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July 2023

Keeping you informed

Q2 accounting and financial reporting developments

Contents

Message from Sydney Garmong

Partner, National Office

Dear readers,

We are all thankful that there have not been repeats of the market events of March and very early May. Nonetheless, the second quarter was not without exciting standard-setting, financial reporting, and regulatory developments. The FASB, SEC, and PCAOB continue to make progress on their agendas, with the SEC and PCAOB publishing updated agendas this quarter. The GASB and CAQ have also been active. As you make progress on your summer agenda and head into the third quarter, we wish you the very best.

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.

Second quarter highlights

During the second quarter of the 2023 calendar year, the Financial Accounting Standards Board (FASB) issued two new proposals: one on a scope application for profit interest awards and one addressing purchased financial assets. The FASB also issued a final statement of financial accounting concept on the conceptual framework for the reporting entity.

The Securities and Exchange Commission (SEC) remarked on environmental, social, and governance issues; financial stability risks; and exchange traded funds. The SEC chair gave testimony before the U.S. House on its work and on the SEC's budget request. The Small Business Capital Formation Advisory Committee held a meeting, and the SEC hosted a Small Business Forum. In addition, the SEC issued guidance on insider trading rules and extended the period for action on clawback listing standards. It adopted final rules on the removal of credit rating references from Regulation M and fraud prevention for security-based swaps, and it adopted amendments on issuer share repurchase disclosures and private fund reporting requirements. The SEC proposed improvements to risk management for covered clearing agencies and reopened the comment period for beneficial ownership reporting and exchange and alternative trading systems definitions. It released its spring 2023 regulatory agenda and named a new deputy director of for legal and regulatory policy.

The Public Company Accounting Oversight Board (PCAOB) issued its 2022 annual report, revised its standard-setting agenda, proposed amendments related to the auditor's responsibility for considering a company's noncompliance with laws and regulations, held a meeting of the Investor Advisory Group, issued a spotlight document on professional competence and skepticism, announced its 2023 inspection priorities, and provided observations related to crypto assets.

The Center for Audit Quality issued its spring 2023 audit partner survey results.

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

Proposals

Scope application of profits interest awards

On May 11, 2023, the FASB issued a proposed ASU, "Compensation – Stock Compensation (Topic 718): Scope Application of Profits Interest Awards," to provide an illustrative example comprised of four fact patterns intended to assist entities in evaluating whether a profits interest award should be accounted for as a share-based payment arrangement under Topic 718 or a cash bonus or profit-sharing arrangement under Topic 710.

The proposed ASU does not yet include an effective date and would be applied either retrospectively to all prior periods presented in the financial statements, or prospectively to awards granted or modified after the effective date.

Comments on the proposed ASU were due July 10, 2023.

Purchased financial assets

On June 27, 2023, the FASB issued a proposed ASU, "Financial Instruments – Credit Losses (Topic 326): Purchased Financial Assets," to expand the gross-up approach to all acquired financial assets, with exceptions, if certain conditions are met. The proposed ASU replaces the purchased credit deteriorated (PCD) or non-PCD credit deterioration evaluation with a seasoning evaluation to determine if the acquired financial assets should be accounted for under the gross-up approach. An entity would be required to apply the gross-up approach if either of the following seasoning conditions are satisfied:

- The financial asset is acquired through a business combination under Topic 805.
- The financial asset is acquired after 90 days from origination and the acquirer was not involved in the origination.

The proposed ASU does not yet include an effective date and would be applied on a modified retrospective basis to the beginning of the fiscal period that the entity adopted ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." A cumulative adjustment, if necessary, would be recorded as of the later of 1) the beginning of the reporting period and 2) the beginning of the earliest period presented.

Comments on the proposed ASU are due on Aug. 28, 2023.

Other activity

Conceptual framework: Reporting entity

On June 8, 2023, the FASB issued a final statement of financial accounting concept, "Conceptual Framework for Financial Reporting – Chapter 2, The Reporting Entity," to provide a framework for the identification of a reporting entity. The framework describes a reporting entity as a circumscribed area of economic activities that can be represented by general purpose financial reports that are useful to existing and potential stakeholders in making resource allocation decisions. Reporting entities are viewed to have three distinct features:

- Economic activities have been conducted.
- Those activities can be distinguished from those of other entities.
- The financial information in general purpose financial reporting faithfully represents the economic activities conducted within the circumscribed area and is useful in making decisions about providing resources to the reporting entity.

