Quarterly Outlook

March 2022

The Russia-Ukraine war could impact preparers, and ESG developments continue at pace.

This Quarterly Outlook summarizes these matters and others that could affect your company in the current quarter or near term.

US GAAP

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As we reach a hopeful turning point in the pandemic, yet another global event – the Russia-Ukraine war and other nations' responses to it – is disrupting US and international economies, financial markets and an already aggravated supply chain. Companies affected by the war or related events must consider the potential implications on their business operations and financial reporting.

Meanwhile, ESG remains top of mind for regulators, standard-setters and investors – both in the US and abroad. However, the SEC has also been busy tackling other projects on its rulemaking agenda under new SEC Chair Gary Gensler. 2022 has already featured an array of proposals focused on enhanced transparency for investors, including a series of changes to the rules that regulate the private fund industry.

The FASB has overhauled its research agenda with rapidly advancing issues like accounting for digital assets (e.g. cryptocurrencies) and financial instruments with ESG-linked features. The FASB will need to agree on which of these issues to consider for potential standard setting. The FASB is also planning various amendments to its credit losses standard and is likely to extend the sunset date of its reference rate reform guidance to 2024.

Lastly, calendar year-end private entities were required to adopt the leases standard (Topic 842) on January 1, 2022. There are several lessons private entities can learn about adopting Topic 842 from public companies.

Our Quarterly Outlook summarizes these accounting and financial reporting developments and others potentially affecting your company in the current period or near term.

Contents

1 Current quarter financial reporting matters

Russia-Ukraine war – Accounting and financial reporting considerations

Russia's invasion of Ukraine and other nations' responses to the ensuing Russia-Ukraine war (e.g. in the form of sanctions on the Russian government and companies) may have a financial reporting impact on companies reporting under US GAAP with operations in Ukraine or Russia.

Other companies may also be affected if they have significant customers or suppliers in those countries, and financial institutions that hold Russian or Ukrainian sovereign debt may see those investments adversely affected. Also, a wide cross-section of companies may be affected by disruptions in the pricing and/or supply of energy and other commodities, and by other downstream impacts.

Impacted companies must consider the potential implications of the war and related economic effects on their business operations and financial reporting. Below we outline some of those potential accounting and financial reporting issues, which are not limited to the current reporting period. Our Hot Topic addresses each of these items, and others, in greater detail.

— **Subsequent events.** The war is a subsequent event for companies that had not yet issued their financial statements on February 24, 2022 for reporting periods ending before that date. Many events related to the war, like the imposition of economic sanctions against Russia and the destruction of property in Ukraine, are also subsequent events.

  For December 31, 2021 financial statements, the war and related events likely are nonrecognized subsequent events because they do not relate to conditions that existed at the balance sheet date. However, there may have been existing conditions at a previous balance sheet date that were further impacted by the war and related events. A company should evaluate the facts and circumstances to determine whether the subsequent events provide additional evidence about existing conditions at the balance sheet date and therefore require recognition.

— **Risks and uncertainties.** Topic 275 requires disclosure of risks and uncertainties that could significantly affect the amount reported in the financial statements in the near term. The war and related events may require companies to add or revise these disclosures to discuss significant near-term effects. These disclosures are incremental to the disclosure requirements about going concern and include disclosures about certain estimates and significant concentrations in the company's operations.

— **Unusual items.** The war and related events may represent unusual items for some companies. Subtopic 220-20 (income statement – reporting comprehensive income) is silent on how to determine which losses and costs are attributable to unusual items so judgment is needed to make that determination. We believe that a reasonable approach is to include in unusual items direct and incremental effects associated with these events (e.g. property damage, and incremental operating expenses for staff security and evacuation). Normal recurring expenses that would be incurred regardless of the war and related events are typically not direct and incremental. Unusual items need to be separately presented in the income statement or in the notes to the financial statements.

— **Long-lived assets, goodwill and indefinite-lived intangibles.** Russia's invasion of Ukraine and the resulting sanctions that many nations have placed on the Russian government and companies may give rise to one or more impairment triggering events. Assets that are evaluated for impairment if a triggering event occurs include long-lived assets (e.g. property, plant and equipment, including assets leased by lessors under operating leases; finite-lived intangible assets; and lease right-of-use assets), goodwill and indefinite-lived intangible assets.

— **Abandonment and idling of long-lived assets**. Companies may have abandoned, or plan to abandon, long-lived assets or operations in either Ukraine or Russia. When a company commits to a plan to abandon a long-lived asset, it accelerates depreciation (or amortization) of the asset from the date of that commitment so that it is depreciated (amortized) to its salvage value (which may be $0) by the date the company will cease use of it.

  A long-lived asset is not abandoned if it is only temporarily idled. Although temporary idling may trigger an impairment evaluation of that asset, a company does not stop depreciating (amortizing) the asset or recognizing lease cost while the asset is idle.

— **Insurance recoveries.** Companies should carefully review their insurance policies (e.g. property and casualty, general liability and business interruption), understand what losses are specifically excluded and evaluate whether claims will qualify for recovery. Insurance recoveries are only recognized in earnings if certain criteria are met. Insurance recoveries in excess of the costs and losses recognized in earnings are contingent gains, which are recognized when settled.

— **Financial instruments.** The war and related events may have a significant impact on a company's accounting for financial instruments, including fair value measurements (e.g. a decrease in market activity), financial guarantees (e.g. estimates of contingent losses), hedge accounting relationships, debt arrangements (e.g. ability to service debt or maintain compliance with debt covenants), and potential impairment of financial instruments.

— **Revenue recognition.** The war and related events could create uncertainty for revenue transactions with customers resulting from changes in forecasts driven by supply chain and production disruptions, workforce restrictions and travel restrictions. Companies may also apply certain aspects of the revenue recognition guidance that they had not, or had less frequently, applied in the past – e.g. export and import controls that impact revenue recognition.

