



Highlights from the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments

2023 Global Financial Reporting and Valuation
Conference



Agenda

1. **Top takeaways from the conference**
2. **Critical role of risk assessments and transparency**
3. **Recent FASB updates**
4. **SEC's Corp Fin priorities and concerns**
5. **SEC comment letter and enforcement trends**
6. **The future of GenAI**
7. **What audit committees should do**

1. Top takeaways from the conference

We listened to regulators, standard-setters and practitioners. These are the headline messages we heard.

We are grounded in a calling to serve in the public interest and a commitment to lifelong learning. And it is our collective responsibility to promote the value of the profession to professionals entering the work force.

Risk assessment drives good reporting

In today's complex and evolving environment, diligent risk assessment enables both companies and auditors to understand how risks and uncertainties impact the financial reporting process. It powers complete, transparent and understandable disclosures.

GenAI is here and it's 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.

Audit Committees have a crucial role

With a myriad of challenges being faced, question management, internal auditors and external auditors on a regular basis so you are satisfied these stakeholders understand their respective roles in the financial reporting process – and are fulfilling their responsibilities.

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.

Culture was a pervasive theme

Only by having a strong culture can an audit firm and its clients be confident that the audit engagement team is exercising the proper professional skepticism.

A firm's culture should cascade throughout the organization, including across functions and a firm's global network.

Integrity is at the heart of our firm's culture and central to our core values.

—Doug Besch,
KPMG Chief Auditor

2. Critical role of risk assessments and transparency

SEC Chief Accountant Paul Munter emphasized **risk assessments** and **transparency** at the 2023 AICPA & CIMA Conference.

High-quality financial reporting is critical to investor trust

The Office of the Chief Accountant touched on many topics, but they all fall within three buckets:

- high-quality accounting standards,
- high-quality application of those standards; and
- high-quality independent audits.

Communication is key in a rapidly evolving environment

Accountants collectively are in the communications business according to Munter, who emphasized that disclosures are not just a compliance exercise, but also a communications exercise.

Emphasis on risk assessment

From Munter's perspective, risk assessment is a foundational element of the financial reporting process, for both companies and their auditors.

These parties need to understand how risks and uncertainties impact this process. This understanding will affect how the company and auditor evaluate accounting issues, many of which rely on estimates that are influenced by these economic conditions.

Auditor independence a recurring theme

Auditor independence plays a critical role in high-quality audits and investor confidence in those audits. Auditor independence is a shared responsibility between an external auditor and the issuer (i.e. management and the audit committee) when determining whether a reasonable investor would conclude that the auditor is impartial and objective.

Connectivity is key

Companies should continue to provide connectivity between their business circumstances, the environments in which they operate, and their communications to investors. Transparent disclosures go beyond regulatory requirements – they need to deliver meaningful information to investors, empowering them to make decisions in the face of risk and uncertainty.

—Bob Malhotra, KPMG Chief Accountant

3. Recent FASB updates (1)

Select disaggregation projects

Segment reporting ASU 2023-07 issued

- Issued at the end of November, requires public entities to disclose the significant expense categories in each reportable segment in addition to all segment disclosures currently required. Companies also have the ability to report multiple measures of segment profit or loss.
- The ASU's effective date is soon – **fiscal years beginning after December 15, 2023**.

Disaggregation of income statement expense

- The proposed amendments would require public business entities (PBEs) to disaggregate five specified expense categories within each relevant caption in the income statement, with further disaggregation required for one of the categories – inventory and manufacturing expense. PBEs would also disclose the amount of their selling expenses.
- Public roundtable meeting will be held on **December 13, 2023**. This project is particularly significant not only for the amount of new information it would yield but also for the expected cost of compliance.

Improvements to income tax disclosures

- The FASB issued an exposure draft in **March 2023** and anticipates issuing the final standard by the **end of December**.
- The exposure draft proposed significantly expanding what is disclosed and how the information is disaggregated – giving investors a detailed look at a company's global tax obligations

Narrow-scope projects

- Narrow-scope crypto assets project headed for fair value measurement
- Narrow-scope ESG-related projects in the early stage

Disaggregation a key theme from investors

Practically, 'achievable standard-setting' means standard-setting projects for which the foreseeable solutions would (1) improve the financial reporting information provided to investors, (2) likely garner the support of most of the Board members and (3) not impose costs on financial statement preparers that exceed expected benefits for investors.