From the SEC

Public statements and announcements

Small Business Capital Formation Advisory Committee meeting

With a focus on capital raising and reducing funding gaps for underrepresented founders, the SEC's Small Business Capital Formation Advisory Committee held a meeting on June 14, 2023. The committee covered members' observations on the state of small-business capital raising and discussed remedying the funding gaps for underrepresented founders and startups. In addition, members discussed potential areas for future committee focus. This was the first meeting since the SEC's appointment of 14 new committee members. The full agenda, meeting materials, and information on how to watch the meeting are available via the Small Business Capital Formation Advisory Committee webpage.

Commissioner speech on ESG

On April 28, 2023, SEC Commissioner Hester Peirce gave a speech addressing environmental, social, and governance (ESG) issues before a seminar in Stockholm presented by Eurofi, the Paris-based organizer of gatherings of financial leaders and policymakers of the European Union. Peirce shared three significant concerns related to ESG reporting:

- ESG standards drive private capital to specific ESG-labeled assets and uses.
- By concentrating capital in favored assets, ESG rulemaking could become a source of instability.
- Pressure exists to converge on one single set of ESG standards worldwide.

Peirce expanded on her concerns that a single set of standards will direct private capital into ESG-identified activities and that could have dire consequences throughout the global economy. Peirce warned of the impossible task of having a converged set of ESG standards as this would require understanding and classifying all economic activity in terms of its effect on an increasing number of complex, and sometimes contradictory, metrics. She predicted that the concentration of capital in these ESG activities will create systemic instability and an investment bubble that, as history shows, will pop. Also, she said regulatory inducements to invest in particular sectors or in particular ways can harm investors, financial institutions, the financial system, and the broader economy. She noted that allowing for diversity across jurisdictions could mitigate the risks; however, that diversification would be inconsistent with pressure to converge the ESG standards. She said mutual recognition of different approaches would be a positive development, contrasted to requiring all jurisdictions to implement the same standards, which would create serious issues.

Small Business Forum

The 42nd Small Business Forum, hosted by the SEC's Office of the Advocate for Small Business Capital Formation, was held April 24-27, 2023. The forum included four virtual sessions:

- Exploring the Early-Stage Landscape: Trends and Strategies in Capital Raising
- Building Entrepreneurial Ecosystems: Laying the Groundwork To Support Small Businesses and Their Investors
- Investing in Small Business: Successes and Challenges Facing Smaller Funds
- Accessing the Public Markets: Becoming and Staying a Public Reporting Company

SEC Chair Gary Gensler presented prepared remarks before the forum, Commissioner Peirce spoke during the early stage landscape portion, and Commissioner Mark Uyeda provided remarks during the small-business investing session.

Chair's statement to Financial Stability Oversight Council

SEC Chair Gensler, on April 21, 2023, made a statement before the Financial Stability Oversight Council (FSOC) regarding financial stability risks and guidance on nonbank determinations. He shared his support of the guidance on nonbank determinations and described it as a "step towards … helping us better protect people's jobs, livelihoods, and trust in our financial system."

Gensler noted that several times throughout history risks from one financial banking institution or from the banking sector have spilled into the broader economy, but he said that risks also can originate from outside the banking sector. He described the importance of recognizing that risk from both banks and nonbank financial companies can emanate throughout the economy to everyday Americans. He noted that both the SEC and the FSOC have important roles within their respective authorities to enhance the resiliency of the financial system, and although risk will never be eliminated from the system, the SEC and FSOC must strive to "identify, manage, and guard against such risk to protect the American public."

Testimony before House of Representatives

On April 18, 2023, SEC Chair Gensler testified before the U.S. House Financial Services Committee. Gensler said that the U.S. market faces challenges including recognizing that the U.S. cannot take its worldwide position and leadership for granted; technology, markets, and business models constantly change; and other fast-growing economies threaten to overtake the U.S. market position. He noted that the rules and regulations must be updated regularly and modernized to meet these challenges. He added that the SEC's role in this process is directly correlated to its three-part mission to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. He said the SEC is dedicated to updating its rules to meet the challenges of the times, and he embraces comments and feedback from stakeholders in the process. In addition to discussing the efficiency and competition of the markets, Gensler highlighted all of the proposals in process and outstanding to address the ever-increasing market and rapidly changing technology.