SEC issuers should also consider:

— the adequacy of disclosures about risks and uncertainties in MD&A and other items in periodic filings;

— potential delays in receiving financial data necessary for preparing the consolidated financial statements;

— whether internal control over financial reporting (ICFR) has been impacted and, if so, what disclosures they should make about material changes in ICFR; and

— whether they anticipate filings delays due to the war and related events, in which case they should contact the SEC staff directly to discuss their facts and circumstances.

The Russia-Ukraine war and related events and economic effects continue to evolve rapidly. Companies should continue to monitor the situation and are encouraged to maintain close communication with their board of directors, external auditors, legal counsel and other service providers.

KPMG resources: Hot Topic

ESG reporting: Building demand and emerging regulation

In this article, we outline our pick of ESG (environmental, social, governance) news ahead of anticipated proposals and look at relevant international developments.

SEC developments

Forthcoming proposals

The SEC's rulemaking agenda includes disclosure proposals related to climate change, human capital, board diversity and cybersecurity risk governance. As we go to press, the SEC has just issued proposals on cybersecurity risk management, strategy and governance and incident disclosures. Proposals on climate change are imminent, and in recent remarks, SEC Chair Gensler emphasized the importance of climate risk disclosures that are consistent, comparable and specific to the registrant. He also reiterated that the SEC is considering whether such disclosures should be included in Form 10-K.

Institutional investors and others continue to advance the arguments for climate-related disclosures, expressing considerable support for the disclosure framework of the Task Force on Climate-related Financial Disclosures (TCFD), and optimism about the work of the International Sustainability Standards Board (ISSB).

Climate-related comment letters

In September 2021, the SEC staff published an illustrative comment letter with example questions posed to companies about their climate-related disclosures in filings. To date, correspondence with more than a dozen companies has been made publicly available. The first round of comments largely conformed to the illustrative comment letter. Follow-up questions – e.g. asking companies to explain their assessment of materiality in more depth – were sent in a majority of cases.

FASB developments

In December 2021, in response to feedback on its agenda consultation, the FASB added two ESG-related projects to its research agenda: financial instruments with ESG-linked features (e.g. sustainability-linked bonds) and regulatory credits (e.g. renewable energy credits). The FASB will continue to address agenda prioritization at future meetings.

ISSB latest

With its Chair and Vice-Chair in place, the IFRS Foundation has shifted its focus to appointing the 12 remaining ISSB board members. The ISSB's first exposure drafts are expected shortly, but the full board needs to be in place (expected Q3 2022) before final standards can be issued.

The prototypes issued as a forerunner to the exposure drafts were based heavily on the TCFD framework and the standards of the Sustainability Accounting Standards Board (SASB). This fact and public comments by SEC Chair Gensler and Commissioner Allison Herren Lee are driving an expectation that the TCFD framework will inevitably influence the eventual disclosures of both the SEC and the ISSB. Based on our discussions with preparers, a key concern for US companies is whether they will need to comply with multiple sets of disclosures.

EU developments

Current sustainability disclosures in the EU (i.e. the Non-Financial Reporting Directive (NFRD) and, beginning in 2022, the EU Taxonomy) apply to listed companies, banks and insurance companies that have over 500 employees.

This scope is set to expand under the proposed Corporate Sustainability Reporting Directive (CSRD) to eventually cover EU-listed companies, plus any company that meets two of the following criteria: over 250 employees, over €40M in turnover (revenue), or over €20M in total assets.

Proposed CSRD

The proposed CSRD would expand not just the number of companies in its scope (see above), but also the nature of the sustainability disclosures required. Companies already subject to the NFRD would commence reporting under the CSRD for the 2024 reporting period; other 'large' companies would commence reporting for the 2025 reporting period. Initially, limited assurance would be required, moving to reasonable assurance six years after the CSRD becomes effective.

The proposals apply to all companies operating in the EU (including US companies), and their subsidiaries, that meet the scoping requirements. Therefore, even if a US company already completes some form of sustainability reporting under another framework, it may still have to comply with the CSRD.

Importantly, the scope of the disclosures would be more extensive than the expected proposals from the SEC and the ISSB. In particular, the concept of materiality under the proposed CSRD considers not just issues that are financially material to the company, but also those that are material to the company's impact on society and the environment (so-called double materiality).

EU Taxonomy

Starting in 2022, EU companies in the scope of the existing NFRD need to disclose the proportions of capital expenditure, operating expenditure and turnover that relate to predefined economic activities that qualify as environmentally sustainable. Starting in 2023, most companies will also have to report the proportions for certain eligible activities that are aligned with this taxonomy. Companies in the scope of the proposed CSRD would also have to comply with the EU Taxonomy.

ESG resources:

— Defining Issues: Proposed EU Directive would impact US companies
— ESG materials curated for financial reporting professionals: KPMG Financial Reporting View
— Insights specific to measuring, reporting and assuring ESG data: KPMG ESG Assurance
— Our holistic ESG solution helps your business create a more sustainable future while driving measurable growth today: KPMG IMPACT

SEC focuses on enhanced transparency

The SEC has been busy tackling its rulemaking agenda under SEC Chair Gensler. 2022 has already featured an array of proposals focused on enhanced transparency for investors, including a series of changes to the rules that regulate the private fund industry.

SEC reopened comment period on pay versus performance proposal

The SEC had reopened the comment period on a 2015 proposal that would require listed companies to disclose the relationship between executive compensation and the registrant's financial performance. The SEC staff sought incremental feedback on the original proposal and on what measures of financial performance to include in the proposed disclosure requirements (e.g. pre-tax net income, net income, a company-selected measure, and/or others).

