of the regulatory and enforcement challenges presented by the integration of AI in the capital markets, such as:

- The potential for predictive models to mask systemic bias or to place the interests of advisers and brokers before those of retail investors and clients
- The rise of misinformation generated by or disseminated through AI
- The threat of concentration to a limited number of AI platforms, fed by the data of applications built on top of those platforms

- Threats to data privacy and ownership of intellectual property
- The risk of heightened financial instability by causing herd behavior in individual investors

Gensler concluded by reiterating both the challenges and opportunities presented by AI, and he emphasized that the SEC is “technology neutral.”

Investor Advisory Committee meeting

The SEC’s Investor Advisory Committee held a virtual public meeting on June 22, 2023. Topics included:

- Private funds, private markets, and outbound investments in countries of concern
- Ensuring that digital engagement practices responsibly expand investment opportunities
- Audit committee workload and transparency
- Recommendations regarding single-stock exchange-traded funds (ETFs)
- Proposed amendments to Regulation 13D-G and proposed rule 10B-1 under the *Securities Exchange Act of 1934*
- Registered investment adviser oversight

Speech at the Investor Advisory Committee meeting

Gensler presented remarks before the Investor Advisory Committee at its June 22, 2023, meeting. Gensler shared his thoughts regarding digital engagement practices and how predictive data analytics and AI are transforming the U.S. economy. He described how AI is being used for call centers, account openings, compliance programs, trading algorithms, and sentiment analysis and how it has spurred rapid changes in the field of robo-advisers and brokerage apps. He said that the use of predictive data analytics in these apps can benefit market access, efficiency, and returns to investors. However, he noted that it also can lead to potential conflicts including when advisers or brokers are optimizing for their own interests. Additionally, the data used in these analytic models could reflect historical biases, affecting fair access and prices in the markets. Gensler said he requested SEC staff to recommend potential rulemaking on these matters.

Gensler also spoke about the potential recommendations regarding single-stock ETFs and the importance of brokers and advisers complying with existing standards of conduct when providing advice or recommendations to investors regarding complex and high-risk products.

Cybersecurity speech

At the Financial Times Cyber Resilience Summit on June 22, 2023, Gurbir Grewal, director of the Division of Enforcement at the SEC, presented remarks on cybersecurity's role in the public securities markets. Grewal indicated that cybersecurity is foundational to maintaining the integrity of the U.S. public securities markets and the economy as a whole.

Grewal highlighted five principles that the SEC's Division of Enforcement follows to guide its work aimed at ensuring companies take their cybersecurity and disclosure obligations seriously. These principles are:

- When publicly traded companies and other market participants face cyberattacks, the SEC considers the investing public to be additional potential victims.
- Companies need real policies that work in the real world, and they need to actually implement those policies. Generic "check the box" cybersecurity policies simply are not enough.
- Companies need to regularly review and update all relevant cybersecurity policies to keep up with constantly evolving threats.
- When a cyber incident happens, the right information must be reported to those making disclosure decisions. If they do not receive the proper information, it doesn't matter how robust disclosure policies are.
- The SEC has zero tolerance for gamesmanship around the disclosure decision. Companies that have, or think they might have, a material event should talk to the SEC sooner rather than later to comply with their disclosure obligations.

Shareholder matters speech

SEC Commissioner Mark Uyeda delivered a speech on June 21, 2023, before the Society for Corporate Governance 2023 National Conference. He focused on Rule 14a-8 and shareholder proposals. He described current trends in shareholder proposals touching on the impact of changes in SEC staff positions, the significant increase in the number of proposals over the past two years matched with lower voting support, and the costs of shareholder proposals that are brought by a minority but paid by all shareholders.

Uyeda looked at ideas for policy changes, including greater use of private ordering to manage shareholder proposals, exclusion of proposals on social policy issues that lack a material relationship to the company, and changes to how SEC staff handles shareholder proposals.

He noted that some of these might require changes to Rule 14a-8 and SEC staff practices, while other ideas might not require any legislative or regulatory action. Finally, he warned that the SEC will not succeed in its mission to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation if it "does nothing to prevent value-eroding shareholder proposals from being part of the annual meeting process."

Rules and guidance

Sample letter on XBRL disclosures

On Sept. 7, 2023, the SEC published an illustrative sample letter containing examples of comments that could be issued by the Division of Corporation Finance (Corp Fin) regarding a company's XBRL disclosures.

Risk alert on investment adviser examinations

On Sept. 6, 2023, the Division of Examinations published a risk alert providing details on the division's risk-based approach for selecting registered investment advisers for examination and for determining the scope of risk areas to examine. While the risk-based approach is evolutionary and based on macro factors such as market conditions and industry practices, the staff also considers entity-specific factors such as those related to an adviser's business activities and regulatory history. The risk alert also lists examples of typical information requested throughout the examination process.

