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ACCOUNTING & SEC UPDATE

THURSDAY, March 21, 2024 | 1:00 PM CST

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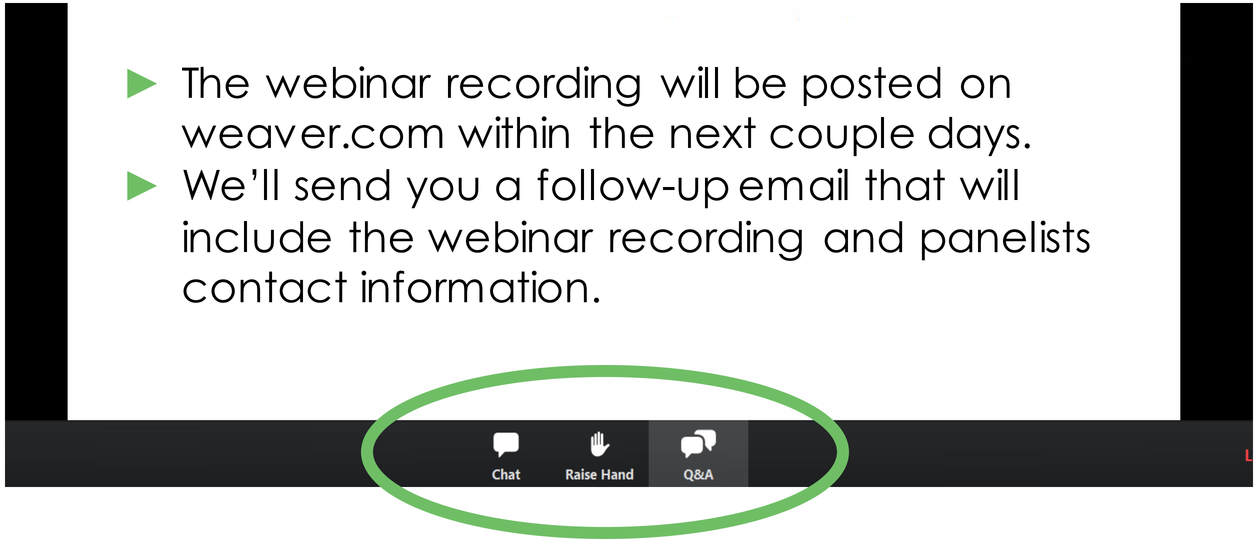

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Today's Agenda

- Accounting Update
- Estimating your Effective Tax Rate and other Q1 ASC 740 considerations
- SEC's final Climate Change rules
- Market Challenges and Opportunities Impacting the Risk Assessment
- Use of AI in ICFR

Accounting 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

ASU 2023-07: Segment Reporting (Topic 280)

- Issued on November 27, 2023; this ASU amends Topic 280 to improve reportable segment disclosure, primarily through enhanced disclosures about **significant segment expenses**, and extending requirements to companies with only one segment.
- Goal of ASU is to provide incremental segment information to enable investors to develop more decision-useful financial analysis.
- The ASU also updates disclosure requirements around:

Other Segment Items	Interim Disclosures	Multiple measures of segment profit/loss	CODM Title and Position	Entities with Single Reportable Segments	Recasting of prior-period segment information

- Effective for public entities with fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted.
- See illustrative example at ASC 280-10-55-46 through 48.

Significant segment expenses

- Required to disclose these by reportable segment, and how they are used, if they are:
  - Significant to the segment,
  - Regularly **provided to**, or easily computed from the information provided to, the chief operating decision maker (CODM), and
  - Included in the reported measure of segment profit or loss.
- Examples: Direct expenses, shared expenses, allocated corporate overhead, or interest expense, in the case of a financial services entity.
- No quantitative threshold to assess significance, but rather, it requires significance to be assessed using both quantitative and qualitative factors.
- "Regularly provided" ≠ "Regularly reviewed"
  - CODM may receive segment information by different means, like hardcopy vs. email or at regularly scheduled meetings.
  - Must review reporting processes and confirm understanding of what's given to the CODM.