The reopened comment period ended March 4.

KPMG resources: Web article

SEC proposes disclosures on share repurchases and insider trading

The SEC issued a proposed rule that would require issuers to furnish certain information related to share repurchases on newly created Form SR within one business day after a repurchase transaction. The proposal would also enhance share repurchase disclosures in periodic reports (e.g. Forms 10-K and 10-Q).

Separately, the SEC issued a proposed rule that would strengthen disclosure requirements and investor protections related to insider trading policies, share-based compensation grants before the release of material nonpublic information, and changes to trading arrangements by directors and officers.

The comment periods end April 1.

KPMG resources: Web articles on share repurchases and insider trading

SEC proposes sweeping changes for the private funds industry

The SEC has proposed a series of new and amended rules concerning regulating private fund investment advisers and the funds that they advise. The proposals intend to better protect private fund investors by increasing transparency, competition and efficiency in a rapidly growing market that now represents about $18 trillion. Collectively, these proposals would have a significant effect on the compliance efforts of private funds and their registered investment advisers and would enhance the SEC's oversight of those entities.

Enhanced investor protections

The SEC issued proposed rules and amendments to enhance the regulation of private fund advisers. Among the proposals, registered private fund advisers would be required to:

- provide investors with quarterly statements detailing information about fund performance, fees and expenses;
- obtain an annual audit for each private fund that they advise and require the fund's auditor to notify the SEC upon certain events; and
- obtain a fairness opinion from an independent opinion provider in connection with an adviser-led secondary transaction.

In addition, the proposals would prohibit all private fund advisers, including those that are not registered with the SEC, from:

— engaging in certain activities and practices that the SEC considers to be contrary to the public interest and protecting investors; and

— providing certain forms of preferential treatment that have a material negative effect on other investors, while prohibiting all other types of preferential treatment unless disclosed to current and prospective investors.

Further, the proposals would require all registered fund advisers, including those that do not advise private funds, to document the annual review of their compliance policies and procedures in writing.

Cybersecurity risk management

The SEC issued proposed rules and amendments to promote cybersecurity preparedness and resilience for registered investment advisers and funds. The proposals would require advisers and funds to develop and evaluate written policies and procedures 'reasonably' designed to address cybersecurity risks and certain general elements; report significant cybersecurity incidents to the SEC; and enhance adviser and fund disclosures of cybersecurity risks and incidents.

The comment periods for the 'enhanced investor protections' and 'cybersecurity' proposals end April 11 or 30 days after publication in the Federal Register, whichever is later.

Proposed amendments to Form PF

The SEC issued proposed amendments to Form PF, a confidential reporting form for certain registered investment advisers of private funds. Among other things, the proposals would enhance the ability of the SEC and Financial Stability Oversight Council (FSOC) to monitor for activities that may pose systemic risk to investors and the markets more broadly and require advisers to file reports within one business day of certain events occurring.

The comment period for the 'Form PF' proposals ends March 21.

KPMG resources: Web articles on enhanced investor protections, cybersecurity and Form PF

Private entities adopt the leases standard

Calendar year-end private entities were required to adopt Topic 842 on January 1, 2022. Non-calendar year-end private entities are required to adopt on the first day of their fiscal year beginning after January 1, 2022 (e.g. April 1, 2022 for a private entity with a March 31 year-end). Because many private entities will not produce their fiscal year 2022 financial statements until 2023 and the standard does not apply to interim periods until 2023, they are still making strides toward adoption.

Meanwhile, many private entities remain focused on finalizing their 2021 financial reporting, including an emphasis on their final Topic 840 reporting and disclosures. Because of how transition works under Topic 842, the contracts and amounts underlying an entity's final Topic 840 lease accounting and disclosures will generally serve as the basis for the transition accounting to Topic 842. A private entity with complete and accurate Topic 840 reporting will find that its path to Topic 842 adoption is clearer, shorter and simpler.

As the 2021 reporting season concludes, private entities should be quickly shifting their attention to adopting Topic 842, because public company experience indicated that the costs and time to implement Topic 842 may be significantly more than anticipated.

Below we highlight important disclosure, initial measurement and other reminders to assist private entities in their transition efforts.

Disclosure requirements

Private entities that elect the modified retrospective transition option must include in the financial statements in the year of adoption all of their final lease disclosures under Topic 840. This includes the final Topic 840 disclosures of future operating and capital lease commitments prepared as of the last balance sheet before applying Topic 842 (e.g. December 31, 2021 for a calendar year-end private entity).

Initial measurement

Regardless of whether a lessee elects the package of practical expedients or only the 'use-of-hindsight' practical expedient, lease liabilities for existing leases (i.e. leases that commence before the lessee's date of adoption) are measured at the present value of the sum of:

- the remaining 'minimum rental payments' (as defined under Topic 840); and
- amounts probable of being owed by the lessee under a residual value guarantee.

The minimum rental payments for a lease under Topic 840 include those payments due over the accounting 'lease term', which may extend beyond the non-cancellable period of the lease.

A lessee that does not elect the use-of-hindsight practical expedient does not reassess the lease term when transitioning to Topic 842. The lessee continues to use the lease term determined under Topic 840 (assuming it was appropriately determined) when measuring the remaining minimum rental payments.

A lessee electing the use-of-hindsight practical expedient reassesses the lease term as of the initial application date under Topic 842. In doing so, the lessee considers all economic factors relevant to that assessment as of the effective date, including contract-based, asset-based, market-based and entity-based factors.