Gensler also noted that integrity and disclosure help protect investors and build trust and increase participation in capital markets. When addressing market integrity and disclosures, Gensler focused on artificial intelligence and predictive data analytics proposals, as those areas are transforming a large part of the U.S. economy. He also discussed crypto assets and markets and climate risk disclosure.

With regard to resiliency, Gensler focused on Treasury markets, money market funds and open-end funds, and proposed improvements for systemic risk reporting on Form PF.

Testimony on budget request

On March 29, 2023, SEC Chair Gensler testified before the House Subcommittee on Financial Services and General Government. Gensler provided thoughts on how the SEC's recent work, changes in the capital markets, and other matters support the SEC's 2024 fiscal year budget request.

Nontransparent exchange-traded funds

Staff from the SEC's Division of Investment Management issued a statement on March 29, 2023, clarifying how nontransparent exchange-traded funds should present the required risk legend in digital advertisements.

Rules and guidance

Interpretations on new insider trading rules

On May 25, 2023, the SEC published three Compliance and Disclosure Interpretations on the new insider trading rules. The new interpretations (120.26-120.28) address the following questions:

- "When are companies required to begin providing the quarterly Item 408(a) disclosures and the annual Item 402(x) and Item 408(b) disclosures (Item 16J of Form 20-F disclosures for foreign private issuers) in periodic reports?"
- "When are companies required to begin providing the disclosures in proxy or information statements?"
- "Rule 10b5-1(c)(1)(ii)(D)(2) permits a person (other than the issuer) to maintain two separate Rule 10b5-1 plans at the same time so long as trading pursuant to the later-commencing plan is not authorized to begin until after all trades under the earlier-commencing plan are completed or have expired without execution. If an individual terminates the earlier-commencing plan (i.e., the earlier-commencing plan does not end by its terms and without any action by the individual), when can trading begin under the later-commencing plan?"

Removal of credit rating references from Regulation M

To ensure the existence of appropriate measures of creditworthiness other than credit ratings, the SEC on June 7, 2023, adopted final rules to remove and replace references to credit ratings from existing exceptions provided in Rule 101 and Rule 102 of Regulation M, which prohibit activities that could artificially influence the market for an offered security.

The final rules:

- "Remove existing rule exceptions that reference credit ratings for nonconvertible debt securities, nonconvertible preferred securities, and asset-backed securities included in Rule 101 and Rule 102 of Regulation M;
- "Replace those rule exceptions with new standards that are based on alternative standards of creditworthiness; and
- "Add an amendment to a recordkeeping rule applicable to broker-dealers in connection with their reliance on the new exceptions."

The final rules will be effective Aug. 21, 2023.

Fraud prevention for security-based swaps

The SEC on June 7, 2023, adopted final rules to prevent fraud, manipulation, and deception in connection with security-based swap transactions and to prevent undue influence over the chief compliance officer of security-based swap dealers and major security-based swap participants. Designed to prevent misconduct connected in any way with any security-based swap transaction, the rules consider the features fundamental to a security-based swap and will assist the SEC in its pursuit of actions that directly target misconduct that reaches security-based swaps. The final rules also protect the independence and objectivity of the chief compliance officer of a security-based swap dealer or major security-based swap participant.

The final rules will be effective Aug. 29, 2023.

Issuer share repurchase disclosures

On May 3, 2023, the SEC adopted amendments to modernize and improve disclosure requirements for repurchases of an issuer's equity securities. The amendments will require issuers to disclose daily quantitative share repurchase information either quarterly or semiannually. If applicable, issuers will be required to check a box indicating whether certain officers and directors traded in the relevant securities in the four business days before or after the announcement of the repurchase plan or program. The amendments will require issuers to provide narrative disclosures about the issuer's repurchase programs and practices in its periodic reports and also will require issuers to provide quarterly disclosure in Form 10-K and Form 10-Q related to the issuer's adoption and termination of 10b5-1 trading arrangements.

The final rule is effective July 31, 2023. Issuers other than foreign private issuers and registered closed-end management investment companies will be required to include the quantitative data as an exhibit to their Form 10-Q and Form 10-K and provide the narrative disclosure in these forms beginning with the first filing that covers the first full fiscal quarter that begins on or after Oct. 1, 2023. For foreign private issuers and registered closed-end management investment companies the disclosures will be required in 2024.

