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ACCOUNTING & SEC UPDATE

THURSDAY, June 20, 2024 | 1:00 PM CST

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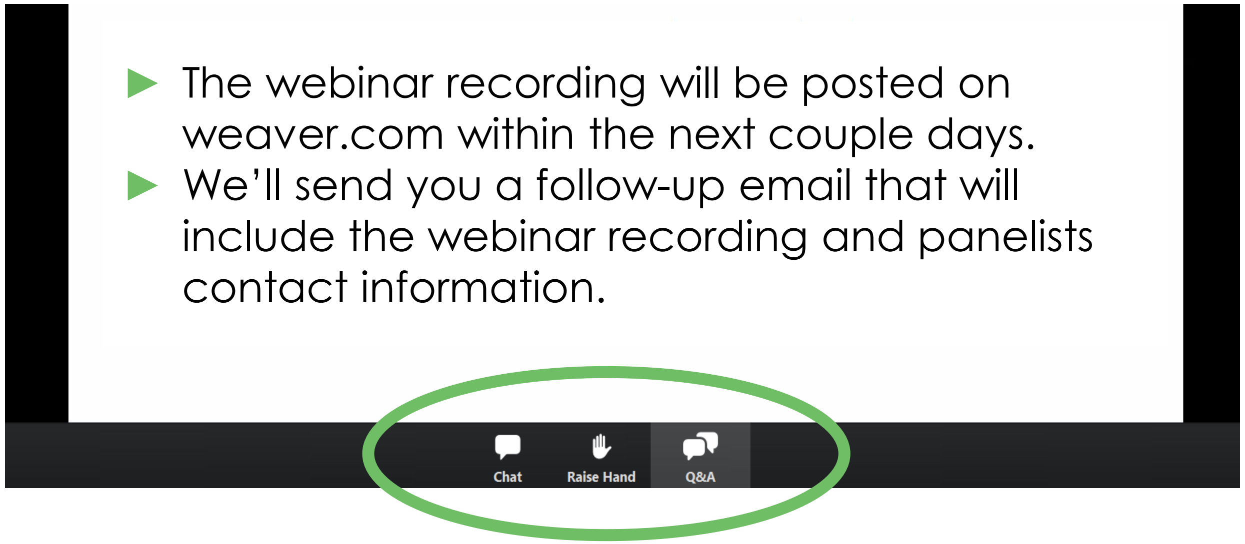

Webinar Logistics

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Today's Presenters

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Today's Agenda

- Accounting Standard Updates
- Reporting Reminders
- Regulatory Environment Update

Question #1

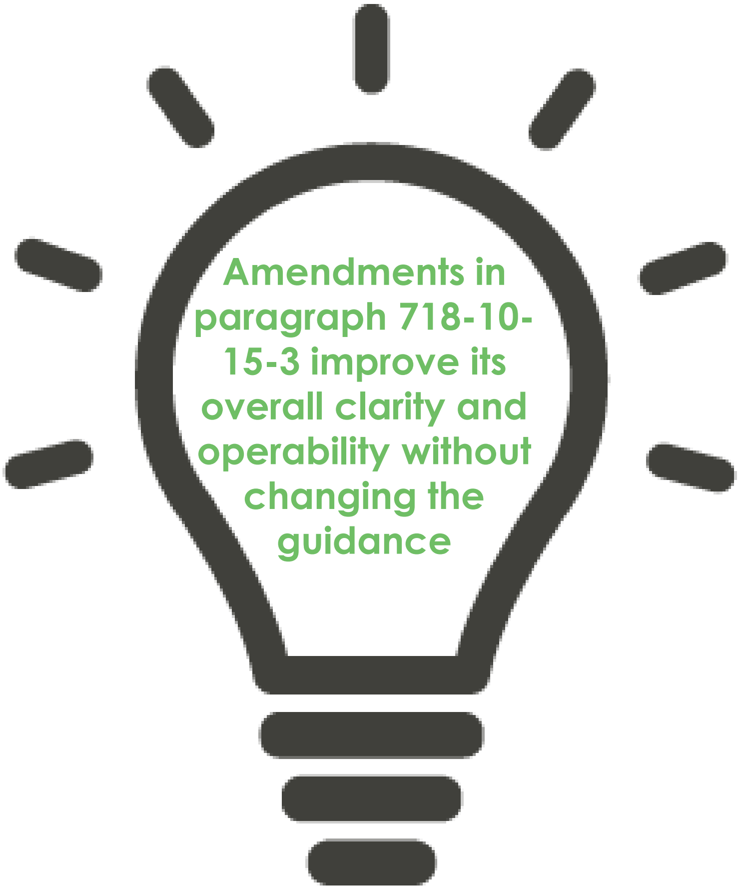
Which of the following best describes your role in your company?