Common implementation challenges

Private entities will benefit from considering the adoption lessons learned by public companies and prioritizing their efforts accordingly. Commonly identified implementation challenges include:

- identifying all of the entity's leases, including embedded leases;
- abstracting the lease data necessary to account for leases under Topic 842 and make the required disclosures; and
- determining the discount rate for lessee leases (which may be partially, or even substantially, mitigated for private entities that elect to use the 'risk-free discount rate' practical expedient for most or all their leases).

KPMG resources. KPMG has several Topic 842 resources, including KPMG Handbook: Leases and a suite of Hot Topics that target common implementation challenges.

LIBOR's wind down has started

As of December 31, 2021, several LIBOR settings were discontinued, but some of the settings most widely used in the US will continue to be published until June 30, 2023. Topic 848 (reference rate reform) provides companies with optional guidance to ease the potential accounting burden associated with transitioning away from LIBOR.

Certain LIBOR settings are no longer published

ICE Benchmark Administration Limited (IBA, LIBOR's administrator) has taken the following actions.

Action	Relevant settings
Ceased publishing certain LIBOR settings after December 31, 2021.	1-week and 2-month USD LIBOR settings (these are two lesser-used USD LIBOR settings) and all GBP, EUR, CHF and JPY LIBOR settings.
Began publishing 'synthetic' LIBOR[1] for certain settings with effect from January 1, 2022; IBA is required to publish these settings through 2022.	1-, 3- and 6-month GBP and JPY LIBOR.
Announced in March 2021 that it intends to stop publishing the remaining LIBOR settings after June 30, 2023.	Overnight, 1-month, 3-month, 6-month and 12-month USD LIBOR settings; these are the major USD LIBOR settings.

FASB likely to extend Topic 848 sunset date

The FASB has decided to issue a proposed ASU that would defer the sunset date of Topic 848 by two years to December 31, 2024. The deferral would be effective immediately on issuance of a final ASU.

The proposed ASU is expected Q2 2022. The comment period would end 45 days after the ASU is issued.

PCAOB to form two new advisory groups

The Public Company Accounting Oversight Board (PCAOB) announced that it will form two new advisory groups to provide input and insights from investors and other stakeholders on matters related to improving audit quality.

— **Investor Advisory Group** – will advise the Board on matters concerning the PCAOB's mission to oversee the audits of public companies and broker-dealers, to protect the interests of investors and to further the public interest in preparing informative, accurate and independent audit reports.

— **Standards and Emerging Issues Advisory Group** – will replace the Standards Advisory Group created in early 2021 and advise the Board on existing standards, proposed standards, and potential new standards. If requested by the Board, it will also advise on other matters that are significant to the Board, such as emerging audit issues.

1 Synthetic LIBOR is not based on information contributed by banks. Instead, it is based on forward-looking term rates plus a fixed spread.

The PCAOB sought (1) comment on the proposed structure of each of the two new advisory groups and (2) nominations for membership in each group. The comment and nomination period ended February 28.

Standards effective in 2022

In the first quarter of 2022, calendar year-end public companies must adopt the following standards.

— **Disclosures for business entities receiving government assistance (ASU 2021-10)** establishes new Codification Topic 832 and requires business entities to disclose information about certain government assistance that they receive. Entities must comply with the new disclosure requirements if they account for transactions with government entities under the (1) contribution model (e.g. Subtopic 958-606) or (2) grant model (e.g. IAS 20) by analogy.

— **Lessors—Certain leases with variable lease payments (ASU 2021-05)** requires lessors to classify as operating leases those leases with variable lease payments that do not depend on an index or rate if another classification (i.e. sales-type or direct financing) would result in a commencement date ('day 1') selling loss.

— **Warrant modifications (ASU 2021-04)** clarifies an issuer's accounting for certain modifications or exchanges of freestanding equity-classified written call options (e.g. warrants) that remain equity-classified after modification or exchange.

— **Convertible debt and contracts in own equity (ASU 2020-06):**

  - reduces the number of accounting models for convertible instruments;
  - makes targeted changes to the disclosure requirements for convertible instruments;
  - removes some of the conditions that preclude a freestanding contract from being classified in equity (or preclude an embedded derivative from meeting the derivative scope exception); and
  - simplifies the earnings per share calculation for convertible instruments.

The Appendix: Accounting standards effective dates provides a complete list of accounting standards that companies are required to adopt in 2022 and beyond.

2

New standards and guidance

Forthcoming credit losses amendments

A forthcoming ASU would make various changes to US GAAP primarily relating to loan modifications and disclosures and would apply only to entities that have adopted Topic 326 (credit losses). Of note, the ASU would:

- eliminate troubled debt restructuring recognition and measurement guidance for creditors;
- enhance the disclosures required for loan modifications that result in a direct change in the timing or amount of contractual cash flows to borrowers experiencing financial difficulty; and
- require public business entities to disclose current-period gross writeoffs by year of origination for the related financing receivables and net investments in leases.

The proposed effective dates are as follows.

	Entities that have adopted Topic 326 (ASU 2016-13)	Entities that have not adopted Topic 326 (ASU 2016-13)
Annual periods – Fiscal years beginning after	December 15, 2022	Adopt when the entity adopts Topic 326.
Interim periods – Fiscal years beginning after	December 15, 2022	
Early application permitted?	Yes, including adoption in an interim period, as of the beginning of the fiscal year of adoption.	

Forthcoming clarifications for hedge accounting – portfolio layer method

A forthcoming ASU would allow entities to achieve fair value hedging for all financial assets, or one or more beneficial interests secured by a portfolio of financial instruments in a closed portfolio, using the portfolio layer method. The primary amendments would:

- expand the applicability of the portfolio layer method to include prepayable and nonprepayable financial assets;
- expand the current single-layer model to allow multiple-layer hedges of a single closed portfolio;
- clarify how the similar-asset assessment for a portfolio layer method hedge is applied;
- clarify that fair value basis adjustments are maintained at the closed-portfolio level (i.e. not allocated to individual assets); and
- prohibit an entity from considering fair value basis adjustments related to a portfolio layer method hedge when estimating credit losses.