Funding amendment to CAT NMS plan

On Sept. 6, 2023, the SEC approved an amendment to the NMS plan governing the Consolidated Audit Trail (CAT), adopting a revised funding model called the "Executed Share Model." The amendment establishes a framework for allocating fees to develop and operate the CAT among participants and industry members based on executed equivalent share volume. It also modifies the method for calculating this volume. Participants will be required to submit Section 19(b) filings to impose fees on the industry members. These public filings will include details on the fees, including budgeted prospective CAT costs and certain costs previously covered entirely by the participants.

Final rule on private fund advisers

On Aug. 23, 2023, the SEC adopted a final rule, "Private Fund Advisers; Documentation of Registered Investment Adviser Compliance Reviews," and amendments. The final rule includes provisions for different groups of advisers. For example, under the final rule:

- **Registered private fund advisers** must provide investors with quarterly statements of fund-level information, obtain a financial statement audit for each private fund, and obtain a fairness opinion or valuation opinion in connection with adviser-led secondary transactions.
- **All private fund advisers** are subject to restrictions on certain activities that are against the public interest and protection of investors, unless the adviser adequately discloses or, in some cases, obtains consent for such activities. Private fund advisers also are subject to prohibitions on certain activities that result in preferential treatment to any investor.
- **All registered advisers** must annually document in writing the adequacy and effectiveness of their compliance policies and procedures.

The new rule is effective Nov. 13, 2023.

Exchange exemptions

On Aug. 23, 2023, the SEC adopted a final rule narrowing the exemptions for SEC-registered brokers and dealers from membership in a registered national securities association. The rule broadens oversight of the FINRA, which is the only such association. Notably, under the amended rule, proprietary trading broker-dealer firms that trade off the exchange where they are members are no longer exempt.

The rule is effective Nov. 6, 2023.

New C&DIs

In August 2023, Corp Fin issued multiple new C&DIs. Highlights include the following:

- ***Exchange Act* rules (updated Aug. 25, 2023)**. The new interpretations address questions on the cooling-off period and participation in 401(k) plans under the amended Rule 10b5-1.
- ***Exchange Act* forms (updated Aug. 30, 2023)**. The new interpretations address questions on Form F-SR filing requirements for foreign private issuers or affiliated purchasers that have not repurchased registered equity securities as well as filing requirements for repurchases in the final quarter of the fiscal year.
- ***Exchange Act* Section 16 (updated Aug. 25, 2023)**. The new interpretation clarifies that the Rule 10b5-1(c) checkbox on Form 4 is not applicable to trading plans adopted prior to the effective date of the amendment to Rule 10b5-1.
- **Regulation AB (updated Aug. 30, 2023)**. The new interpretation clarifies the definition of a "timely" filing for Form SF-3 eligibility.
- **Regulation S-K (updated Aug. 25, 2023)**. The new interpretations address questions on required disclosures under Item 408(a)(1) for plans terminated due to expiration or completion as well as applicability of Item 408(a) for trading arrangements covering securities in which a director or officer has a pecuniary interest.

On Sept. 27, 2023, Corp Fin issued additional new and updated C&DIs related to Regulation S-K.

Cybersecurity incident, risk management, and governance disclosure final rule

On July 26, 2023, the SEC issued a final rule requiring enhanced standardized disclosures of material cybersecurity incidents and cybersecurity risk management, strategy, and governance. Under the new rule, registrants are required to disclose when they have experienced a material cybersecurity incident on Form 8-K within four days of determining that the incident is material. Registrants also must make the following disclosures annually on Form 10-K:

- **Risk management:** The registrant's processes for assessing, identifying, and managing material risks from cybersecurity threats as well as whether and how any cybersecurity threats, including previous incidents, have materially impacted or are likely to materially impact the registrant's business strategy, results, or financial condition
- **Governance:** A description of board oversight over cybersecurity risk as well as management's role in assessing and managing material cybersecurity risks

Cybersecurity incident disclosures are required beginning Dec. 18, 2023 (or June 15, 2024, for smaller reporting companies). Risk management, strategy, and governance disclosures are required beginning with annual reports for fiscal years ending on or after Dec. 15, 2023.

For additional information about the new rule, see the Crowe article "SEC Ruling on Cybersecurity Incident Disclosure: What to Know."

