Quarterly Outlook

December 2023

Featuring 2023 AICPA & CIMA Conference highlights, Top 10 questions companies should ask now on ESG reporting, and recent FASB developments.

US GAAP

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The 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments covered a range of topics, collectively indicating that we are operating in times of significant change. Beyond the usual standard setting and regulatory updates, speakers repeatedly emphasized the value of our profession, the auditor's gatekeeper role and the importance of robust risk assessment and transparent communication of risks in this evolving landscape. Speakers also discussed the influence of AI and ESG preparedness.

The SEC was quiet during the conference about future rulemaking and timing of a final climate rule, which makes it more likely this rule will be a 2024 event. Nevertheless, there are plenty of questions US companies should be asking as the walls close in on ESG reporting, including whether they are subject to the new California climate disclosure laws.

Both the SEC and the FASB remain focused on completeness and transparency of disclosures. To that end, the FASB issued three new accounting standards (ASUs), all of which impact presentation and disclosure. Among them, a new segment reporting ASU for public entities is raising questions on whether additional measures of profit or loss may be non-GAAP measures to which SEC regulations must apply.

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

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1 Current quarter financial reporting matters

2023 AICPA & CIMA Conference highlights

The AICPA & CIMA (Chartered Institute of Management Accountants) hosted their annual Conference on Current SEC and PCAOB Developments, featuring speakers from the SEC, PCAOB and FASB, and other key players in the financial reporting infrastructure.

Broadly, this year's speakers emphasized the shared responsibility of auditors, management and audit committees in achieving high-quality financial reporting, with a focus on risk assessment, transparent disclosure and the role of investors in standard-setting agendas. Practitioner, preparer and governance panels also touched on various topical issues, including audit committee challenges, complex accounting topics, ESG reporting and artificial intelligence.

Some of the top takeaways from the conference are summarized below.

- **The importance of culture.** SEC representatives stressed the significance of an audit firm's culture in maintaining trust, while PCAOB representatives highlighted the shared responsibility of the audit committee, management and others in the financial reporting ecosystem in upholding the auditor's gatekeeper role. They emphasized that a strong culture, proper training and embedding cultural values throughout the firm are essential for promoting professional skepticism and conducting high-quality audits.

- **Risk assessment drives good reporting.** Properly assessing and communicating risks is crucial to the financial reporting process. It is essential for companies to take a holistic approach to risk assessment, considering entity-level risks and those that directly impact financial reporting. Audit committees should ensure that management's risk assessment processes and disclosures are robust and the company's disclosures adequately communicate the risks and uncertainties faced.

- **Audit committees play a crucial role.** Staff from the SEC Office of the Chief Accountant encouraged audit committees to actively engage directly with the independent auditor (formally and informally) – instead of through management – to promote and encourage the auditor's exercise of professional skepticism – particularly in the areas of risk assessment and cybersecurity.

- **New segment reporting ASU raises questions.** Weighing in on the FASB's new segment reporting standard, SEC staff cautioned that additional measures of profit or loss disclosed in the financial statements may be non-GAAP measures to which SEC regulations apply.

- **Concerns about the cash flow statement.** SEC representatives delivered the message that not all registrants have the same rigorous processes and controls around preparing the cash flow statement as other financial statements – and reinforced that classification errors in the statement should be evaluated like other financial statement errors.

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- **GenAI is here and its pervasive.** GenAI promises amazing improvements in financial reporting speed, quality and insights, but it comes with new demands on corporate governance, internal control and auditing techniques to ensure it is used responsibly.

The SEC staff also addressed frequently asked questions about its new rules on pay versus performance and compensation clawback and revisited familiar themes on topics such as non-GAAP financial measures and MD&A disclosures.

KPMG resources: For more insights from the conference, see our Top 10 highlights and series of conference blogs on KPMG Financial Reporting View.