Private fund reporting requirements

The SEC on May 3, 2023, adopted amendments to Form PF, the confidential reporting form for certain SEC-registered investment advisers to private funds. The amendments are designed to enhance the ability of the FSOC to assess systemic risk and to increase the SEC's oversight of private fund advisers and its investor protection efforts.

The amendments will require current reporting by large hedge fund advisers regarding certain events that might indicate significant stress to a fund that could harm investors or signal risk in the broader financial system; require quarterly event reporting for all private equity fund advisers regarding certain events that could raise investor protection issues; and require additional reporting by large private equity fund advisers to improve the ability of the FSOC to monitor systemic risk and improve the ability of both the FSOC and the SEC to identify and assess changes in market trends at reporting funds.

The amendments for current reporting are effective Dec. 11, 2023, and the remaining amendments will be effective June 11, 2024.

Longer period for action on clawback listing standards

On April 24, 2023, the SEC announced that it extended the period within which to take action on the proposed rule changes from Nasdaq and the New York Stock Exchange (NYSE) related to establishing listing standards for recovery of erroneously awarded executive compensation. The SEC said the longer period would allow sufficient time to consider the proposed rule changes and the comments received. Accordingly, the SEC designated June 11, 2023, as the date by which the SEC would either approve or disapprove, or institute proceedings to determine whether to disapprove, the proposed rule changes. On June 9, 2023, the SEC approved on an accelerated basis with some modifications the Nasdaq rule changes and the NYSE rule changes.

Proposals

Proposed improvements for covered clearing agency risk management

On May 17, 2023, the SEC proposed rule amendments and a new rule to improve risk management and resilience of covered clearing agencies (CCAs). According to a fact sheet, the proposal would require a CCA to have:

- “Policies and procedures to establish a risk-based margin system that monitors intraday exposures on an ongoing basis and includes the authority and capacity to make intraday margin calls as frequently as circumstances warrant;
- “Policies and procedures to establish a risk-based margin system that address the use of substantive inputs, in addition to price data, in its risk-based margin system, including when such inputs are not readily available or reliable; and
- “Recovery and orderly wind-down plans (RWP) that include specific elements to ensure that the RWP is fit for purpose and provides sufficient identification of how a CCA would operate in a recovery and how it would achieve an orderly wind-down.”

Comments on the proposal are due July 17, 2023.

Reopened comment period on beneficial ownership reporting

On April 28, 2023, the SEC reopened the comment period for its proposed amendments to modernize the rules governing beneficial ownership reporting. The proposal, originally published on March 20, 2022, would accelerate the filing deadlines for Schedule 13D and Schedule 13G beneficial ownership reports; expand the application of Regulation 13D-G to certain derivative securities; clarify the circumstances under which two or more persons have formed a “group” that would be subject to beneficial ownership reporting obligations; and require that Schedule 13D and Schedule 13G be filed using a structured, machine-readable data language. In conjunction with this announcement, the SEC released a memorandum from the Division of Economic and Risk Analysis that provides supplemental data and analysis related to the proposed amendments’ economic effects.

Comments were due June 27, 2023.

Reopened comment period for exchange and alternative trading systems definitions

On April 14, 2023, the SEC provided supplemental information and reopened the comment period on its January 2022 proposed amendments to the definitions of exchange and alternative trading systems.

Comments were due June 13, 2023.

Regulatory agenda

On June 13, 2023, the Office of Information and Regulatory Affairs released the SEC's spring 2023 regulatory agenda, which lists 18 proposed rules and 37 rules in the final stage. They address the SEC's three-part mission of protecting investors; maintaining fair, orderly, and efficient markets; and facilitating capital formation. This agenda provides estimates on timing and identifies October 2023 as the next date for action on climate change disclosure and cybersecurity, although this date is only an estimate and may change.

Leadership updates

Deputy director for legal and regulatory policy

The SEC on May 19, 2023, named Mellissa Campbell Duru as the new deputy director for legal and regulatory policy in the Division of Corporation Finance (Corp Fin). Most recently, Duru was a special counsel at Covington & Burling LLP, where she worked in the securities and capital markets practice and served as a vice chair of the firm's environmental, social, and governance practice. Prior to that, Duru spent more than 15 years in various SEC roles.