Sample letter regarding China-specific disclosures

Corp Fin, on July 17, 2023, released a sample letter addressing China-specific disclosures for China-based companies. Expanding upon previous guidance, the sample letter focuses on the following disclosures:

- Obligations under the *Holding Foreign Companies Accountable Act* (HFCAA) for issuers identified by the SEC under the HFCAA
- Risk of intervention or control by the government of the People's Republic of China in the operations of China-based Companies
- The *Uyghur Forced Labor Prevention Act*

Money market fund rules

On July 12, 2023, the SEC adopted amendments to certain rules that govern money market funds under the *Investment Company Act of 1940*. The changes are designed to reduce the risk of investor runs on money market funds during periods of market stress, to address concerns about redemption costs and liquidity, and to protect remaining shareholders from dilution, among other things. To meet these objectives, the amendments will:

- Increase minimum liquidity requirements for money market funds to provide a more substantial liquidity buffer in the event of rapid redemptions
- Remove provisions in the current rule that permit a money market fund to suspend redemptions temporarily through a gate and allow money market funds to impose liquidity fees if their weekly liquid assets fall below a certain threshold
- Require institutional prime and institutional tax-exempt money market funds to impose liquidity fees when a fund experiences daily net redemptions that exceed 5% of net assets, unless the fund's liquidity costs are de minimis
- Require any nongovernment money market fund to impose a discretionary liquidity fee if the board determines that a fee is in the best interest of the fund

Additionally, the amendments will modify certain reporting forms applicable to money market funds and large private liquidity funds advisers.

The provisions of the amendments were effective Oct. 2, 2023. The reporting form amendments are effective June 11, 2024.

Proposals

Reopened comment period on custody rule proposal

On Aug. 23, 2023, the SEC reopened the comment period for its proposed rule "Safeguarding Advisory Client Assets." Given new audit requirements under the private fund advisor rule, the reopened comment period will allow stakeholders additional time to consider the new requirements in conjunction with the proposed amendments to the current custody rule's audit provision.

Comments are due Oct. 30, 2023.

Proposed new rules for broker-dealer predictive analytics and conflicts of interest

On July 26, 2023, the SEC proposed new rules addressing potential conflicts of interest created when broker-dealers and investment advisers use predictive data analytics, AI, and similar technologies to interact with investors. Technologies within the scope of the proposed rule include computational models, algorithms, and other predictive methods or processes that could guide an investor's behavior and therefore have the potential to prioritize the firm's interests over those of an investor. Under the proposal, firms using such technologies would be required to eliminate or address conflicts of interest, maintain written policies and procedures designed to prevent violations of or achieve compliance with the proposed rules, and maintain books and records related to the requirements of the proposed rules.

Comments were due Oct. 10, 2023.

Proposed amendments to internet-based investment adviser exemption

The SEC proposed new rule amendments on July 26, 2023, to enact more restrictive requirements on the exemption that permits internet-based investment advisers to register with the commission. To qualify for the exemption under the proposal, internet-based investment advisers would be required to maintain an operational and interactive website and to provide advisory services to all clients exclusively through such a website. In accordance with these changes, the proposal also would make corresponding changes to Form ADV.

Comments were due Oct. 2, 2023.

Proposed amendments to broker-dealer customer protection rule

On July 12, 2023, the SEC proposed amendments to the Customer Protection Rule (Rule 15c3-3). The proposed amendments require certain broker-dealers to increase how often they perform computations of the net cash they owe to customers and other broker-dealers, known as PAB account holders (that is, proprietary securities account of a broker-dealer), from weekly to daily. Net cash owed to customers and PAB account holders must be held in a special reserve bank account.

Specifically, broker-dealers with average total credits – the amount of cash they owe customers and PAB account holders – equal to or greater than $250 million would be required to compute the amounts required to be deposited in the customer and PAB reserve bank accounts daily, as of the close of the previous business day. Making the computations daily would safeguard customers and PAB account holders by reducing the potential for large mismatches to build over time and increasing the likelihood that they are made whole if a broker-dealer fails.

Comments were due Sept. 11, 2023.

From the PCAOB

Standard-setting

Standards and Emerging Issues Advisory Group meeting

The PCAOB's Standards and Emerging Issues Advisory Group met on June 29, 2023, and discussed, among other topics, post-implementation review of supervision of other auditors; emerging issues in auditing including the talent drain, the role of accounting and auditing in environmental issues, and the role of AI in auditing and financial reporting; and interim reviews. The recorded meeting, agenda, and presentation materials can be viewed on the PCAOB's event page for the meeting.

Audit committees

Audit committee resource

On June 21, 2023, the PCAOB issued a new staff document, "Spotlight: Audit Committee Resource."