ESG reporting update

As 2023 draws to a close, we provide a roundup on the ESG state of play. In the absence of a final climate rule from the SEC, there are plenty of other questions US companies should be asking as the walls close in on ESG reporting.

1. Are you an SEC registrant (including a registered investment fund or advisor) or planning an IPO?

The SEC's Fall 2023 Regulatory Agenda shows a delay in ESG rulemaking activities, although actions may occur before or following the date noted in the Agenda.

- April 2024: final rules on climate and ESG investment practices disclosures; proposal on human capital management disclosures.
- October 2024: proposal on corporate board diversity.

2. Do you do business in California?

California Governor Newsom signed the following into law in October, which affect both public and private companies.

- Effective January 1, 2024, specified disclosures are required by business entities marketing or selling voluntary carbon offsets in California, and by entities purchasing or using voluntary carbon offsets that make claims regarding the achievement of net zero emissions or other, similar claims. Read our web article.

- Beginning in 2026 (2025 data), US business entities with total annual revenues > $1B that do business in California must disclose scopes 1, 2 and 3 greenhouse gas (GHG) emissions. Assurance over scopes 1 and 2 is required, with scope 3 potentially being added later. Read our Defining Issues.

- Beginning no later than January 1, 2026, US companies with total annual revenues > $500M that do business in California must disclose their climate-related financial risks and measures taken to reduce or adapt to such risks. Read our Defining Issues.

3. Do you have statutory reporting obligations outside the US?

Individual jurisdictions are now deciding whether and how to incorporate the International Sustainability Standards Board (ISSB) Standards into local requirements. Countries that have announced their support include Brazil, Japan, Canada and the UK. The ISSB™ Standards require comprehensive sustainability reporting of risks and opportunities to primary stakeholders such as investors. Read more about the standards in our First Impressions.

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4. Do you have EU operations?

Many US and other non-EU based companies are in the scope of the Corporate Sustainability Reporting Directive (CSRD) – by virtue of having securities listed on an EU-regulated market or substantial activity in the EU. The related sustainability reporting under European Sustainability Reporting Standards (ESRSs) is effective for the first wave of companies starting from January 1, 2024. Read our Hot Topic, which includes recent changes in size thresholds for determining reporting obligations.

The ESRSs require comprehensive sustainability reporting of impacts, risks and opportunities to a broad range of stakeholders based on both financial materiality and impact materiality (so-called double materiality). Read our talkbook, Get ready for ESRSs.

5. Are you a federal contractor?

The proposed Federal Supplier Climate Risks and Resilience Rule would require major contractors (> $50M) to disclose scopes 1, 2 and 3 GHG emissions, report on climate risks, and to have targets validated by the Science Based Targets initiative. Significant contractors (> $7.5M) would disclose scopes 1 and 2 GHG emissions. Contractors would also have to complete the CDP Climate Change Questionnaire (see #7). The rule could be finalized by the end of 2024.

6. Are any significant customers imposing reporting and assurance obligations?

Increasingly, we're finding key stakeholders in companies' value chains are requiring ESG-related data when setting up contractual agreements. Microsoft, for example, requires its suppliers to disclose scopes 1 and 2 GHG emissions, and certain scope 3 categories, and potentially provide third-party assurance.

7. Do you report to the CDP?

Starting in 2024, CDP (formerly, Carbon Disclosure Project) will incorporate the ISSB Standard on climate (IFRS S2) into its disclosure system.

8. Do you want to know what your competitors are doing?

With reporting requirements unsettled, many companies are assessing their reporting obligations plus additional voluntary reporting that they may want to continue – e.g. under Global Reporting Initiative or SASB Standards. Most companies find it advantageous to understand what peers are doing. Read our ESG Assurance Maturity Index 2023.

9. Are you considering any sustainability-related strategies?

Reporting requirements may not be final, but companies continue to take action on their ESG commitments, and CEOs expect significant returns from their ESG investments and fear inaction will result in losing out on top talent. Read about our ESG solutions.