The proposed effective dates are as follows.

	Public business entities	Other entities
Annual periods – Fiscal years beginning after	December 15, 2022	December 15, 2023
Interim periods – Fiscal years beginning after	December 15, 2022	December 15, 2023
Early application permitted?	Yes, on any date on or after the issuance of the ASU for any entity that has adopted the amendments in ASU 2017-12.	

3

Projects and agenda priorities

FASB agenda consultation propels its research agenda

In June 2021, the FASB issued its Invitation to Comment, Agenda Consultation (ITC). The comment period ended in September with more than 500 comment letters submitted. At a December 2021 meeting, the FASB staff summarized the feedback received on the ITC and discussed next steps with the Board.

In considering the results of the ITC, FASB Chair Rich Jones announced comprehensive changes to the FASB *research* agenda, which currently comprises the following projects.

— **Accounting for exchange-traded digital assets and commodities** – to explore accounting for and disclosure of a subset of exchange-traded digital assets (e.g. cryptocurrencies like bitcoin and ether) and commodities.

— **Accounting for and disclosure of intangibles** – to consider potential ways to improve the accounting for and disclosure of intangibles, including software costs, internally developed intangibles, and research and development.

— **Accounting for financial instruments with ESG-linked features and regulatory credits** – to explore the accounting and disclosure for those instruments.

— **Accounting for government grants** – to solicit feedback on whether the requirements in IAS 20 (government assistance) should be incorporated into US GAAP.

— **Hedge accounting Phase 2** – to seek stakeholder feedback that could further align hedge accounting with risk management activities beyond the targeted improvements made to the hedge accounting model in ASU 2017-12, and to consider changes to the definition of a derivative.

— **Agenda consultation** – to solicit feedback about the financial reporting issues that the Board should consider adding to its agenda and the priority of those issues on a rolling basis.

The FASB met in February to discuss the ITC feedback it received on its *current* technical agenda project on disaggregation – income statement expenses (formerly 'financial performance reporting – disaggregation of performance information'). The Board decided to revise the project objective and scope and instructed the staff to begin (1) research on the disaggregation of certain expense captions and (2) initial deliberations.

Also in February, SEC Acting Chief Accountant Paul Munter issued a statement on the FASB's agenda consultation, stressing the importance of stakeholder engagement in the FASB's standard-setting process. Munter also expressed general support for the FASB's decision to add certain areas of frequent comment to its research agenda, and specifically commented on (1) disaggregation - income statement expenses, (2) climate-related transactions and disclosures, and (3) digital assets.

At future meetings, the FASB will continue to discuss agenda prioritization and determine which of the research agenda topics to add to the technical agenda, and whether to redefine or remove current projects based on the ITC feedback.

FASB proposes supplier finance program disclosures

The FASB has issued a proposed ASU that would require an entity to disclose information about supplier finance programs. A supplier finance program is an arrangement in which an entity (i.e. the buyer of goods or services) enters into an agreement with a finance provider or an intermediary to settle the buyer's obligations with suppliers. These arrangements are also referred to as reverse factoring, payables finance or structured payables arrangements.

Stakeholders have stated that the lack of specific US GAAP disclosure requirements results in decreased transparency about these programs. The proposed ASU would require a buyer to disclose information that is sufficient to allow users to understand the nature of the arrangement, activity during the period, changes from period-to-period and the potential magnitude of its supplier finance programs. It would neither affect the recognition, measurement or financial statement presentation of the programs, nor affect the accounting and disclosure for other parties in supplier finance programs.

The comment period ends March 21.

KPMG resources: Defining Issues

New Conceptual Framework chapters

In December 2021, the FASB issued two new chapters of its Conceptual Framework that address financial statement elements and presentation.[2]

— **Chapter 4, Elements of financial statements** – defines financial statement elements to be applied in developing standards for business and not-for-profit entities. Chapter 4 supersedes Concepts Statement No. 6, Elements of financial statements.

— **Chapter 7, Presentation** – identifies factors for the Board to consider when deciding how items should be displayed in the financial statements. Chapter 7 supersedes portions of Concepts Statement No. 5, Recognition and measurement in financial statements of business enterprises.

December FASAC meeting

The Financial Accounting Standards Advisory Council (FASAC) met in December and primarily discussed disaggregation - income statement expenses, including feedback received on the topic from the FASB's 2021 agenda consultation. Members discussed which expense captions in the income statement require further disaggregation and various disaggregation approaches for those captions.

Investors and other financial statement users stressed that the best expense caption candidates for further disaggregation are (1) costs of goods sold and (2) selling, general and administrative expenses. Users in the financial services industry preferred further disaggregation of existing labor and occupancy expenses. Overall, users agreed that greater disaggregation would assist them in analyzing an entity's margins, forecasting future results and understanding the extent to which costs are fixed or variable.

[2] The Conceptual Framework, or FASB Statement of Financial Accounting Concepts No. 8, comprises a body of interrelated objectives and fundamentals that provides the FASB with a foundation for setting standards and concepts for it to use as tools for resolving accounting and reporting questions. A Statement of Financial Accounting Concepts is nonauthoritative and does not establish or change generally accepted accounting standards.

Most members supported the FASB pursuing greater disaggregation of the income statement through a principles-based approach versus a prescriptive approach – i.e. an approach that leverages quantitative thresholds to determine how (and to what extent) existing captions should be disaggregated. Some members suggested other approaches for the Board to consider, including a phased approach focused on one aspect of disaggregation at a time or developing standard definitions to help bridge the gap between a prescriptive and principles-based approach.