a) Chief Financial Officer or Chief Accounting Officer
b) Controller
c) Financial Reporting Role or Accounting Support
d) Tax
e) Other Role

Accounting Standard Updates

Accounting Standards Update

- ASU 2024-01: *Compensation-Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards*
  - Result of diversity in practice even when evaluating similar fact patterns and complexity in determining whether a profits interest award is subject to the guidance in ASC 718 or ASC 710
  - Improves guidance by adding illustrative examples to demonstrate how an entity should apply the scope guidance in paragraph 718-10-15-3
  - Effective dates, with early adoption permitted:
    - PBEs: Annual periods beginning after **December 15, 2024**, and interim periods within those annual periods
    - All other entities: Annual periods beginning after **December 15, 2025**, and interim periods within those annual periods



Accounting Standards Update, *continued*

- ASU 2024-02: *Codification Improvements – Amendments to Remove References to the Concepts Statements*
  - References were:
    - Extraneous and not required to understand or apply the guidance,
    - nonauthoritative (paragraph 105-10-05-3), or
    - superseded, which could provide opportunities for diverse implications
  - Removing all references to concept statements in the guidance simplifies the Codification and distinguishes authoritative and nonauthoritative literature
  - Effective dates, with early adoption permitted:
    - PBEs: Fiscal years beginning after **December 15, 2024**
    - All other entities: Fiscal years beginning after **December 15, 2025**

PCAOB Update:
QC 1000, *A Firm's System of Quality Control*

Requires establishment of quality objectives, identification and assessment of quality risks, design and implementation of responses to address the risks, and monitoring of the QC system

- All Registered Firms: Required to design a QC system
- Firms that perform engagements under PCAOB standards: Required to implement and operate QC systems

Establish annual reporting requirements to the PCAOB on a new, non-public reporting form, Form QC

- Certified by key firm personnel to reinforce individual accountability

Other Provisions:

- Firm with > 100 issuers: require an external oversight function
- Specified requirements regarding technological resources
- Provide objectives regarding publication of firm and engagement metrics
- Expand auditor's responsibility to respond to deficiencies
- Establish a new standard, EI 1000, Integrity and Objectivity

Subject to approval by the SEC, the new standard will take effect on December 15, 2025

Question #2

I believe the ASUs presented today will have _____ impact on my company.

a) No
b) Minimal
c) Significant
d) Undetermined

Reporting Reminders

SEC - Final Rules/Releases (thru 5/31/2024)

Date	Release number(s)	Description
Jan 24	33-11265, 34-99418, IC-35096	Special Purpose Acquisition Companies, Shell Companies, and Projections
Feb 6	34-99477	Further Definition of "As a Part of a Regular Business" in the Definition of Dealer and Government Securities Dealer
Feb 8	IA-6546	Form PF; Reporting Requirements for All Filers and Large Hedge Fund Advisers
Feb 22	34-99582	Supplemental Standards of Ethical Conduct for Members and Employees of the SEC
Mar 6	33-11275, 34-99678	The Enhancement and Standardization of Climate-Related Disclosures for Investors
	34-99679	Disclosure of Order Execution Information
Mar 18	33-11277, 34-99752, 39-2554, IC-35155	Adoption of Updated EDGAR Filer Manual

SEC - Final Rules/Releases (thru 5/31/2024)

Compliance Dates under the Final Rules[1]						
Registrant Type	**Disclosure and Financial Statement Effects Audit**		**GHG Emissions/Assurance**			**Electronic Tagging**
	All Reg. S-K and S-X disclosures, other than as noted in this table	*Item 1502(d)(2), Item 1502(e)(2), and Item 1504(c)(2)*	*Item 1505 (Scopes 1 and 2 GHG emissions)*	*Item 1506 - Limited Assurance*	*Item 1506 - Reasonabl e Assurance*	*Item 1508 - Inline XBRL tagging for subpart 1500[2]*
LAFs	FYB 2025	FYB 2026	FYB 2026	FYB 2029	FYB 2033	FYB 2026
AFs (other than SRCs and EGCs)	FYB 2026	FYB 2027	FYB 2028	FYB 2031	N/A	FYB 2026
SRCs, EGCs, and NAFs	FYB 2027	FYB 2028	N/A	N/A	N/A	FYB 2027
	1 As used in this chart, "FYB" refers to any fiscal year beginning in the calendar year listed. 2 Financial statement disclosures under Article 14 will be required to be tagged in accordance with existing rules pertaining to the tagging of financial statements. *See* Rule 405(b)(1)(i) of Regulation S-T.					