Audit committees play an important role in financial reporting through their oversight of the processes of public companies and the external audit. As part of their responsibilities, it is important that audit committee members communicate with auditors. This document suggests questions audit committee members might consider discussing among themselves or with their independent auditor in the following areas:

- Risk of fraud
- Risk assessment and internal controls
- Auditing and accounting risks
- Digital assets
- Merger and acquisition activities
- Use of the work of other auditors
- Talent and its impact on audit quality
- Independence
- Critical audit matters
- Cybersecurity

Inspections

Annual broker-dealer inspection report

On Aug. 10, 2023, the PCAOB released its "Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers," which includes observations from inspections during 2022, guidance about and examples of effective procedures, and information about the inspection approach. According to the report, the percentage of firms with audit and attestation engagement deficiencies increased to 90%, up from the 78% identified in 2021.

The PCAOB also notes that this report should help broker-dealer owners and audit committees or equivalents as they oversee the work of their auditors and engage on financial reporting. With the report, the PCAOB released "Supplementary Information Related to Audits of Brokers and Dealers," which provides comparative data about selected firms and engagements and the results of PCAOB inspections over multiyear periods.

Preview of 2022 inspection observations

The PCAOB on July 25, 2023, released the report "Staff Update and Preview of 2022 Inspection Observations," which provides aggregate observations from the PCAOB's inspections of public company audits in 2022. The report shows a year-over-year increase in the number of audits with deficiencies and highlights common deficiencies, observations related to quality control systems, trends in areas with recurring deficiencies, and good practices. According to the report, PCAOB staff expects approximately 40% of the audits reviewed will have at least one deficiency to include in Part I.A of the individual audit firm's inspection report; this is up from 34% in 2021.

The report also includes questions audit committees should consider in discussions with independent auditors to address the PCAOB inspection findings. These questions focus primarily on whether the audit engagement has been inspected, whether the engagement partner has been inspected, inspection results, and how the audit firm is addressing inspection findings.

Online tools to compare inspection report data

On July 19, 2023, the PCAOB announced six new search filters that users can apply to PCAOB inspection reports, giving investors, audit committee members, and other stakeholders better access to compare and understand inspection report data. The new filters are inspection type, total issuer audit clients, Part I.A deficiency rate, specific global network, inspection year, and audits reviewed.

From the GASB

Final standards

The Governmental Accounting Standards Board (GASB) issued no new standards during the third quarter of 2023.

Proposals

Disclosure and classification of certain capital assets exposure draft

On Sept. 28, 2023, the GASB issued an exposure draft, "Disclosure and Classification of Certain Capital Assets," which would provide users of government financial statements with essential information about certain types of capital assets in a disaggregated format.

This proposed statement would require information about the following be disclosed separately in the capital assets note disclosure:

- Capital assets held for sale, by major class of asset
- Lease assets, by major class of underlying asset
- Subscription assets
- Intangible assets other than lease assets and subscription assets, by major class of asset

This proposed statement also would establish criteria for governments to use in determining whether a capital asset should be classified as held for sale. A capital asset would be classified as held for sale if both the following criteria are met:

- The government has decided to sell the asset.
- It is probable that the sale will be finalized within one year of the financial statement date.

Governments would consider the following relevant factors to evaluate the likelihood of the asset being sold within the established time frame:

- Whether the asset is available for immediate sale in its present condition
- Whether an active program to locate a buyer has been initiated, including the asset being put out for bid
- Market conditions for selling that type of asset
- Regulatory approvals needed to sell the asset

In addition, the proposed statement would require governments to evaluate the classification of capital assets as held for sale each reporting period.

Comments are due Jan. 5, 2024.

Accounting Standards Updates (ASU) effective dates

Checklist A

ASU effective dates for public business entities (PBEs)