10. Do you have M&A plans?

Most investors are now including ESG in their M&A agenda, and investors report that they will be conducting ESG diligence more frequently in the future. Read our ESG Due Diligence Survey.

ESG resource pages to keep coming back to:

- ESG reporting for US financial reporting professionals: KPMG Financial Reporting View

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- International sustainability reporting: KPMG ISSB sustainability reporting resource center
- European sustainability reporting: KPMG ESRS sustainability reporting resource center

Other SEC headlines

SEC stresses the importance of the statement of cash flows to investors

In a recent statement, and then also reiterated at the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments, SEC Chief Accountant, Paul Munter emphasized the importance of cash flow reporting for investors, highlighting the need for issuers and auditors to apply the same level of care and professionalism to the statement of cash flows as they do to other financial statements. Munter indicates the statement of cash flows has been a leading area in financial restatements and material weaknesses in internal controls over financial reporting.

The statement provides key reminders on materiality, classification, presentation and disclosure, internal controls and the role of auditors in auditing the statement of cash flows. In addition, Munter encourages issuers to improve cash flow information for investors by carefully considering better ways to present cash and noncash information, whether to report operating cash flows under the direct method, and whether to provide additional disclosure.

Munter concludes his statement by emphasizing the responsibility of issuers and auditors to provide transparent, meaningful and high-quality cash flow information for the benefit of investors and invites all stakeholders to engage with standard-setters on any projects that have the potential to impact statement of cash flow reporting.

SEC postpones share repurchase rule effective date

On November 22, 2023 the SEC issued an order staying the effective date of the share repurchase disclosure rule, pending further Commission action. The order is in response to a recent US Fifth Circuit Court of Appeals opinion in which the Court held the SEC violated the Administrative Procedure Act by acting arbitrarily and capriciously when it adopted the amendments intended to modernize and improve share repurchase disclosures. The Court did not overturn the rule but gave the SEC 30 days to review and correct the procedural deficiencies. The SEC requested an extension to fix the defects, but the Court denied the request and the SEC did not correct the deficiencies by the deadline. The next course of action is uncertain.

KPMG resources: Web page

SEC updates C&DIs on pay versus performance rules

During 2022, the SEC issued a final rule that amends Regulation S-K to require listed companies to disclose the relationship between executive compensation and certain measures of the company's financial performance for the five most recent fiscal years (phased in over the first three years and scaled for smaller reporting companies.

In February, September and November 2023, the SEC staff released new and updated Compliance & Disclosure Interpretations (C&DIs) covering certain implementation and practical questions related to the 'pay versus performance' disclosure requirements, including topics related to equity awards and vesting conditions, peer groups, transitions in company status and clarifications to fair value methodologies. At the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments, Staff of the Division of Corporation

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Finance suggested that companies involve their accountants in developing these disclosures because the computations are largely GAAP-based.

Companies were required to comply with the rule in their first proxy and information statements that require executive compensation disclosures for fiscal years ending on or after December 16, 2022.

KPMG resources: Defining Issues

SEC observes labeling inconsistencies in filings

The SEC staff has identified inconsistencies in how filers use XBRL elements to tag reported items on the income statement across periods. The staff observed filers using different labels for the same element, even when the description of the reported item remained unchanged. This inconsistency undermines data comparability. Companies are encouraged to review the staff's sample comment letter, and carefully label elements in a consistent manner and track new or changing items to help create consistency.

SEC amends the Names Rules

The SEC issued a final rule that amends Section 35d-1 of the Investment Company Act of 1940 to enhance transparency and provide better investor clarity into a fund's investment strategy.

In brief, the amendments:

- improve and broaden the scope of funds that must comply with the current requirement to adopt a policy for investing at least 80% of the fund's assets under the investment focus the fund's name suggests;
- require enhanced disclosure and reporting requirements related to terms used in fund names; and
- establish additional recordkeeping requirements.