ASU 2023-07: Segment Reporting (Topic 280)

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Other Segment Items	Public entities are required to disclose "other" segment items by reportable segment. Such a disclosure would constitute the difference between reported segment revenues less the significant segment expenses (disclosed) less reported segment profit or loss.
Multiple measures of segment profit/loss	Public entities may disclose more than one measure of segment profit or loss used by the CODM, provided that at least one of the reported measures includes the segment profit or loss measure that is most consistent with GAAP measurement principles.
CODM Title and Position	Disclosure of the CODM's title and position is required on an annual basis, as well as an explanation of **how the CODM uses** the reported measure(s) and other disclosures.
Entities with Single Reportable Segments	Public entities must apply all of the ASU's disclosure requirements, as well as all existing segment disclosure and reconciliation requirements in ASC 280, on an annual and interim basis, even if the Company does not have multiple segments.
Recasting of prior-period segment information	Recasting is required if segment information regularly provided to the CODM is changed in a manner that causes the identification of significant segment expenses to change.

Effective Dates in Calendar Year 2024

Effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years (*unless noted*):

ASU	Topic
2020-06	Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)*
2022-03	Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions
2022-04	Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations**
2023-01	Leases (Topic 842): Common Control Arrangements
2023-02	Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method
2023-07	Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures***

* Applicable for smaller reporting companies
** Rollforward of the supplier finance program obligations is effective for fiscal years beginning after December 15, 2023
***Interim periods within fiscal years beginning after December 15, 2024

While already effective, the ASUs related to reference rate reform (ASU 2021-01 and 2022-06) sunset deferral dates end on December 31, 2024.

Effective Tax Rate and Q1 ASC 740 Considerations

FIN 18 Effective Tax Rate Approach

- Under the "FIN 18 approach" a Company estimates it's projected pretax earnings for the year and projected permanent difference items to calculate the Effective Tax Rate (ETR) that will be applied consistently to IBIT on a quarterly basis.
- It is critical to thoroughly analyze projections for the fiscal year to identify potential permanent book-to-tax differences to calculate an appropriate ETR. Common permanent items to consider include:

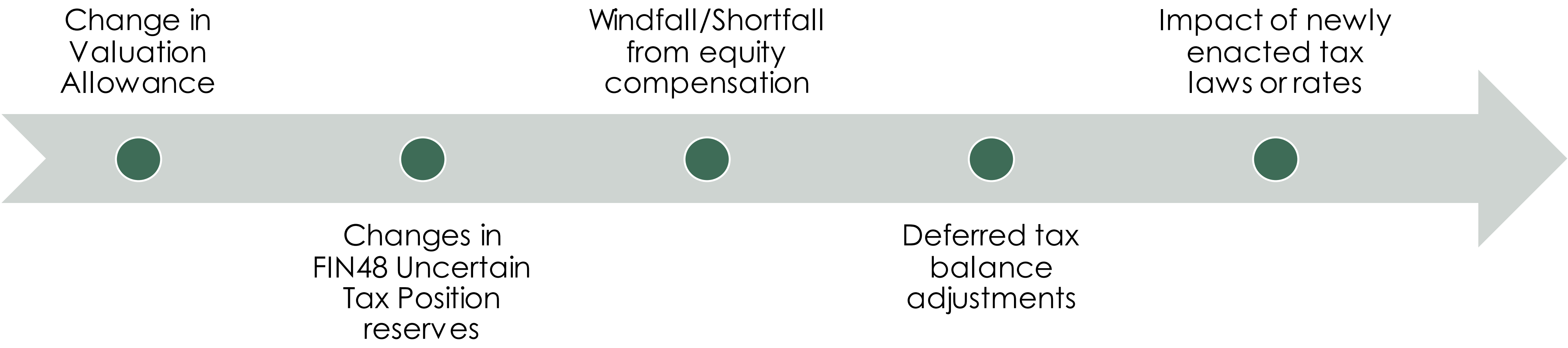
Section 162(m) compensation deduction limitations	Fines and penalties	Transaction costs	Meals & Entertainment

FIN 18 – Highly Oversimplified Example

	ETR Calculation	Q1 ETR Application	Q2 ETR Application	Q3 ETR Application	Q4 Actuals
Projected IBIT	100,000	20,000	50,000	10,000	110,000
Projected:					
Fines	10,000				15,000
M&E	5,000				5,000
162(m) Limitation	5,000				10,000
Projected Taxable Income	120,000				140,000
Fed + State Tax Rate	25%				25%
Total Tax	30,000				35,000
Effective Tax Rate (Tax / IBIT)	30%	30%	30%	30%	31.8%
Tax Expense	30,000	6,000	15,000	3,000	35,000