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end PBEs	Early adoption
Goodwill Impairment Testing (ASU 2017-04) Removes step two – the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value – of the goodwill impairment test. **ASU 2019-10** – Deferral of effective dates.	**For SEC filers, excluding smaller reporting companies, tests performed on or after Jan. 1, 2020** **For all other PBEs, including smaller reporting companies, tests performed on or after Jan. 1, 2023**	**Permitted for interim or annual goodwill impairment tests performed on testing dates on or after Jan. 1, 2017**
Credit Losses (ASU 2016-13) Replaces the incurred loss model with the current expected credit loss (CECL) model for financial assets, including trade receivables, debt securities, and loan receivables. Clarifying standards: **ASU 2018-19** – Clarifies that impairment of operating lease receivables is in the scope of ASC Topic 842, "Leases," and not the CECL model.	**For SEC filers, excluding smaller reporting companies, March 31, 2020** **For all other PBEs, including smaller reporting companies, March 31, 2023**	**Permitted as of the fiscal years beginning after Dec. 15, 2018, including interim periods within**
ASU 2019-04 – Provides specific improvements and clarifications to the guidance in Topic 326. Addresses accrued interest, transfers between classifications or categories for loans and debt securities, recoveries, vintage disclosures, and contractual extensions and renewal options. **ASU 2019-05** – Targeted transition relief provides an option to irrevocably elect the fair value option, on an instrument-by-instrument basis, for certain financial assets (excluding held-to-maturity debt securities) previously measured at amortized cost. **ASU 2019-10** – Deferral of effective dates. **ASU 2019-11** – Provides specific improvements and clarifications to the guidance in Topic 326. Addresses expected recoveries for purchased financial assets with credit deterioration, transition relief for troubled debt restructurings, disclosures related to accrued interest receivables, financial assets secured by collateral maintenance provisions, and conforming cross-references to Subtopic 805-20. **ASU 2020-03** – Aligns contractual term to measure expected credit losses for a net investment in a lease to be consistent with the lease term determined under Topic 842. Clarifies that when an entity regains control of financial assets sold, an allowance for credit losses should be recorded.	**For ASU 2019-04, ASU 2019-05, ASU 2019-11, and ASU 2020-03, March 31, 2020, for entities that have adopted ASU 2016-13; otherwise effective dates the same as ASU 2016-13**	
ASU 2022-02 – Targeted amendments specific to troubled debt restructurings (TDRs) by creditors and vintage disclosure related to gross write-offs. An entity is required to apply the loan and refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan, rather than applying the recognition and measurement guidance for TDRs. Requires public business entities to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within scope of Subtopic 326-20.	**For ASU 2022-02, March 31, 2023, for entities that have adopted ASU 2016-13; otherwise effective dates the same as ASU 2016-13**	