The rule became effective on December 10, 2023. Compliance is required for fund groups with net assets ≥ $1 billion on December 10, 2025 and ≤ $1 billion on June 10, 2026.

KPMG resources: Defining Issues

Closing in on the Pillar Two tax rules

The Pillar Two, Global Anti-Base Erosion (GloBE) tax rules[1] will go into effect in many jurisdictions around the world in January 2024. These rules require complicated and data-intensive calculations of a new effective tax rate measure (the 'GloBE ETR') for every single jurisdiction in which the company has operations. The GloBE ETR calculation is based on a unique hybrid of tax and financial accounting concepts, which will effectively require companies to create a third set of books. Therefore, Pillar Two is expected to have a significant impact on companies beyond their tax department, including disruption to the finance and controllership, IT and internal audit functions.

[1] In October 2021, the Organisation for Economic Cooperation and Development (OECD)/G20 Inclusive Framework reached agreement on the Pillar Two, GloBE tax rules – an international tax regime designed to impose a 15% global minimum tax rate on certain multinational companies.

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Calendar-year public companies will be required to report on the forecasted effects of Pillar Two in their Q1 2024 income tax provision and consider SEC disclosure obligations in their 2023 Form 10-K. Therefore, it is critical that multinational companies have a gameplan to comply with these requirements including: (1) identifying which legal entities and jurisdictions will be impacted, (2) evaluating whether any of those jurisdictions will qualify for the transitional country-by-country safe harbor, and (3) determining if any top-up taxes will be owed based on forecasted results.

In addition, Pillar Two implementation will likely have an effect on the external audit process. Your external auditor may ask about your implementation gameplan (including the three items mentioned above), internal controls, and data and technology, including whether any Pillar Two-specific models have been used or developed. Also expect the external auditor to perform independent procedures to test the information and amounts used to determine the impact to the financial statements.

KPMG resources: Pillar Two Gameplan (an implementation guide), Pillar Two Pregame Show podcast (a five-part podcast series dedicated to Pillar Two), GloBE Hot Topic (accounting for Pillar Two), and our Pillar Two resource hub.

Standards effective in 2023

In the first quarter of 2023, calendar year-end public companies were required to adopt various accounting standards intended to simplify or clarify accounting requirements or increase transparency (listed below). The FASB also issued two standards during 2023 (ASUs 2023-03 and 2023-04) that are effective on issuance. The new standards either amend or capture certain SEC requirements in the FASB Accounting Standards Codification®.

In addition, all companies that are not SEC filers, including smaller reporting companies (SRCs), must adopt the new credit losses standard and all related amendments (Topic 326) and the goodwill impairment standard (ASU 2017-04) in 2023.

- **ASU 2022-04, Supplier finance programs,** requires a company (the buyer of goods or services) to disclose information about supplier finance programs. A supplier finance program is a type of supply chain financing in which a buyer enters into an arrangement with a finance provider or an intermediary to settle its obligations with suppliers.
- **ASU 2022-02, Troubled debt restructuring and vintage disclosures,** eliminates troubled debt restructuring recognition and measurement guidance for creditors and requires new disclosures. The ASU also requires public business entities to disclose current-period gross writeoffs by year of origination (i.e. the vintage year) for the related financing receivables and net investments in leases.
- **ASU 2022-01, Fair value hedging – Portfolio layer method,** establishes the portfolio-layer method, which expands an entity's ability to achieve fair value hedge accounting for hedges of financial assets in a closed portfolio.
- **ASU 2021-08, Accounting for contract assets and contract liabilities from contracts with customers,** requires an acquirer in a business combination to recognize and measure contract assets and contract liabilities (deferred revenue) from acquired revenue contracts using the recognition and measurement guidance in Topic 606 (revenue recognition). Under the 'Topic 606 approach', the acquirer applies the revenue

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model as if it had originated the contracts. This is a departure from the current requirement to measure contract assets and contract liabilities at fair value.