—Kimber Bascom, KPMG
Deputy Chief Accountant and
EITF member

3. Recent FASB updates (2)

Background

- ASC 280 requires public entities to disclose information about its operations and allows financial statement users to ‘see through the eyes of management’ to understand how management views the operating results and financial position of the reportable segments of the entity’s business.
- Currently, ASC 280 require public entities to disclose:
 - segment revenue
 - the measure of segment profit or loss that the CODM uses to assess segment performance and make decisions about allocating resources.
 - specified segment expenses such as depreciation, amortization, and depletion expenses, to be disclosed under certain circumstances



3. Recent FASB updates (3)

The amendment falls into the following categories:

Disclose...

Significant segment expenses regularly provided to the chief operating decision maker (CODM) and included within each reported measure of segment profit or loss.

The **title and position of the CODM**.

The amount and composition of **other segment items** by reportable segment. This amount reconciles segment revenue less significant expenses, and each reported measure of segment profit or loss.

On an **interim basis**, all reportable segments profit or loss and assets disclosures currently required annually by Topic 280, as well as those introduced by the ASU.

How the CODM uses the reported measure(s) of a segment's profit or loss in assessing segment performance and deciding how to allocate resources.

In addition...

Permit **multiple measures of a segment's profit or loss** to be reported, as long as one is the measure most consistent with how corresponding amounts in the consolidated financial statements are measured.

Clarify **single reportable segment entities** must apply Topic 280 in its entirety.

3. Recent FASB updates (4)

FASB project background and boundaries

Objective

- **Improve the decision usefulness** of business entities' income statements through the disaggregation of any relevant expense line items.

Project status

- Exposure draft released July 31, 2023.
- Comments due on October 30, 2023.
- Public roundtable meeting will be held on December 13, 2023.

History

- Added to FASB's technical agenda in 2017.
- Renamed and scope revised in 2022.

What the project does NOT do

- Change the structure of the income statement.
- Introduce new sub-totals.
- Define functions.
- Change or remove existing disclosure requirements.
- Provide a full disaggregation of all income statement line items.

Scope

- **Public business entities.**
- **Annual and interim** financial statements.

3. Recent FASB updates (5)

Proposed quantitative disclosures

Disaggregate every relevant expense caption

Further disaggregate inventory and manufacturing expense, if applicable

State the total amount of selling expenses

Proposed qualitative disclosures

Describe the nature of amounts not separately disaggregated in:

- each relevant expense caption
 - inventory and manufacturing expense
-

Provide the entity's definition of (annual only):

- other manufacturing expenses
- selling expenses

4. SEC's Corp Fin priorities and concerns (1)

Segment reporting questions

The new segment standard **permits** preparers to report **multiple measures** of segment profit or loss, as long as one of the measures reported is the measure that is most consistent with GAAP.

This means that additional measures of segment profit and loss could start appearing in the notes to financial statements.

Because the new standard only mandates that one measure be provided, Corp Fin staff indicated that they will consider any **additional measures reported** to be **non-GAAP financial measures**, despite being permitted by GAAP

Inventory disclosures lacking

Observation:

when companies have experienced **material** amounts of **inventory losses** – whether due to theft, obsolete or outdated inventory, or other circumstances – there has been **little to no disclosures** in MD&A or the notes to the financial statements about these issues.

Reminder:

- when inventory losses have a material impact on year-on-year results, and if there are known trends or uncertainties that will impact the company's results of operations or liquidity, MD&A should include discussion of this fact.
- registrants should disclose in their risk factors any inventory risk that could or has impacted the company's business

Get ready for year-end

The Division of Corporation Finance provided important reminders for registrants heading into year-end, covering 'nuts and bolts' issues from their vantage point and considerations heading into 2024. This year the staff focused on emerging areas – segment reporting disclosures and final rulemaking – as well as critical disclosure considerations in the current environment.

—Timothy Brown, KPMG
SEC Regulatory Matters
Topic Team Leader

4. SEC's Corp Fin priorities and concerns (2)

Errors continue in non-GAAP financial measures

The Corp Fin staff surprised conference attendees last year by announcing several new and updated Compliance and Disclosure Interpretations (C&DIs) on reporting non-GAAP financial measures.

This year the staff noted that these C&DIs did not reduce the number of comments in 2023. Corp Fin is still observing errors concerning the basic requirements, such as:

- Not properly identifying expenses that are normal and recurring.
- Presenting a tailored accounting principle with adjustments that change the GAAP-basis recognition, which the staff believes is misleading.