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end PBEs	Early adoption
Convertible Instruments and Contracts in an Entity's Own Equity (ASU 2020-06) Clarifies the accounting for certain financial instruments with characteristics of liabilities and equity. The amendments reduce number of accounting models for convertible debt instruments and convertible preferred stock. The cash conversion and beneficial conversion feature models were removed. Limiting the accounting models will result in fewer embedded conversion features being separately recognized from the host contract. Improves disclosure requirements for convertible instruments and earnings-per-share guidance. Revises derivatives scope exception guidance to reduce form-over- substance-based accounting conclusions driven by remote contingent events.	**For SEC filers, excluding smaller reporting companies, March 31, 2022** **For all other PBEs, including smaller reporting companies, March 31, 2024**	**Permitted as of the fiscal years beginning after Dec. 15, 2020.** **An entity must adopt the guidance as of the beginning of the fiscal year and not in a subsequent interim.**
Deferral of the Sunset Date of Reference Rate Reform, Topic 848 (ASU 2022-06) Extends the sunset date of ASC Topic 848 (Reference Rate Reform) to Dec. 31, 2024, in response to the United Kingdom's Financial Conduct Authority (FCA) extension of the intended cessation date of LIBOR in the United States.	**Upon issuance, Dec. 21, 2022**	**Not applicable**
Long-Duration Insurance Contracts (ASU 2018-12) Revises the accounting for life insurance and annuity contracts by eliminating the method of locking in liability assumptions and the premium deficiency test for traditional and limited-payment contracts, among other methodology changes. Requires additional disclosure. Clarifying standards: **ASU 2019-09** – Deferral of effective dates. **ASU 2020-11** – Deferral of effective dates. **ASU 2022-05** – Revises transition guidance to allow for an insurance entity to make an accounting policy election on a transaction-by-transaction basis. An insurance entity may elect to exclude contracts from applying the amendments if certain conditions are met as of the effective date.	**For SEC filers, excluding smaller reporting companies, March 31, 2023** **For all other PBEs, including smaller reporting companies, Dec. 31, 2025**	**Permitted**
Customer Contracts Acquired in a Business Combination (ASU 2021-08) Requires an acquirer to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606 on revenue from contracts with customers. The amendments apply to contract assets or contract liabilities in contracts with customers and other contracts to which the provisions of Topic 606 apply. The amendments also provide certain practical expedients for acquirers when recognizing and measuring acquired contract assets and contract liabilities from revenue contracts in a business combination.	**March 31, 2023**	**Permitted, including in an interim period**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end PBEs	Early adoption
Portfolio Layer Method of Hedge Accounting (ASU 2022-01) Expands the scope of assets eligible for portfolio layer method hedging to include all financial assets. The amendments remove the requirement that all assets in the closed portfolio have a contractual maturity date on or after the earliest-ending hedge period. The amendments require an entity to maintain fair value hedge basis adjustments at the closed portfolio level for a currently designated hedge and prohibit an entity from considering portfolio layer method fair value hedge basis adjustments on a currently designated hedge in its determination of credit losses. When a breach occurs (that is, the aggregate amount of the hedged layers currently exceeds the amount of the closed portfolio), an entity is required to present the fair value hedge basis adjustments with a breach in interest income and disclose the amount along with the circumstances that led to the breach.	**March 31, 2023**	**Permitted, including in an interim period when amendments in ASU 2017-12 have been adopted**
Disclosure of Supplier Finance Program Obligations (ASU 2022-04) Provides transparency regarding the entity's use of supplier finance programs. The amendments require various quantitative and qualitative disclosures including key terms of the program, the amount outstanding, a description of where those obligations are presented on the balance sheet, and a rollforward of those obligations during the annual period. For interim reporting, the buyer should disclose the outstanding confirmed amount as of the end of the interim period.	**March 31, 2023, except for the amendment on rollforward information, which is March 31, 2024**	**Permitted**
Amendments to Various SEC Paragraphs (ASU 2023-03) Amends and adds various SEC paragraphs to codification pursuant to the issuance of SEC Staff Accounting Bulletin No. 120. Paragraphs within the following topics are affected: presentation, reporting comprehensive income, distinguishing liabilities from equity, equity, and stock compensation.	**Upon issuance, July 2023**	**Not applicable**
Amendments to SEC Paragraphs Related to Liabilities ASU 2023-04) Amends and adds various SEC paragraphs to codification pursuant to the issuance of SEC Staff Accounting Bulletin No. 121, which expresses the SEC staff's views on accounting for an entity's obligations to safeguard crypto assets for its platform users.	**Upon issuance, August 2023**	**Not applicable**
Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions (ASU 2022-03) Clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. Clarifies that an entity cannot recognize and measure a contractual sale restriction as a separate unit of account. The amendments include various disclosure requirements.	**March 31, 2024**	**Permitted, including in an interim period**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end PBEs	Early adoption
Common Control Lease Arrangements (ASU 2023-01) Revises the accounting for leasehold improvements. Leasehold improvements associated with a lease between entities under common control are to be amortized over the useful life of those improvements to the common control group as long as the lessee controls the use of the underlying asset through a lease. If the lessor obtained the right to control the use of the underlying asset through a lease with another entity not within the common control group, the amortization period is determined under existing guidance when a lease is not a lease between entities under common control. If and when the lessee no longer controls the underlying asset, leasehold improvements associated with common control leases must be accounted for as a transfer between entities under common control through an adjustment to equity.	**March 31, 2024**	**Permitted, including in an interim period. If adopted in an interim period, an entity must adopt as of the beginning of the fiscal year that includes that interim period.**
Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (ASU 2023-02) Expands the option to account for tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. For tax equity investments not accounted for under the proportional amortization method, the amendments require entities to apply ASC Topic 323, "Equity Method or Joint Ventures," or ASC Topic 321, "Investments – Equity Securities." The amendments require specific disclosures that must be applied to all investments that generate income tax credits and income tax benefits from a tax credit program for which an entity has elected to apply the proportional amortization method, including investments within the tax credit program that do not otherwise qualify for the proportional amortization method.	**March 31, 2024**	**Permitted, including in an interim period. If adopted in an interim period, an entity must adopt as of the beginning of the fiscal year that includes that interim period.**
Joint Venture Formations (ASU 2023-05) Amends the accounting for contributions made to a joint venture upon formation in a joint venture's separate financial statements. The amendments require that a joint venture apply a new basis of accounting upon formation. By applying a new basis of accounting, a joint venture, upon formation, will recognize and initially measure its assets and liabilities at fair value with exceptions to the fair value measurement that are consistent with the business combination guidance.	**March 31, 2025**	**Permitted, including in an interim period**

Checklist B

ASU effective dates for nonpublic business entities (non-PBEs)