- ASU 2018-12, **Long-duration insurance contracts,** changes how companies recognize, measure, present and disclose long-duration contracts issued by an insurance entity, and intends to improve, simplify and enhance the financial reporting requirements for long-duration contracts. ASU 2018-12 is effective in 2023 only for SEC filers that are not eligible to be an SRC.

Our ASU effective dates web page provides a complete list of accounting standards that companies are required to adopt in 2023 and beyond.

Audit developments of interest to audit committees

PCAOB adopts new standard on the auditor's use of confirmation

The PCAOB has adopted a new standard to strengthen and modernize the requirements for the auditor's confirmation process. The updated standard replaces an interim standard currently in place and reflects changes in technology and business practices. The standard:

- introduces a new requirement for confirming cash and cash equivalents held by third parties;
- addresses situations where it is not feasible for the auditor to perform confirmation procedures;
- emphasizes the auditor's responsibility for maintaining control over the confirmation process; and
- identifies situations in which alternative procedures should be performed by the auditor.

The new standard will be effective for audits of financial statements for fiscal years ending on or after June 15, 2025.

PCAOB makes unprecedented progress in 2023

2023 was a historic year for PCAOB standard-setting and rulemaking. Of note, the Board issued four proposals with expected adoption in 2024, and expects to issue one more before the year is out – the most in any single year in PCAOB history since the first set of standards and rules were proposed in 2003. This includes its proposals on quality control, noncompliance with laws and regulations, and amendments related to audit procedures that involve technology-assisted analysis of information in electronic form. The Board also adopted two new standards – including the latest standard on the auditor's use of confirmation. Finally, it has active rulemaking projects on contributory liability, follow-on disciplinary proceedings, firm reporting and transparency, and registration.

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2 New standards and guidance

FASB makes improvements to income tax disclosures

ASU 2023-09 intends to enhance income tax disclosures to address investor requests for more information about the tax risks and opportunities present in an entity's worldwide operations. The ASU's two primary enhancements will require further disaggregation for existing disclosures for the effective tax rate reconciliation and income taxes paid. More specifically, the amendments will require entities to disclose:

- a tabular effective tax rate reconciliation, broken out into specific categories with certain reconciling items above a 5% threshold further broken out by nature and/or jurisdiction **(public business entities only)**;
- the nature and effect of significant differences between the statutory tax rate and the effective tax rate by specific categories of reconciling items, including individual jurisdictions **(other entities only)**; and
- income taxes paid (net of refunds received), broken out between federal, state and foreign; and net amounts paid to an individual jurisdiction that exceed 5% of the total **(all entities)**.

The effective dates are as follows:

Effective for	Public business entities	Other entities
Annual periods – In fiscal years beginning after	December 15, 2024	December 15, 2025
Early adoption permitted?	Yes, for annual financial statements that have not yet been issued (or made available for issuance).	

The amendments should be applied on a prospective basis. Retrospective application is permitted.

KPMG resources: Defining Issues

FASB issues new crypto accounting guidance

ASU 2023-08 introduces new Codification Subtopic 350-60 to address measurement, presentation and disclosure of certain digital assets. Of note, it will require entities to measure in-scope crypto assets (e.g. bitcoin and ether) at fair value, with fair value changes recorded in current period earnings. It will also require new presentation and disclosure requirements for those assets in addition to the disclosures required under Topic 820 (fair value measurement).

The ASU applies equally to public and private companies and is effective as follows:

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Effective for	All entities
Annual and interim periods – In fiscal years beginning after	December 15, 2024
Early adoption permitted?	Yes, in any interim or annual period for which an entity's financial statements have not been issued (or made available for issuance) as of the beginning of the entity's fiscal year that includes the interim period.

The ASU requires modified retrospective transition, which will result in a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption.