Accountants can help with pay vs performance (PvP) rules

The PvP rules require registrants to disclose specified information about executive compensation. At the heart of the rules is disclosure of '**actual compensation paid**' as that term is defined by the rules.

The SEC staff has been getting **questions, many from attorneys and compensation analysts**, about how to determine actual compensation paid and the fair value of stock-based compensation.

The computations are largely GAAP-based, and therefore Corp Fin Chief Accountant Lindsay McCord urged registrants to **involve their accountants** in the process.



Double-click on PvP rules

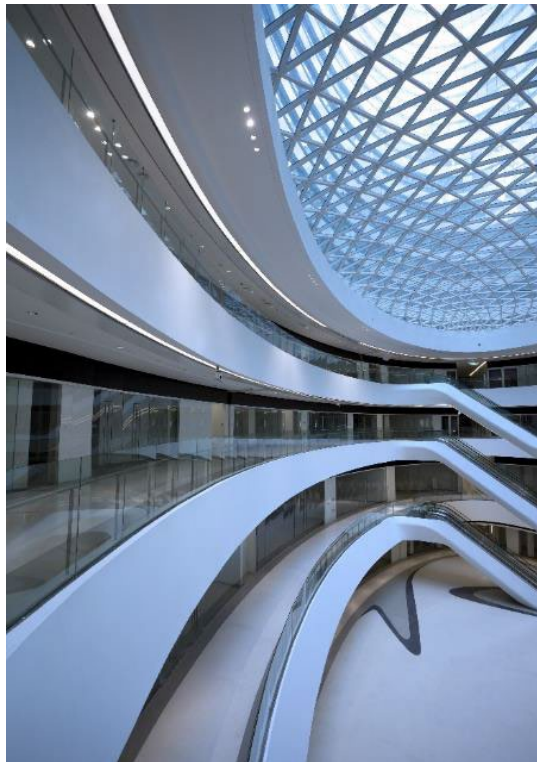
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—Timothy Brown, KPMG
SEC Regulatory Matters
Topic Team Leader

4. SEC's Corp Fin priorities and concerns (3)

SEC published its final rule requiring disclosures linking executive compensation to financial performance. In September and November 2023, the SEC released additional C&DIs covering implementation and other practical questions



Overview

Registrants will disclose:

- Two measures of **compensation** and four **financial performance measures** (FPMs) in a tabular format for the **five most recent years** (PvP table)
- Other disclosures
 - **Description** of the **relationship** between executive compensation and the FPMs
 - Separate listing of the three to seven most important FPMs used to link pay to performance in the current year

Applicability and effective date

- Applicable to registrants filing proxy or information statements requiring executive compensation disclosures (scaled requirements for SRCs)
- Foreign private issuers, registered investment companies and emerging growth companies are exempted
- Effective for years ending on or after December 16, 2022

Read more on [KPMG FRV](#) >

4. SEC's Corp Fin priorities and concerns (4)

Erroneously awarded compensation ('clawback') rules draw questions

Registrants had to adopt recovery policies under the clawback rules **by December 1, 2023**. Upon adopting a recovery policy, a registrant must begin complying with the new requirements of the listing standards and SEC rules.

The Corp Fin staff has already fielded questions about these requirements and reported on some confusion around the use of the check boxes.

- **Checkbox 1** is used to indicate that the filing reflects a correction of an error to previously issued financial statements – i.e. it is checked when the prior period(s) annual financial statements report any accounting error as defined in ASC 250, including the voluntary correction of an immaterial error. It is not checked when the current-year financial statements reflect an out-of-period adjustment that does not change the prior-year financial statements.
- **Checkbox 2** is checked when those corrections are restatements that require a recovery analysis under the clawback rule. A recovery analysis is triggered for either a Big R or little r restatement.
- Corp Fin reported confusion about **corrections of errors versus changes in accounting principle**. Checkbox 1 is not checked when the prior period(s) annual financial statements reflect a change in accounting principle.



**Double-click on
clawback rules**

Get ready for year-end

The Division of Corporation Finance provided important reminders for registrants heading into year-end, covering 'nuts and bolts' issues from their vantage point and considerations heading into 2024. This year the staff focused on emerging areas – segment reporting disclosures and final rulemaking – as well as critical disclosure considerations in the current environment.