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Deferral of the Sunset Date of Reference Rate Reform, Topic 848 (ASU 2022-06) Extends the sunset date of ASC Topic 848 (Reference Rate Reform) to Dec. 31, 2024 in response to the United Kingdom's Financial Conduct Authority (FCA) extension of the intended cessation date of LIBOR in the United States.	**Upon issuance, Dec. 21, 2022**	**Not applicable**
Goodwill Impairment Testing (ASU 2017-04) Removes step two – the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value – of the goodwill impairment test. Clarifying standards: **ASU 2019-10** – Deferral of effective dates.	**Tests performed on or after Jan. 1, 2023**	**Permitted for interim or annual goodwill impairment tests performed on testing dates on or after Jan. 1, 2017**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Credit Losses **(ASU 2016-13)** Replaces the incurred loss model with the CECL model for financial assets, including trade receivables, debt securities, and loan receivables. Clarifying standards: **ASU 2018-19** – Clarifies the effective date for non-PBEs and that impairment of operating lease receivables is in the scope of ASC Topic 842, "Leases," and not the CECL model. **ASU 2019-04** – Provides specific improvements and clarifications to the guidance in Topic 326. Addresses accrued interest, transfers between classifications or categories for loans and debt securities, recoveries, vintage disclosures, and contractual extensions and renewal options. **ASU 2019-05** – Targeted transition relief provides an option to irrevocably elect the fair value option, on an instrument-by-instrument basis, for certain financial assets (excluding held-to-maturity debt securities) previously measured at amortized cost. **ASU 2019-10** – Deferral of effective dates. **ASU 2019-11** – Provides specific improvements and clarifications to the guidance in Topic 326. Addresses expected recoveries for purchased financial assets with credit deterioration, transition relief for troubled debt restructurings, disclosures related to accrued interest receivables, financial assets secured by collateral maintenance provisions, and conforming cross-references to Subtopic 805-20. **ASU 2020-03** – Aligns contractual term to measure expected credit losses for a net investment in a lease to be consistent with the lease term determined under Topic 842. Clarifies that when an entity regains control of financial assets sold, an allowance for credit losses should be recorded. **ASU 2022-02** – Targeted amendments specific to troubled debt restructurings (TDRs) by creditors and vintage disclosure related to gross write-offs. An entity is required to apply the loan and refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan, rather than applying the recognition and measurement guidance for TDRs.	**Dec. 31, 2023** **For ASU 2019-04, ASU 2019-05, ASU 2019-11, and ASU 2020-03, March 31, 2020, for entities that have adopted ASU 2016-13; otherwise, effective dates the same as ASU 2016-13**	**Permitted as of the fiscal years beginning after Dec. 15, 2018, including interim periods within**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Disclosure of Supplier Finance Program Obligations (ASU 2022-04) Provides transparency regarding the entity's use of supplier finance programs. The amendments require various quantitative and qualitative disclosures including key terms of the program, the amount outstanding, a description of where those obligations are presented on the balance sheet, and a rollforward of those obligations during the annual period.	**Dec. 31, 2023, except for the amendment on rollforward information, which is Dec. 31, 2024**	**Permitted**
Convertible Instruments and Contracts in an Entity's Own Equity (ASU 2020-06) Clarifies the accounting for certain financial instruments with characteristics of liabilities and equity. The amendments reduce number of accounting models for convertible debt instruments and convertible preferred stock. The cash conversion and beneficial conversion feature models were removed. Limiting the accounting models will result in fewer embedded conversion features being separately recognized from the host contract. Improves disclosure requirements for convertible instruments and earnings-per-share guidance. Revises derivatives scope exception guidance to reduce form-over-substance-based accounting conclusions driven by remote contingent events.	**Dec. 31, 2024**	**Permitted as of the fiscal years beginning after Dec. 15, 2020, including interim periods within**
Customer Contracts Acquired in a Business Combination (ASU 2021-08) Requires an acquirer to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606 on revenue from contracts with customers. The amendments apply to contract assets or contract liabilities in contracts with customers and other contracts to which the provisions of Topic 606 apply. The amendments also provide certain practical expedients for acquirers when recognizing and measuring acquired contract assets and contract liabilities from revenue contracts in a business combination.	**Dec. 31, 2024**	**Permitted, including in an interim period**
Portfolio Layer Method of Hedge Accounting (ASU 2022-01) Expands the scope of assets eligible for portfolio layer method hedging to include all financial assets. The amendments remove the requirement that all assets in the closed portfolio have a contractual maturity date on or after the earliest-ending hedge period. The amendments require an entity to maintain fair value hedge basis adjustments at the closed portfolio level for a currently designated hedge and prohibit an entity from considering portfolio layer method fair value hedge basis adjustments on a currently designated hedge in its determination of credit losses. When a breach occurs (that is, the aggregate amount of the hedged layers currently exceeds the amount of the closed portfolio), an entity is required to present the fair value hedge basis adjustments with a breach in interest income and disclose the amount along with the circumstances that led to the breach.	**Dec. 31, 2024**	**Permitted, including in an interim period when amendments in ASU 2017-12 have been adopted**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Common Control Lease Arrangements (ASU 2023-01) Provides a practical expedient to private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement to determine whether a lease exists and, if so, the classification of and accounting for that lease. The amendments also revise the accounting for leasehold improvements for all entities (that is, public business entities, private companies, not-for-profit entities, and employee benefit plans). Leasehold improvements associated with a lease between entities under common control are to be amortized over the useful life of those improvements to the common control group as long as the lessee controls the use of the underlying asset through a lease. If the lessor obtained the right to control the use of the underlying asset through a lease with another entity not within the common control group, the amortization period is determined under existing guidance when a lease is not a lease between entities under common control. If and when the lessee no longer controls the underlying asset, leasehold improvements associated with common control leases must be accounted for as a transfer between entities under common control through an adjustment to equity (or net assets for not-for-profit entities).	**Dec. 31, 2024**	**Permitted including in an interim period. If adopted in an interim period, an entity must adopt as of the beginning of the fiscal year that includes that interim period.**
Long-Duration Insurance Contracts (ASU 2018-12) Revises the accounting for life insurance and annuity contracts by eliminating the method of locking in liability assumptions and the premium deficiency test for traditional and limited-payment contracts, among other methodology changes. Requires additional disclosure. Clarifying standards: **ASU 2019-09** – Deferral of effective dates. **ASU 2020-11** – Deferral of effective dates. **ASU 2022-05** – Revises transition guidance to allow for an insurance entity to make an accounting policy election on a transaction-by-transaction basis. An insurance entity may elect to exclude contracts from applying the amendments if certain conditions are met as of the effective date.	**Dec. 31, 2025**	**Permitted**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions (ASU 2022-03) Clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. Clarifies that an entity cannot recognize and measure a contractual sale restriction as a separate unit of account. The amendments include various disclosure requirements.	**Dec. 31, 2025**	**Permitted, including in an interim period**
Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (ASU 2023-02) Expands the option to account for tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. For tax equity investments not accounted for under the proportional amortization method, the amendments require entities to apply ASC Topic 323, "Equity Method or Joint Ventures," or ASC Topic 321, "Investments – Equity Securities." The amendments require specific disclosures that must be applied to all investments that generate income tax credits and income tax benefits from a tax credit program for which an entity has elected to apply the proportional amortization method, including investments within the tax credit program that do not otherwise qualify for the proportional amortization method.	**Dec. 31, 2025**	**Permitted, including in an interim period. If adopted in an interim period, an entity must adopt as of the beginning of the fiscal year that includes that interim period.**
Joint Venture Formations (ASU 2023-05) Amends the accounting for contributions made to a joint venture upon formation in a joint venture's separate financial statements. The amendments require that a joint venture apply a new basis of accounting upon formation. By applying a new basis of accounting, a joint venture, upon formation, will recognize and initially measure its assets and liabilities at fair value with exceptions to the fair value measurement that are consistent with the business combination guidance.	**Dec. 31, 2025**	**Permitted, including in an interim period**