KPMG resources: Defining Issues

FASB requires new segment reporting disclosures

ASU 2023-07 enhances segment reporting by expanding the breadth and frequency of segment disclosures required for public entities. The amendments in this ASU notably allow registrants to disclose multiple measures of segment profit or loss and clarify single reportable segment entities must apply Topic 280 in its entirety. They also require registrants to disclose the following:

- significant segment expenses regularly provided to the chief operating decision maker (CODM) and included within the reported measure(s) of a segment's profit or loss;
- the amount and composition of other segment items (to reconcile segment revenue less significant expenses to the reported measure(s) of a segment's profit or loss);
- how the CODM uses the reported measure(s) of a segment's profit or loss to assess segment performance and decide how to allocate resources;
- on an interim basis, all segment profit or loss and asset disclosures currently required annually by Topic 280, as well as those introduced by the ASU; and
- the CODM's title and position.

The ASU does not change how a public entity identifies its operating segments, aggregates those operating segments or applies the quantitative thresholds to determine its reportable segments.

The ASU is effective for public entities in fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted.

The amendments in the ASU apply retrospectively to all periods presented in the financial statements unless it is impracticable to do so. The segment expense categories and amounts disclosed in prior periods are based on the significant segment expense categories identified and disclosed in the period of adoption.

KPMG resources: Defining Issues

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FASB issues disclosure improvements in response to the SEC's disclosure update and simplification initiative

ASU 2023-06 incorporates into the FASB Codification several disclosure and presentation requirements in SEC Regulations S-X and S-K that overlap with US GAAP. While the ASU is not expected to significantly affect entities currently subject to the corresponding SEC requirements, certain disclosures currently presented outside the financial statements under Regulation S-K may need to be relocated into the financial statements.

The ASU also adds new disclosure requirements for private and not-for-profit entities, including disclosures about derivative instruments, collateralized assets, unused lines of credit and unfunded commitments, prior-period adjustments and repurchase and reverse repurchase agreements. The disclosure of weighted-average interest rates on short-term borrowings and repurchase liabilities is required only for public business entities.

If the SEC does not remove the existing disclosure requirements from Regulations S-X or S-K by June 30, 2027, the corresponding pending content will be removed from the Codification and will not become effective for any entities.

KPMG resources: Defining Issues

Standards effective in 2024

In the first quarter of 2024, calendar year-end public companies are required to adopt these accounting standards aimed at clarifying specific aspects of US GAAP.

- **ASU 2023-02, Expanding the proportional amortization method (PAM),** clarifies the criteria that a tax equity investment must meet to qualify for the PAM and allows an investor to elect the PAM for qualifying investments on a tax credit program-by-program basis. In addition, disclosures are required on an interim and annual basis for tax equity investments within tax credit programs for which the PAM is elected, regardless of whether the PAM is applied.
- **ASU 2023-01, Common control lease arrangements,** permits *private* companies to identify, classify and account for common control leases by using any written terms and conditions between the parties, without regard to their legal enforceability. In addition, all lessees (public or private) will, in general, amortize leasehold improvements related to a common control lease over their 'useful life' to the common control group, regardless of the Topic 842 'lease term', if the lessees continue to control the use of the underlying leased asset.
- **ASU 2022-03, Fair value measurement of equity securities subject to contractual sale restrictions,** clarifies that a contractual restriction on the sale of an equity security is an entity-specific characteristic and is not considered in measuring the security's fair value.

Our ASU effective dates web page provides a complete list of accounting standards that companies are required to adopt in 2024 and beyond.

Companies should consider disclosures about these and all other issued but not yet adopted accounting standards (i.e. SAB 74 disclosures) when preparing their 2023 financial statements.

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3 Projects and agenda priorities

FASB technical agenda sustains momentum

FASB technical agenda headlines continue apace as the Board makes strides on various projects of broad interest. Here are the highlights.

- **Accounting for and disclosure of software costs.** At a September meeting, the Board reached tentative decisions about when software development costs should be recognized under a new, single cost accounting model that would apply to both internal- and external-use software.