From the PCAOB

Annual report

2022 annual report

The PCAOB published its “2022 Annual Report” on April 5, 2023. The report summarizes the PCAOB’s operations and financial results for fiscal year 2022 and highlights accomplishments and developments for the year for each of the PCAOB’s four strategic goals. These goals include modernizing standards, enhancing inspections, strengthening enforcement, and improving organizational effectiveness. Additionally, the report includes audited financial statements, a financial review, and management’s report on internal control over financial reporting.

Standard-setting

Agenda and rulemaking projects

On May 16, 2023, the PCAOB staff released a revised standard-setting agenda. On the updated agenda, the performance metrics and substantive analytical procedures projects were moved and identified as short-term (less than 12 months) action projects, and two projects were added to the midterm (greater than 12 months) category. The new midterm projects are on use of a service organization and interim financial information reviews. Additionally, the PCAOB announced four new rulemaking projects aimed at protecting investors. They will consider how PCAOB rules could be enhanced for firm reporting and transparency, contributory liability, follow-on disciplinary proceedings, and registration.

Both the standard-setting projects and proposed PCAOB rule changes will be subject to a public notice and comment process.

Auditor responsibility when using technology-assisted analysis

On June 26, 2023, the PCAOB issued for public comment a proposal that would clarify the auditor's responsibilities when using technology to analyze electronic data.

Comments are due Aug. 28, 2023.

Noncompliance with laws and regulations

On June 6, 2023, the PCAOB issued for public comment a proposal that would amend PCAOB auditing standards related to the auditor's responsibility for considering a company's noncompliance with laws and regulations, including fraud. The proposal is intended to strengthen and enhance auditor requirements to identify, evaluate, and communicate possible or actual noncompliance, explicitly including fraud within the definition of noncompliance with laws and regulations.

Among other changes, the proposal would:

- Expand the auditor's obligation to plan and perform audit procedures to identify laws and regulations with which noncompliance could reasonably have a material effect on the financial statements, assess and respond to risks of material misstatement of the financial statements due to that noncompliance, and identify information that might indicate such noncompliance has or may have occurred
- Change the auditor's procedures to increase understanding of the company, enhance the auditor's risk assessment procedures related to a company's noncompliance with laws and regulations, and improve identification of noncompliance
- Improve the requirements related to evaluating the timeliness and appropriateness of management's remedial actions
- Clarify and expand the auditor's requirements to communicate to management and the audit committee information indicating whether noncompliance has or may have occurred, including results of the auditor's evaluation

Comments are due Aug. 7, 2023.

Responsibilities of the auditor in conducting an audit

The PCAOB on April 17, 2023, alerted interested stakeholders of the opportunity to comment on its proposed standard, AS1000, "General Responsibilities of the Auditor in Conducting an Audit," which was issued on March 28, 2023. The proposed standard will replace certain interim standards with a unified one that addresses the general principles and responsibilities of an auditor working under PCAOB standards.

Investor Advisory Group meeting

On June 7, 2023, the PCAOB's Investor Advisory Group met to discuss various topics including a standards-setting update, critical audit matters, fraud, and recommendations from the inspections and data transparency subcommittee. A recording of the meeting can be viewed at the PCAOB website.

Professional competence and skepticism

Spotlight on professional competence and skepticism

On April 25, 2023, the PCAOB issued "Spotlight: Professional Competence and Skepticism Are Essential to Quality Audits." The PCAOB staff reminds auditors to critically assess the audit firm's capabilities, obtain a proper understanding of the company they are auditing, and perform their work with due professional care and skepticism, in several specific phases of an audit engagement:

- Client acceptance or continuance
- Audit planning
- Identifying and assessing risks of material misstatement
- Performing the work with due professional care
- Evaluating the results of the audit

The publication says, "the application of professional skepticism – an attitude that includes a questioning mind – is critical to planning and performing high quality audits and ensuring investors are protected. … [A]uditors should have the necessary industry expertise and knowledge of the companies they audit" in order to apply professional skepticism effectively.

Inspections

Observations related to crypto assets

The PCAOB, on June 14, 2023, released a new staff report, "Inspection Observations Related to Public Company Audits Involving Crypto Assets," based on observations gathered during inspections from the past two years. The report says, "the use of crypto assets presents unique audit risks to public companies and broker-dealers and requires an appropriate risk assessment and audit response by audit firms."