SEC - Final Rules/Releases (thru 5/31/2024)

Date	Release number(s)	Description
Mar 19	34-99778, IC-35157	Share Repurchase Disclosure Modernization – technical amendments
Mar 27	IA-6578	Exemption for Certain Investment Advisers Operating Through the Internet
May 16	34-100155, IA-6604, IC-35193	Regulation S-P: Privacy of Consumer Financial Information and Safeguarding Customer Information

Cyber Security

Smaller Reporting Companies are now required to comply with the SEC's cybersecurity rules regarding disclosure of material incidents

- SRCs had an additional 180 days to comply after initial effective date of December 18, 2023

Disclosure requirements under Form 8-K, Item 1.05 *Material Cybersecurity Incidents*

- Requires disclosure of <u>material</u> cybersecurity incidents
- Filed within four days of determining an incident was material
- Disclose nature, scope and timing of incident
- Disclose impacts, or reasonably likely impacts, of incident

Filer Status

A REGISTRANT'S FILER STATUS IS CRITICAL AND DRIVES

- Filing timelines
- Financial statement requirements
- Effective dates requiring the adoption of certain SEC regulations
- Sarbanes-Oxley requirements
  - Non-accelerated filers not subject to requirement under Section 404(b) to obtain an audit report on ICFR

Filing Status Overview (Initial Measurement)

	REQUIREMENTS			
Category of Filer	**Public Float**	**Annual Revenues**	**Form 10-K Deadline**	**Form 10-Q Deadline**
Large Accelerated Filer (LAF)	$700 million or more	No requirement	60 days after fiscal year-end	40 days after quarter end
Accelerated Filer (AF)	$250 million to less than $700 million	$100 million or more	75 days after fiscal year-end	40 days after quarter end
Smaller Reporting Company (SRC) and Non-Accelerated Filer (NAF)	$75 million to less than $700 million	Less than $100 million	90 days after fiscal year-end	45 days after quarter end
Smaller Reporting Company and Accelerated Filer	$75 million to less than $250 million	$100 million or more	75 days after fiscal year-end	40 days after quarter end
Emerging Growth Company (EGC)	Less than $1B in non-convertible debt over 3 years	Less than $1.235 billion	Follows Accelerated / Non-Accelerated	Follows Accelerated / Non-Accelerated

Remeasurement Thresholds

The previous slide provided thresholds for measuring filer status and entering a new filer status. Certain reduced thresholds exist for existing filer status and remeasurement events.

FLOAT

- Moving from Accelerated to Nonaccelerated
  - $60 million
- Moving from Large Accelerated to Accelerated
  - $560 million

REVENUE

- If previously disqualified as SRC due to exceeding revenue threshold, a company can regain SRC status* if revenues fall below $80 million

**subject to public float thresholds*

Measurement: When to Measure?

- Determination of filer status occurs at the **end of the issuer's fiscal year**. Changes impact that year's annual filings, and subsequent quarterly and annual filings.
- Annual revenue measurements are based on the most recently <u>completed</u> fiscal year for which audited financial statements are available.
- Public float is measured on the last business day of the second fiscal quarter (i.e., June 30 for calendar year-end companies).
  - Remember, public float is aggregate market value of issuer's outstanding voting and nonvoting common stock <u>held by non-affiliates</u>.

Potential Consequences

While certain automatic extensions exist for filers with the filing of appropriate forms, failure to comply with filing deadlines could have severe potential consequences, including:

- Monetary fines
- Regulatory investigation
- Shareholder lawsuits
- Delisting from stock exchanges, or rendering existing registrations ineffective

Emerging Growth Companies

- Qualifications of an EGC:
  - Total annual gross revenues of less than $1.235 billion during the most recently completed fiscal year
  - Not issued more than $1.0 billion of non-convertible debt in the past three years (ongoing assessment)
  - Does not qualify as a large accelerated filer
- Retain EGC status for up to five years, or earlier if the entity becomes a large accelerated filer or no longer complies with the other requirements

When are Pro Forma FS Required?

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COMPANIES MUST PRESENT PRO FORMA FINANCIAL STATEMENTS UNDER REGULATION S-X, ARTICLE 11 WHEN ANY OF THE CONDITIONS EXIST:

- A significant acquisition of a business has occurred
- Subsequent to the most recent period end, consummation of a significant business acquisition has occurred or is probable
- Disposition of a significant portion of a business (sale, spin-off, split-up or split-off) has occurred or is probable
- Roll-up transactions
- Other transaction has occurred or is probable for which disclosure of pro forma financial information would be material to investors

What is Significant?