The next FASAC meeting is on March 31.

December PCC meeting

The Private Company Council (PCC) met in December and, among other things, discussed the following.

- **Profits interests and their interrelationship with partnership accounting.** The FASB staff updated the PCC on its research and outreach on determining the appropriate scope of the guidance on profits interests awards. PCC members also discussed the current diversity in practice, project objective and potential solutions if the project were to be added to the PCC's technical agenda. The FASB staff will (1) provide an analysis of the FASB agenda criteria for discussion at a future PCC technical agenda consultation group meeting and (2) present at a future PCC meeting, a summary of its research and outreach on the remaining project issues (i.e. determining whether implied performance conditions are present, classification as liabilities or equity, and measurement).
- **FASB 2021 agenda consultation.** The FASB staff provided a summary of the private-company specific feedback received on its agenda consultation. PCC members encouraged the Board to continue to simplify the language used in the Codification and to consider the private company decision-making framework and attributes specific to private companies when considering potential changes to the FASB technical agenda.
- **Share-based payment disclosures.** The PCC discussed disclosures required under Topic 718 (stock compensation) and shared its views on areas of potential private company relief from the related disclosure requirements. The PCC will consider whether to move forward on a project to further evaluate compensation disclosures.
- **Joint venture formations.** The FASB staff updated the PCC on the project, including measurement and recognition alternatives considered by the Board to account for joint venture formations in the venturers' separate financial statements. The FASB staff also provided details on applying a new basis of accounting by a newly formed joint venture. The PCC indicated overall support for the project.
- **Leases.** The FASB staff and PCC discussed the 2022 effective date of Topic 842 for private entities. The FASB staff also reminded stakeholders that it is available for implementation questions through the technical inquiry system. The PCC also suggested that the FASB host a webcast in 2022 on leases implementation for private companies.

The next PCC meeting is on April 22.

4 Recommended reading and CPE opportunities

ESG: The financial reporting implications

In a *CFO* article, KPMG Audit Vice Chair Scott Flynn and KPMG IMPACT Audit Leader Maura Hodge write that companies struggle to move from answering 'why' they will embed ESG into their strategy to 'how' they will make that happen and 'what' they will report in telling their story. Companies need to prepare now — before final regulations — so they can tell their own story instead of others telling it for them. Read the article.

Prioritizing the board's 2022 agenda

KPMG Board Leadership Leader John Rodi says: "The ability to quickly adapt to dramatic disruptions and dislocations has defined the survivors and thrivers", in an article for *Financial Executives International Daily*. Key issues for boards to consider in 2022 include: deepening the board's engagement in strategy, envisioning the future and overseeing human capital management. Read the article.

Prioritizing the audit committee's agenda for 2022

In an article for *Accounting Today*, KPMG Audit Committee Institution Leader Stephen Dabney writes that the issues competing for time on audit committees' 2022 agenda have become more complex and time-consuming. These issues include cybersecurity and IT risks, supply chain and other operational risks, legal and regulatory compliance, climate disclosures and environmental, and social and governance reporting. Read the article.

Upcoming CPE opportunities

KPMG Executive Education provides award-winning training for individuals and finance teams. Our robust catalog of CPE-eligible accounting and finance courses – delivered by industry and technical experts – covers a wide range of technical accounting, finance, business management, SEC reporting and MD&A topics.

Learning delivery methods include in-person, live virtual and digital self-study. Also available are customized, on-site CPE sessions; digital self-study subscriptions; and custom learning portals.

KPMG Financial Reporting View (FRV) offers additional CPE opportunities, including registration information for upcoming Financial Reporting webcasts. The webcasts feature KPMG professionals discussing current and future accounting and financial reporting matters, and guidance for implementing new accounting standards.

Appendix: Accounting standards effective dates

In this table:

A = annual periods

I = interim periods

* = Indicates a gap in ASU sequencing. ASUs excluded from this list are effective for all applicable entities, including entities with off-calendar year-ends.

☐ = If 'Complex effective date' is marked 'Yes', additional information is required to determine when the ASU is effective for your company. See the source ASU at FASB.org for complete effective date information. For certain ASUs, additional information is provided in the footnotes.

⮝ = Certain not-for-profit entities and employee benefit plans must adopt this ASU using the public company effective dates. For more information, refer to the source ASU at FASB.org.

Purple shading indicates that the **ASU is first effective in 2022 for a calendar year-end entity.**

The ASUs in this table are generally effective for A/I periods in fiscal years beginning on or after the dates provided.