The PCAOB has identified common audit deficiencies related to auditor's procedures over crypto assets for the following areas:

- Fraud and significant unusual transactions
- Ownership of crypto assets
- Relevance and reliability of information used as audit evidence
- Revenue recognition in crypto asset transfer
- Arrangements with mining pool operators

The report also identifies good practices, such as use of consultations, subject-matter specialists, and technology-based tools, that have been implemented by some audit firms that may add to the audit quality. Furthermore, the report details reminders for auditors regarding client acceptance and retention evaluation, IT infrastructure, consideration of fraud, related parties, evaluation of the presentation of the financial statements, and critical audit matters.

Enhanced inspection reports

The PCAOB on May 2, 2023, announced enhancements to its inspection reports, effective immediately. The enhancements include a new section on auditor independence, more information related to fraud procedures and the identification and assessment of the risks of material misstatements, more commentary, and new graphs. These changes are designed to increase transparency and to provide more information that is relevant, reliable, and useful for investors and stakeholders.

2023 inspection priorities

On April 17, 2023, the PCAOB issued "Spotlight: Staff Priorities for 2023 Inspections."

The PCAOB's 2023 inspection plan primarily reviews 2022 fiscal year-end audits. Some audits are selected randomly, while some are chosen based on risk. Inspections will focus on audit engagements with risks related to digital assets, first-year audits, multilocation audits, and significant or unusual events or transactions. Inspection priorities also include:

- Risk of fraud
- Auditing and accounting risks for certain financial statement focus areas
- Risk assessment and internal controls
- Use of the work of other auditors
- Quality control (including independence)
- Critical audit matters
- Cybersecurity
- Use of data and technology

The inspection priorities include specific considerations related to broker-dealers and financial services entities, as well as public companies engaging in M&A activities. For financial services entities, emphasis will be on audit areas that are particularly sensitive to risks related to interest rates, inflation, and uncertainty and volatility in the digital assets markets. In addition, inspectors will increase the number of audits they review for certain annually reviewed firms.

From the CAQ

Spring 2023 audit partner survey

On May 19, 2023, the CAQ published its spring 2023 "Audit Partner Pulse Survey" results. The survey asked audit partners at the leading public company audit firms about what they are observing in the industries they audit related to economic health indicators, challenges and risks facing businesses within their sectors, and how those businesses are adjusting their strategies in the current environment. Also, the survey provides insight into audit partner perspectives on emerging opportunities and risks, including artificial intelligence, digital assets, and talent shortage.

Highlights from this survey's results include:

- Audit partners are pessimistic about the outlook for the U.S. economy as U.S. businesses continue to face inflation, cybersecurity risks, and increased regulation.
- Organizations are prioritizing cost management and financial performance over other areas such as talent and labor.
- Attracting new talent is no longer a focus as concerns over labor shortages decrease and U.S. businesses are reducing head counts.
- Cybersecurity remains a top risk at U.S. organizations, and organizations remain only moderately prepared for a cyberattack.
- Nearly half (47%) of U.S. businesses are already using artificial intelligence to some extent for process automation, customer experience, service and support, and predictive analysis.
- U.S. businesses were "greatly to somewhat" affected by the accountant shortage, and financial services and technology businesses were more likely to report organizations in their industry sector as being affected compared to other industries.

From the GASB

Final standards

Implementation guidance update

On July 10, 2023, the GASB issued "Implementation Guidance Update – 2023" to clarify, explain, or elaborate on certain GASB pronouncements. The guide includes 10 new questions and answers to address application of existing GASB standards covering various topics including the following:

- Leases (1-6)
- Subscription-based information technology arrangements (7-9)
- Accounting changes and error corrections (10)

In addition, the guide also amends a previously issued leases-related question and answer from Implementation Guide 2019-3.

Effective dates

The requirements of this implementation guide are effective as follows:

- Questions 4.1-4.9 and 5.1 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.
- Question 4.10 should be applied simultaneously with the requirements of GASB Statement No. 100, which are effective for accounting changes made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Early application is encouraged for guidance related to standards that already have been implemented.

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**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end PBEs	Early adoption
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**
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**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end 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.	**March 31, 2024**	**Permitted, including in an interim period**
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.**

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**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-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.	**Dec. 31, 2024**	**Permitted, including in an interim period when amendments in ASU 2017-12 have been adopted**
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.**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
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**
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.**

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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