  At the same time, the Board instructed its staff to both: (1) perform additional investor outreach to better understand what information software company investors would find useful and (2) consider a narrower project scope that would *principally* update the software cost accounting guidance for modern, agile software development methods.

- **Government grants.** In November, the FASB added a long-awaited project on the accounting for government grants to its technical agenda and began initial deliberations. The FASB decided to refine project scope and discussed recognition, measurement, presentation and disclosure. The Board also decided that the project would apply to both public and private companies.

- **Environmental credits.** After adding the project to its technical agenda and engaging in initial discussions on project scope (May 2022), the FASB met in October to refine its project scope and discuss recognition and measurement criteria.

- **Statement of cash flows.** The FASB added a project to its technical agenda to make targeted improvements to the statement of cash flows for financial institutions to provide investors with more decision-useful information. The FASB Chair also decided to retain a project on the statement of cash flows on the *research* agenda to explore further potential improvements.

EITF-related developments

Induced conversions of convertible debt instruments

The EITF reached a consensus-for-exposure, ratified by the FASB on October 4, that intends to address a consequential matter stemming from ASU 2020-06, which removed a distinct accounting model for specific settlements of convertible debt instruments with cash conversion features. The consensus-for-exposure specifically would provide additional guidance on whether induced conversion or extinguishment accounting applies to certain settlements of convertible debt instruments that do not occur under the instruments' preexisting terms.

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The consensus-for-exposure would require companies to apply a preexisting contract approach, under which the inducement offer would need to preserve the form of consideration and result in an amount of consideration that is no less than that issuable pursuant to the preexisting conversion privileges to qualify for induced conversion accounting.

In applying this approach, the consensus-for-exposure would clarify how companies should assess the form and amount of consideration. In addition, it would clarify that induced conversion accounting can be applied to settlements of certain convertible debt instruments that are not currently convertible.

A proposed ASU is forthcoming and will have a 90-day comment period.

KPMG resources: Defining Issues

Reconstituting the EITF

At the 2023 AICPA and CIMA Conference on Current SEC and PCAOB Developments, FASB Chair Richard Jones announced that the role of the EITF is changing. The EITF's historical role has been to develop accounting standards, subject to ratification by the FASB, primarily to reduce diversity in practice on a timely basis. In 2024, its role as a standard-setter (or quasi-standard-setter) will be discontinued. Its new focus will be to identify issues the Board should consider adding to the FASB's technical agenda along with a recommended solution to each of those issues.

September FASAC meeting

The Financial Accounting Standards Advisory Council (FASAC) met in September for its quarterly meeting, covering significant discussions on two key topics. Overall, the meeting underscored the importance of transparency, stakeholder collaboration and careful consideration of benefits and costs in the standard-setting process.

- **Disaggregation – income statement expenses.** Council members discussed the FASB's proposed ASU on disaggregation of income statement expenses (DISE). Investors expressed strong support for the project, believing that the proposed disclosures would enhance insight into an entity's profitability and future cash flows.

  Investors recommended requiring disclosures on an interim basis and extending the requirements to private companies. Some suggested further disaggregating selling expenses but acknowledged associated challenges and costs.

  Preparers highlighted potential operational challenges, especially for companies with inventory and manufacturing expenses. While investors acknowledged these concerns, they emphasized the expected incremental benefits of having this information for their analyses.

- **FASB standard-setting process – benefit-cost analysis.** Council members provided input on the Board's standard-setting process and how the Board defines and assesses expected benefits and costs of changes to accounting standards, expressing overall support.

  Input from Council members for the Board included considering detailed feedback for balancing benefits and costs, focusing on reducing compliance costs for preparers and

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updating outdated accounting guidance. Council members also delved into the costs to investors and preparers associated with accounting change.

Council members provided suggestions to the Board for improvement to its benefit-cost analysis, including a transparent benefit-cost framework, communicating expected benefits and costs at each project phase, expanding basis for conclusions, and increasing stakeholder engagement through joint meetings with investors and preparers.