FIN 18 Effective Tax Rate Approach

- While the ETR is applied each quarter to IBIT as earned, certain items impact the tax rate "discretely" in the quarter in which such items occur. Common examples of discrete items include the following:



ETR Considerations

- Reevaluate Valuation Allowance facts and circumstances during Q1 to timely adjust the allowance concurrently with changes in estimate as to the need for the Valuation Allowance.
  - Will you be exiting/entering a three-year cumulative pretax book loss status?
  - Have the reversal patterns of existing Deferred Tax Assets and Deferred Tax Liabilities been analyzed?
  - Have changes to the business operations impacted the ability to use Deferred Tax Assets that have previously been/not been subject to a valuation allowance?
- Evaluate changes in geographic footprint:
  - Have you entered new states that would require a change to the overall state effective rate?
  - Have you entered new non-U.S. jurisdictions where that may impact your global tax rate?
- Reevaluate FIN48 Uncertain Tax Positions:
  - Has statute lapsed on any positions?
  - Have there been changes to tax law that would impact the evaluation of the uncertain tax position?
  - Are adequate penalties and interest being accrued discretely?

Other Q1 Considerations

- Deferred tax rate changes
- Expiring tax attributes (e.g., NOL)
- Proof of Taxes Payable / Receivable
- Consider planned M&A, business expansion, or divestures in projections and ETR considerations
- Section 382 Limitations

Question #2

Which of the following are the most challenging tax reporting issues to your Company?

a) Effective Tax Rate Reconciliation
b) Cash Taxes Paid
c) Valuation Allowance
d) FIN 48 Uncertain Tax Positions
e) All the above

Climate Change Updates

SEC Climate Change Rules Update

The Enhancement and Standardization of Climate-Related Disclosures for Investors

(SEC Release Nos. 33-11275; 34-99678)

Announcement:

Final rules were announced on March 6, 2024, after the original proposed rules were introduced back in March 2022

Applicability:

All foreign and domestic corporations that file registration statements or periodic reports with the SEC

Purpose:

Enhance and standardize climate-related disclosures

Provide guidance and framework to efficiently and effectively disclose these climate-related matters

SEC Climate Change Rules Update

- Climate-related risks that have had or are reasonably likely to have a material impact on the registrant's business strategy, results of operations, or financial condition.
- The actual and potential material impacts of any identified climate-related risks on the registrant's strategy, business model, and outlook.
- Any oversight by the board of directors of climate-related risks and any role by management in assessing and managing the registrant's material climate-related risks.
- Information about a registrant's climate-related targets or goals, if any, that have materially affected or are reasonably likely to affect the registrant's business, results of operations, or financial condition.
- The capitalized costs, expenditures expensed, and losses related to carbon offsets and renewable energy credits or certificates (RECs) if used as a material component of a registrant's plans to achieve its disclosed climate-related targets or goals, disclosed in a note to the financial statements.
- Any processes the registrant has for identifying, assessing, and managing material climate-related risks and, if the registrant is managing those risks, whether and how any such processes are integrated into the registrant's overall risk management system or processes.

SEC Climate Change Rules Update

GHG EMISSIONS QUANTITATIVE REPORTING REQUIREMENTS

- The final rules include quantitative reporting on direct GHG emissions (Scope 1) and indirect GHG emissions from purchased electricity and other forms of energy (Scope 2), separately disclosed.
- For large accelerated filers (LAFs) and accelerated filers (AFs) that are not otherwise exempted, information about material Scope 1 emissions and/or Scope 2 emissions will be required to be disclosed, accompanied by an attestation report over a phased-in period.
- Companies that are required to disclose Scope 1 and/or Scope 2 emissions will be required to have independent audits, initially with limited assurance and, following a transition period, reasonable assurance.
- The SEC's final release dropped the requirement for companies to report emissions from across the company's supply chain, referred to as Scope 3 emissions.
- However, Scope 3 emissions reporting is still included in California's Climate Corporate Data Accountability Act (CCDAA) and the EU's Corporate Sustainability Reporting Directive (CSRD).