—Timothy Brown, KPMG
SEC Regulatory Matters
Topic Team Leader

4. SEC's Corp Fin priorities and concerns (5)

Elements of a recovery policy ...

01

Triggered when it is determined the issuer is required to prepare an **accounting restatement** that corrects an error in previously issued financial statements due to material noncompliance, including 'little r' restatements

02

Recovers erroneously awarded **incentive-based compensation** during a **recovery period** when the accounting restatement changes **financial reporting measures** that affect the amount of such compensation

03

Applies to **incentive-based compensation** paid to five categories of **executive officers**.

04

Determines the **recoverable amount** that the issuer is required to pursue for recovery unless certain limited impracticability exceptions are met.

Required disclosures ...

Disclose the recovery policy as an exhibit to annual reports.

Indicate by check boxes on annual reports:

01

if the financial statements included in the filing reflect a correction of an error to previously issued financial statements; and

02

if those corrections are restatements that required a recovery analysis.

Disclose any actions taken pursuant to the recovery policy

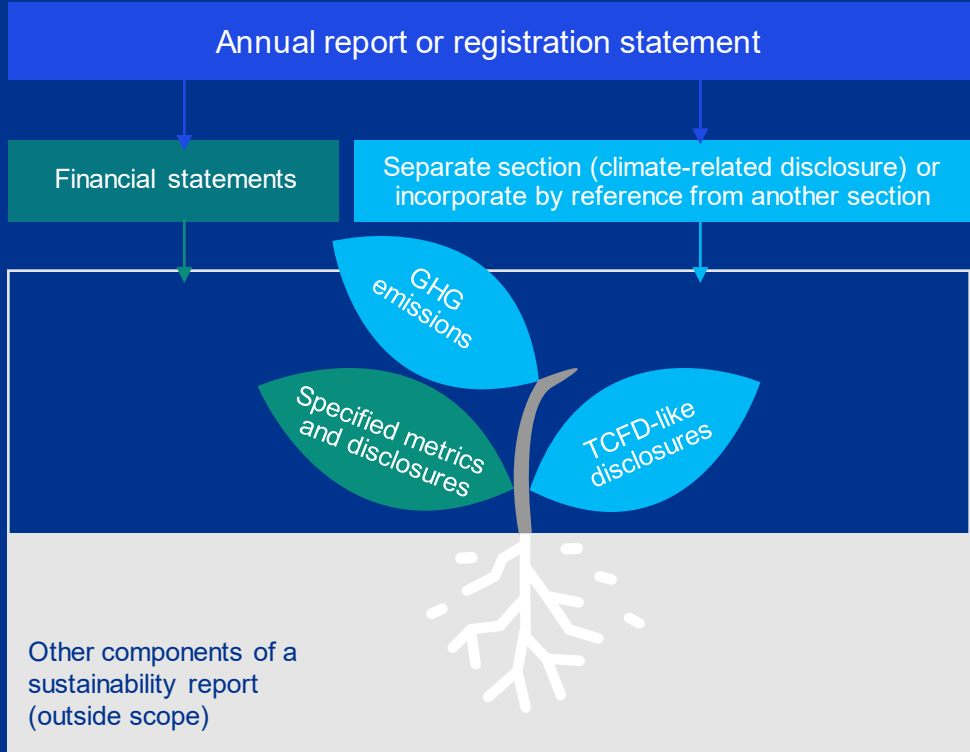
4. SEC's Corp Fin priorities and concerns (6)

Date proposed: 4/11/2022
 Comment period: closed on 11/1/2022
 Next: final rule (expected 2024)

Climate disclosures at a glance

Disclosures filed, not furnished

- In a new note to the audited financial statements, disclose certain climate-related metrics and related disclosures
 - Metrics would be subject to audit and in the scope of the company's internal control over financial reporting
- In a separate 'climate-related disclosure' section of the annual report or registration statement – or by reference from another section (e.g. MD&A) – disclose GHG emissions and certain information about material climate-related risks
 - Assurance over GHG emissions would be required in some cases
- In quarterly reporting, disclose any material changes to the disclosures provided in the annual report or registration statement



Comparatives	Current fiscal year	Prior fiscal year(s)
Financial statements	✓	✓
GHG emissions	✓	✓

If reasonably available

Read more on [KPMG FRV >](#)

5. SEC comment letter and enforcement trends

Top regulatory comment topic: MD&A

MD&A disclosures have traditionally been a major focus in comment letters – and remain so – with MD&A being one of the top recent comment letter topics:

- Critical accounting estimates
- Inflation discussions
- Results of operations

Pay vs performance (PvP) rules

Areas where disclosures may have fallen short:

- lack of clarity in disclosing changes in assumptions used in the calculation of compensation actually paid;
- unclear disclosure of the calculation of non-GAAP measures as the company selected measure; and
- omission of the relationship between executive compensation and company performance in whole/in part.