FASB/IASB discuss shared interests

In September, the FASB and IASB held a joint meeting on various matters of shared interest. Although the meeting was educational only, the Boards engaged in open dialogue and expressed mutual interest in staying informed about each other's ongoing projects and recent developments, particularly those that might influence their respective standard-setting activities. Of note, the Boards discussed disaggregation projects and the accounting for crypto assets.

Primary financial statements – Disaggregation and management-defined performance measures

The Boards discussed the IASB project on primary financial statements (IFRS 18), which intends to enhance financial reporting quality and is expected to be released in the first half of 2024. This includes presenting defined subtotals in the income statement for improved comparability, disclosing management-defined performance measures for transparency, and enhancing requirements for aggregation and disaggregation to provide useful information. The Boards also discussed research activities to explore standardizing the definitions of financial key performance indicators.

The Boards discussed the related FASB project on disaggregation – income statement expenses (DISE). Although the IASB project on IFRS 18 is more comprehensive than the FASB DISE project, the IASB's research will be informed by the FASB's project and interactions with the regulatory frameworks.

Crypto assets

The Boards also discussed the FASB's proposed update on accounting for and disclosure of crypto assets (now a final ASU). While stakeholders suggested adding a project on accounting for cryptocurrencies to the IASB's work plan in conjunction with its Third Agenda Consultation, the IASB decided against doing so because of concerns about the prevalence and impact of such transactions, the complexity of accounting for different types of crypto assets and liabilities and the existing guidance provided via the IFRS Interpretations Committee Agenda Decision on 'holdings of cryptocurrencies' from June 2019. However, the IASB's project on intangible assets will review the scope of IAS 38, including the treatment of cryptocurrencies.

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4 Recommended reading and CPE opportunities

New minimum tax notice has lessons for the C-suite: Tax insight

The Department of Treasury and the IRS recently released the latest in a series of guidance on the corporate alternative minimum tax (CAMT). CAMT is a 15% minimum tax based on adjusted financial statement net income for certain corporations. It applies when the corporation, alone or with related entities, has average annual adjusted financial statement income in a three-taxable-year period over $1 billion. The new guidance in Notice 2023-64 underscores that CAMT is an awesomely complex regime with extensive tracking and reporting burdens. **Monisha Santamaria**, **Natalie Tucker**, and **Daniel Winnick** from KPMG US Washington National Tax practice explain why corporations should pay attention to the Treasury's latest guidance on the CAMT. Read the article.

A board lens on the SEC's final cybersecurity rules

The SEC's latest cybersecurity rules mandate that companies disclose significant cybersecurity incidents on Form 8-K and provide comprehensive details about cybersecurity risk management and governance in Form 10-K, necessitating that boards reevaluate oversight and collaborate for effective compliance. The expanded disclosure requirements will be a significant undertaking for management and will require more robust oversight by the board. **John H. Rodi** and **Patrick A. Lee**, Leader and Senior Advisor, respectively, of the KPMG Board Leadership Center, highlight several areas for particular attention by the board and board committees that have oversight responsibility for aspects of cybersecurity risk and disclosures. Read the article.

Applying ML/AI to sustainable strategies

When governed by talented professionals, machine learning (ML) and artificial intelligence (AI) technologies can be essential tools for automating and improving the accuracy of emissions reporting and setting an emissions reduction strategy. As companies embed these technologies, they should focus on minimizing the emissions associated with the ML/AI models while maximizing their potential to contribute to emission reductions across their operations. KPMG US Climate Data & Technology Leader **Tegan Keele** writes, “Because machine learning and artificial intelligence algorithms can process vast amounts of historical data on energy consumption, CO2 emissions, and various other factors such as production levels, climate patterns, and economic indicators, they can be helpful tools for sustainability experts to identify trends and correlations.” Read the article.

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Upcoming CPE opportunities

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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 regulatory requirements and accounting standards.

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