Appendix: Accounting standards effective dates

ASU	Title	Topics	A/I	Public business entities: SEC filers *not* eligible to be an SRC	Public business entities: SEC filers eligible to be an SRC	Public business entities: Not an SEC filer	All other entities	Early adoption	Complex effective date	Resources
2021-10	Disclosures by business entities about government assistance	832	A	12/15/21	12/15/21	12/15/21	12/15/21[1]	Yes	No	Defining Issues
			I	N/A	N/A	N/A	N/A			
2021-09	Discount rate for lessees that are not public business entities	842	A	N/A	N/A	N/A	12/15/21	Yes	No	Defining Issues Handbook
			I	N/A	N/A	N/A	12/15/22			
2021-08	Accounting for contract assets and contract liabilities from contracts with customers	805	A	12/15/22	12/15/22	12/15/22	12/15/23	Yes	No	Defining Issues
			I	12/15/22	12/15/22	12/15/22	12/15/23			
2021-07	Determining the current price of an underlying share for equity-classified share-based awards	718	A	N/A	N/A	N/A	12/15/21	Yes	No	Defining Issues
			I	N/A	N/A	N/A	12/15/22			
2021-05*	Lessors—Certain leases with variable lease payments	842	A	12/15/21	12/15/21	12/15/21	12/15/21	Yes	No	Defining Issues Handbook
			I	12/15/21	12/15/21	12/15/21	12/15/22			
2021-04	Issuer's accounting for certain modifications or exchanges of free-standing equity-classified written call options	260 470-50 718 815-40	A	12/15/21	12/15/21	12/15/21	12/15/21	Yes	No	Defining Issues
			I	12/15/21	12/15/21	12/15/21	12/15/21			
2021-02	Revenue from contracts with customers: Practical expedient for franchisors	952-606	A	N/A	N/A	N/A	12/15/20	Yes	Yes[2]	Revenue for franchisors
			I	N/A	N/A	N/A	12/15/20			
2021-01*	Reference rate reform: Scope	848	A	1/7/21	1/7/21	1/7/21	1/7/21	N/A	Yes[3]	Defining Issues
			I	1/7/21	1/7/21	1/7/21	1/7/21			
2020-10*	Codification improvements	Various	A	12/15/20	12/15/20	12/15/20	12/15/21	Yes	No	Web article
			I	12/15/20	12/15/20	12/15/20	12/15/22			
2020-08*	Codification improvements to Subtopic 310-10, Receivables—Nonrefundable fees and other costs	310-20	A	12/15/20	12/15/20	12/15/20	12/15/21	No[4]	No	—
			I	12/15/20	12/15/20	12/15/20	12/15/22			

Appendix: Accounting standards effective dates

				Public business entities						
ASU	**Title**	**Topics**	**A/I**	**SEC filers *not* eligible to be an SRC**	**SEC filers eligible to be an SRC**	**Not an SEC filer**	**All other entities**	**Early adoption**	**Complex effective date**	**Resources**
2020-07	Presentation and disclosures by not-for-profit entities for contributed nonfinancial assets	958	A	N/A	N/A	N/A	6/15/21	Yes	No	Defining Issues
			I	N/A	N/A	N/A	6/15/22			
2020-06	Accounting for convertible instruments and contracts in an entity's own equity	470-20 815-40	A	12/15/21	12/15/23	12/15/23	12/15/23	Yes[5]	No	Defining Issues Handbook
			I	12/15/21	12/15/23	12/15/23	12/15/23			
2020-04*	Simplifying the effects of reference rate reform on financial reporting	848	A	3/12/20	3/12/20	3/12/20	3/12/20	N/A	Yes[6]	Defining Issues
			I	3/12/20	3/12/20	3/12/20	3/12/20			
2020-01*	Clarifying the Interactions between Topic 321, Topic 323 and Topic 815	321 323 815	A	12/15/20	12/15/20	12/15/20	12/15/21	Yes	No	Web article Defining Issues Handbook
			I	12/15/20	12/15/20	12/15/20	12/15/21			
2019-12	Simplifying the accounting for income taxes	740	A	12/15/20	12/15/20	12/15/20	12/15/21	Yes	No	Defining Issues Handbook
			I	12/15/20	12/15/20	12/15/20	12/15/22			
2019-11	Codification improvements to Topic 326, Financial instruments—Credit losses	326	A	12/15/19	12/15/22	12/15/22	12/15/22	Yes	Yes[7]	Web article Handbook
			I	12/15/19	12/15/22	12/15/22	12/15/22			
2019-05*	Credit losses – Targeted transition relief	326	A	12/15/19	12/15/22	12/15/22	12/15/22	Yes	Yes[7]	Web article Handbook
			I	12/15/19	12/15/22	12/15/22	12/15/22			
2019-04	Credit losses, derivatives and hedging, financial instruments – Codification improvements	326 815 825	A	12/15/19	12/15/22	12/15/22	12/15/22	Yes	Yes[8]	Defining Issues Handbook
			I	12/15/19	12/15/22	12/15/22	12/15/22			
2019-02*	Improvements to accounting for costs of films and license agreements for program materials	926-20 920-350	A	12/15/19	12/15/19	12/15/19	12/15/20	Yes	No	Defining Issues
			I	12/15/19	12/15/19	12/15/19	12/15/20			

Appendix: Accounting standards effective dates

ASU	Title	Topics	A/I	Public business entities				Early adoption	Complex effective date□	Resources
				SEC filers *not* eligible to be an SRC	SEC filers eligible to be an SRC	Not an SEC filer	All other entities			
2019-01^	Leases – Codification Improvements	842	A	12/15/19	12/15/19	12/15/19	12/15/21	Yes	Yes[9]	Defining Issues
			I	12/15/19	12/15/19	12/15/19	12/15/22			
2018-20^	Leases – Narrow-scope improvements for lessors	842	A	12/15/18	12/15/18	12/15/18	12/15/21	Yes	Yes[9,10]	Defining Issues Handbook
			I	12/15/18	12/15/18	12/15/18	12/15/22			
2018-19	Codification improvements to Topic 326, Financial instruments – Credit losses	326	A	12/15/19	12/15/22	12/15/22	12/15/22	Yes	No	Web article Handbook
			I	12/15/19	12/15/22	12/15/22	12/15/22			
2018-18	Collaborative arrangements – Clarifying the interaction between Topic 808 and Topic 606	606 808	A	12/15/19	12/15/19	12/15/19	12/15/20	Yes	No	Defining Issues
			I	12/15/19	12/15/19	12/15/19	12/15/21			
2018-17	Consolidation – Targeted improvements to related party guidance for variable interest entities	810	A	12/15/19	12/15/19	12/15/19	12/15/20	Yes	No	Defining Issues Handbook
			I	12/15/19	12/15/19	12/15/19	12/15/21			
2018-16	Inclusion of the SOFR OIS rate as a benchmark interest rate for hedge accounting purposes	815	A	12/15/18	12/15/18	12/15/18	12/15/20	Yes	Yes[11]	Web article
			I	12/15/18	12/15/18	12/15/18	12/15/21			
2018-15	Customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract	350-40	A	12/15/19	12/15/19	12/15/19	12/15/20	Yes	No	Hot Topic
			I	12/15/19	12/15/19	12/15/19	12/15/21			
2018-14	Disclosure framework – Changes to the disclosure requirements for defined benefit plans	715-20	A	12/15/19	12/15/19	12/15/19	12/15/20	Yes	Yes[12]	Defining Issues
			I	N/A	N/A	N/A	N/A			
2018-12*	Insurance – Targeted improvements to the accounting for long-duration contracts	944	A	12/15/22	12/15/24	12/15/24	12/15/24	Yes	No	Defining Issues Handbook
			I	12/15/22	12/15/25	12/15/25	12/15/25			
2018-11^	Leases – Targeted improvements	842	A	12/15/18	12/15/18	12/15/18	12/15/21	Yes	Yes[9,13]	Web article Handbook
			I	12/15/18	12/15/18	12/15/18	12/15/22			