Governmental Accounting Standards Board (GASB) statement effective dates

Checklist C

Effective dates for all GASB statements

GASB statement	Effective dates – reporting periods beginning after	Early adoption
Conduit Debt Obligations (GASB Statement 91) Clarifies the definition of a conduit obligation and stipulates that a conduit debt obligation is a liability of the third-party obligor, not the issuer, thus eliminating the option for government issuers to recognize a conduit debt obligation as a liability. Establishes standards for accounting and financial reporting of additional commitments extended by issuers and arrangements associated with conduit debt obligations and improves required note disclosures.	**Dec. 15, 2021**	**Permitted**
Public-Private and Public-Public Partnerships and Availability Payment Arrangements (GASB Statement 94) Provides guidance for public-private and public-public partnership arrangements (PPPs), including those that are outside of the scope of the GASB's existing guidance for those transactions – namely Statement 60, "Accounting and Financial Reporting for Service Concession Arrangements," and Statement 87, "Leases." The statement also makes certain improvements to the guidance previously included in Statement 60 and provides accounting and financial reporting guidance for availability payment arrangements (APAs).	**June 15, 2022**	**Permitted**
Subscription-Based Information Technology Arrangements (GASB Statement 96) Provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. Defines a SBITA; establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA.	**June 15, 2022**	**Permitted**

GASB statement	Effective dates – reporting periods beginning after	Early adoption
Omnibus 2022 (GASB Statement 99) Addresses a variety of topics including the classification and reporting of derivative instruments; clarification of provisions in Statements 34, 87, 94, and 96; extension of the LIBOR cessation date; and various technical updates related to SNAP, nonmonetary transactions, pledges of future revenues, and terminology.	**Varies by topic (see pages 11 and 12 of the statement)** **Upon issuance, June 15, 2022, June 15, 2023**	**Permitted**
Accounting Changes and Error Corrections (GASB Statement 100) Provides guidance for various categories of accounting changes or error corrections and prescribes the applicable accounting and financial reporting guidance for each category. The statement also establishes how accounting changes and error corrections should be displayed in financial statements, disclosed in notes, and presented in required supplementary information (RSI) and supplementary information (SI).	**June 15, 2023**	**Permitted**
Compensated Absences (GASB Statement 101) Provides recognition and measurement guidance for all types of compensated absences under a unified model. This statement requires that a liability for compensated absences be recognized if all of these occur: 1) The leave is attributable to services already rendered. 2) The leave accumulates. 3) The leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This statement amends the existing disclosure requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability, and it no longer requires the government to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.	**Dec. 15, 2023**	**Permitted**

Learn more

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AUDIT2401-003D