SEC enforcement focused on investor protection

- The SEC recently announced it filed 784 total enforcement actions in fiscal year 2023, a 3% increase over fiscal year 2022 – including 501 original enforcement actions, an 8% increase over the prior fiscal year.
- The Enforcement Division's focus continues to be on investor protection. Accurate and complete financial reporting and disclosure is critical in maintaining investor trust and the overall health of the securities markets.

Beware boilerplate market risk disclosures

- While focus is on the financial services industry, many of the points apply more broadly to other registrants.
- Corp Fin is concerned that the S-K Item 305 disclosures are often boilerplate.
- Importance of adequately describing the interest-rate and liquidity risks that financial institutions are facing in the current economic environment emphasized.

Best practices for responding to comment letters

Coordinate with your service professionals early in the process. Your audit team is an important resource, as are the national experts within many of the accounting firms. Securities counsel also plays an important role in crafting the response.

Understand comment letter trends

With disclosure transparency being a major concern of the SEC, understanding comment letters trends can help a registrant's disclosure committee review SEC filings to ensure they provide the robust discussion the SEC staff is expecting. And registrants should expect the staff to continue probing if a response is not specific enough.

—Erin McCloskey, KPMG Partner



6. The future of GenAI

In a recent KPMG survey, **three out of four** business leaders indicated they will give GenAI **priority** over other emerging tech during the coming year.

What impact will GenAI have on financial reporting?

Consensus among the panelists that the stakeholders in the financial reporting ecosystem are well-positioned to scale their use of GenAI.

Key benefits of this technology include anomaly detection, efficiency and accuracy in processing and analyzing financial data.

What is the potential future of the accounting profession in a robust AI and GenAI environment?

- The panelists believe AI is likely to ‘raise the floor’ – allowing accountants to focus more on the work of synthesizing results versus ‘number crunching’
- AI has the potential to increase productivity and change the way people work, innovate and collaborate.
- As the ability to work seamlessly with advanced technology becomes critical, panelists believe we will be able to attract more talent to the accounting profession.

What are the governance challenges with GenAI?

Areas that present governance and internal control challenges, including adapting and changing related general IT controls:

- Data security
- Accuracy
- Legal considerations

GenAI new promises and demands

Generative AI is different in important ways from technologies previously used in finance and accounting because of its probabilistic nature. It 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.

—Brian Fields, KPMG Partner

7. What audit committees should do

There are many challenges at the global, national and local levels that put companies' financial reporting, compliance, risk and internal control environments to the test.

Risk assessment is comprehensive, iterative and continual

Panelists stressed the importance of overseeing that management implements a holistic approach to risk assessment by timely identifying and disclosing such risks, as appropriate, and designing and implementing appropriate processes and controls.

New cybersecurity disclosure mandate from the SEC

The audit committee should consider what resources and processes management's disclosure committee needs in developing and maintaining cybersecurity-related disclosure controls and procedures and internal control over financial reporting.

New ESG regulatory mandates are growing

Newly released and anticipated regulatory mandates will dramatically increase climate, sustainability and other ESG disclosure requirements for US companies.

Complying with the mandates will be a major undertaking. Board oversight of this process is critical, particularly because cross-functional management teams will be needed – e.g. management's disclosure committee and an ESG team/committee.

Generative AI

The C Suite focus on GenAI likely means that the oversight of this technology will be a priority for many boards in 2024. At a minimum, the audit committee may be tasked with overseeing compliance with differing laws and regulations governing this technology and may have broader oversight responsibilities.

Audit committees should ask questions

How can audit committees tackle the many challenges they face? My advice is ask a lot of questions. Question management, internal auditors and external auditors on a regular basis so that committee members are satisfied these stakeholders understand their respective roles in the financial reporting process – and are fulfilling their responsibilities.

—John Rodi, Partner, KPMG
Board Leadership Center
Leader



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