Appendix: Accounting standards effective dates

				Public business entities						
ASU	**Title**	**Topics**	**A/I**	**SEC filers *not* eligible to be an SRC**	**SEC filers eligible to be an SRC**	**Not an SEC filer**	**All other entities**	**Early adoption**	**Complex effective date□**	**Resources**
2018-10^	Leases – Codification improvements	842	A	12/15/18	12/15/18	12/15/18	12/15/21	Yes	Yes[8,14]	Web article Handbook
			I	12/15/18	12/15/18	12/15/18	12/15/22			
2018-01*^	Leases – Land easement practical expedient for transition	842	A	12/15/18	12/15/18	12/15/18	12/15/21	Yes	Yes[9]	Web article Handbook
			I	12/15/18	12/15/18	12/15/18	12/15/22			
2017-12*	Targeted improvements to the accounting for hedging activities	815	A	12/15/18	12/15/18	12/15/18	12/15/20	Yes	No	Handbook
			I	12/15/18	12/15/18	12/15/18	12/15/21			
2017-04*	Simplifying the test for goodwill impairment	350	A	12/15/19	12/15/22	12/15/22	12/15/22	Yes	No	Defining Issues
			I	12/15/19	12/15/22	12/15/22	12/15/22			
2016-13*	Measurement of credit losses on financial instruments	326	A	12/15/19	12/15/22	12/15/22	12/15/22	Yes	No	Handbook
			I	12/15/19	12/15/22	12/15/22	12/15/22			
2016-02*^	Leases	842	A	12/15/18	12/15/18	12/15/18	12/15/21	Yes	Yes[9]	Handbook
			I	12/15/18	12/15/18	12/15/18	12/15/22			

Appendix: Accounting standards effective dates

Notes

1 ASU 2021-10 applies to all entities except for not-for-profit entities within the scope of Topic 958 and employee benefit plans within the scope of Topics 960, 962 and 965.

2 The effectives dates of ASU 2021-02 shown here are for entities to which the ASU applies that had already adopted Topic 606 when ASU 2021-02 was issued (1/28/2021).

3 ASU 2021-01 may be applied as of the beginning of an interim period that includes 3/12/2020 (see ASU 2020-04) and is only available for a limited time, generally through 12/31/2022.

4 Public business entities may not early adopt ASU 2020-08. All other entities may early adopt ASU 2020-08 for interim and annual periods in fiscal years beginning after 12/15/2020.

5 All entities may early adopt ASU 2020-06, but no earlier than annual and interim periods in fiscal years beginning after 12/15/2020. An entity should adopt the guidance at the beginning of its fiscal year. See ASU 2020-06 for more information.

6 ASU 2020-04 is effective for all entities from 3/12/2020 through 12/31/2022.

7 For companies that have adopted ASU 2016-13, this ASU was effective for annual and interim periods in fiscal years beginning after 12/15/2019.

8 The effective dates of ASU 2019-04 shown here relate to the amendments to Topic 326 only and apply to entities that have not yet adopted ASU 2016-13. See ASU 2019-04 for detailed effective date information for early adopters and the other amendments therein.

9 The effective dates for 'All other entities' applies to private companies that had not yet issued (or made available for issuance) financial statements reflecting the adoption of Topic 842 as of 6/3/2020.

'Public' not-for-profit entities (i.e. not-for-profit entities that have issued or are conduit bond obligors for securities that are traded or quoted on an exchange or an over the counter market) that had not yet issued (or made available for issuance) financial statements reflecting the adoption of Topic 842 as of 6/3/2020 must adopt Topic 842 for annual and interim periods in fiscal years beginning after 12/15/2019.

10 For companies that have adopted ASU 2016-02, ASU 2018-20 can be elected at (1) the beginning of the first financial reporting period in which the ASU was issued, (2) the beginning of the first financial reporting period after the ASU was issued, or (3) the company's mandatory Topic 842 effective date.

11 ASU 2018-16 is generally effective at the same time as ASU 2017-12. However, entities that are not public business entities that have adopted ASU 2017-12 were required to adopt ASU 2018-16 for annual and interim periods in fiscal years beginning after 12/15/2019.

12 ASU 2018-14 is effective for public business entities for annual periods *ending* after 12/15/2020 and, for all other entities, for annual periods *ending* after 12/15/2021.

13 For companies that have adopted ASU 2016-02, ASU 2018-11 became effective on issuance (7/30/2018), but can only be adopted by companies either at (1) the beginning of the company's first reporting period after issuance or (2) the company's mandatory Topic 842 effective date.

14 For companies that have adopted ASU 2016-02, ASU 2018-10 became effective on issuance (7/18/2018).

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