- Pro formas are triggered when an acquisition or disposal is more than 20% significant to a registrant based on an asset, investment or income test
- Also required if an acquired business of the registrant consummated a significant acquisition of its own during the year (if material to registrant)
- Consider aggregate significance of transactions that are not individually significant
  - If aggregate significance exceeds 50% for any test, then the transactions are included in the pro formas as the aggregate effect of all individually insignificant transactions

Reporting Requirements

PRO FORMA FINANCIAL INFORMATION UNDER ARTICLE 11 REQUIRED IN:

- Form 8-K, under Item 2.01, along with audited financial statements of the acquired business as required.
  - Automatic 71-day extension for acquisitions available for acquisitions
- Registration statements and certain proxy statements

ASC TOPIC 805 - BUSINESS COMBINATION, REQUIREMENTS:

- Substantially less detailed than Article 11, generally requiring revenue and earnings
- ASC 805 does not provide guidance on pro forma adjustments and typically the guidance in Article 11 is utilized

Article 11 Pro Forma Reporting

- Balance sheet (most recent balance sheet date reported)
- Statements of comprehensive income (most recent annual period, and subsequent year-to-date interim period)
- Accompanying explanatory notes describing adjustments

Effects of purchase accounting

Debt or equity financing to complete the acquisition

Amortization/depreciation adjustments

Transaction costs and certain compensation arrangements

Management's adjustments

Question #3

Which of the following statements is false?

a) The revenue threshold for initially qualifying as an SRC is $75 million or less.
b) Nonaccelerated filers have an additional 5 days to file Form 10Q
c) Nonaccelerated filers have 90 days to file Form 10K
d) A company with a public float of more than $700 million cannot qualify as a smaller reporting company

Regulatory Environment Update

SEC Enforcement

The list of SEC focus areas continues to grow:

- Civil penalties
- Whistleblowers
- ESG
- Cybersecurity
- Executive perks
- Rule 10b5-1
- Insider trading
- Reporting of insider transactions
- Section 304(a) clawbacks
- Self-reporting and cooperation
- Crypto
- Non-GAAP disclosures

SEC Enforcement

2023 WAS AN AGGRESSIVE YEAR BY THE SEC

- 784 enforcement actions (+3% YoY)
- $4.95B in financial remedies (2nd highest ever)
- Barring of 133 individuals from serving as officers/directors
- Whistleblower program awards - $600M (highest ever)

2024 IS ON PACE FOR MORE OF THE SAME

- Increased willingness of companies to litigate/challenge the SEC
- New resources and capabilities for the SEC

PCAOB Enforcement

The list of PCAOB focus areas continues to grow:

RESPONSE TO BUSINESS RISKS	INSPECTION CONSIDERATIONS	FOCUS INDUSTRIES
High interest rates	Recurring deficiencies	Financial Services
Inflation	Sufficiency of audit evidence	Technology
Fraud risks and complexity	Understanding the Company	
	Going Concern	
	CAMs	
	Digital Assets	
	Cybersecurity	
	Use of Data and Technology	

In the News – AI Washing

- Exaggerating or misrepresenting use of AI to attract investors
- The new "Greenwashing"
- Be aware of false or misleading statements – be skeptical
- March 2024 – Two enforcement actions due to false and misleading statements on use of AI
- Past studies show Startups labelling as "AI" attract 15% to 50% more funding
  - Past study also shows 40% of Companies marketing AI do not use it in any material way

"We've seen time and again that when new technologies come along, they can create buzz from investors as well as false claims by those purporting to use those new technologies."

- Gary Gensler
SEC Chairman

In the News – Crypto

- ASU 2023-08 Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets
- To be in scope, the asset must meet the following criteria:
  - Intangible asset
  - Secured through cryptography
  - Created or resides on a distributed ledger
  - No rights to other assets
  - Not created by the entity or a related party
  - Fungible
- Measured at fair value with changes through earnings
  - Improvement – previously, recognize impairment loss without recognizing gains

In the News – Crypto

- Increased institutional investors and public company investment expected due to the ability to recognize gains
- Fair value determination is challenging – variable inter-day price swings
- Standard is narrow in scope – challenging for out-of-scope assets
- SEC has had a string of legal victories combating challenges of over-regulation and violating investor-protection rules
- SEC stance is regulation for stocks/bonds should apply to crypto, while Crypto execs/lawyers push for distinction

Question #4

Would you like a team member from Weaver to contact you for more discussion around any of today's topics?

a) Yes
b) No

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Questions?

CPE Credit:

- Be sure to complete the evaluation survey for today’s event.
- When you participate in at least 50 minutes of this webinar, respond to the polling questions and complete the survey, your CPE certificate will be delivered in about **one week** via email.

ACCOUNTING & SEC UPDATE

REGISTER NOW TO MARK YOUR CALENDAR FOR UPCOMING SESSIONS!

Thursday, September 19 | 1:00 PM CST | Weaver's Accounting and SEC Update, Q3 2024

Thursday, December 12 | 1:00 PM CST | Weaver's Accounting and SEC Update, Q4 2024

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