SEC Climate Change Rules Update

ATTESTATION REPORT REQUIRED FOR ACCELERATED/LARGE ACCELERATED FILER

- Attestation report:
  - Cover, at a minimum, Scopes 1 and 2 emissions disclosure
  - Obtain from qualified independent attestation service provider, expert qualified in GHG emissions
  - Contain details about subject matter and criteria, evaluation of the time horizon and which attestation standard was used
  - Must indicate the level of assurance that is provided, information about the engagement including any inherent limitations, and the provider's conclusion or opinion based on the applicable standard used
- Disclosures about attestation service provider:
  - Whether the attestation provider is licensed to provide assurances, is subject to any record-keeping requirements specific to an engagement, and subject to any oversight inspection programs

SEC Climate Change Rules Update

KEY DATES BY SEC REGISTRANT TYPE ARE AS FOLLOWS:

COMPLIANCE DATES[1]

	Climate Impact Disclosures	GHG Emissions & Related Assurance		
Registrant Type	Disclosures Other than GHG Emissions[2]	Scopes 1 & 2 GHG Emissions	Limited Assurance	Reasonable Assurance
Large Accelerated Filer	FYB 2025	FYB 2026	FYB 2029	FYB 2033
Accelerated Filer (other than SRCs and EGCs)	FYB 2026	FYB 2028	FYB 2031	N/A
Non-Accelerated Filer Smaller Reporting Companies (SRC) & Emerging Growth Companies (ECG)	FYB 2027	N/A	N/A	N/A

[1] "FYB" refers to any fiscal year beginning in the calendar year listed.

[2] The effective date is one year later for three Regulation SK disclosures (Item 1502(d)(2), 1502(e)(2), and 1504(c)(2) related to the impact of certain expenditures incurred and material impacts on certain financial estimates and assumptions.

Important to remember:

1. The SEC can inform public markets about ESG risks and can work with private companies as well.

2. The SEC **CANNOT** tell companies to reduce their carbon emissions.

3. The SEC **CAN** provide disclosure standards to improve quality, comparability and consistency of that data for the market's use.

SEC Climate Change Rules Update

HOW TO PREPARE

1. Evaluate disclosure timelines and scoping requirements

2. Identify / Engage Emissions Reporting Team
   - Data Assurance
   - Emissions Measurement
   - Risk Identification
   - Strategy
   - Reporting

3. Review data collection process and resources

4. Implement data tracking, monitoring, and reporting measures

5. Incorporate into Sustainability / ESG Reporting Program in preparation

Question #3

Which of the following best describes your company’s readiness for the new SEC climate-related disclosure rule?

a) We feel ready - we are already voluntarily reporting our Scope 1 emissions, Scope 2 emissions and other climate risk information in our ESG/Sustainability report.
b) We have reported some of our emissions metrics, but further maturity will be necessary.
c) We feel good about reporting on Scope 2 emissions, but Scope 1 still needs some work.
d) We feel good about reporting on Scope 1 emissions, but Scope 2 still needs some work.
e) We do not have a good sense on where our company stands today.

Market Challenges and Opportunities Impacting the Risk Assessment

Challenges/Opportunities Impact on Risk

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RISK MANAGEMENT

DATA LITERACY

WORKFORCE CAPABILITIES

THIRD PARTY MANAGEMENT

CYBER SECURITY

Improving the Customer Experience

- Personalization and Customization
- Omnichannel Experience
- Voice and Chat Interfaces

Leveraging Emerging Tech and Business Practices

- Artificial Intelligence and Machine Learning
- Internet of Things (IoT)
- Cloud Computing and Edge Computing

Preparing Your Future Workforce

- Upskilling and Reskilling
- Remote Work and Flexible Work Arrangements
- Diversity and Inclusion

Legacy Modernization

- Digital Transformation
- Agile and DevOps Practices
- Cloud Migration

Operating Budget Pressures

- Managing Resources, Operations and Technology

Data Governance & Management

- Data Privacy and Security
- Data Analytics and Insights
- Data Governance Frameworks

TRAINING

CULTURE

POLICY & REGULATION

CHANGE MANAGEMENT

STRATEGY & SUCCESSION PLANNING

Other Impacts on Risk

Regulatory Compliance

- Increasing Regulations
- Global Harmonization

Cybersecurity and Data Privacy

- Heightened Cyber Threats
- Data Privacy Regulations

Third and Fourth Party

- Service Quality
- Service Performance
- Data Security and Privacy
- Regulatory Compliance
- Business Continuity
- Transparency/Oversight

The risk assessment should be an ongoing process. These risks should extend to those areas that are prevailing due to social, political, and economic trends.

Use of AI in ICFR

Artificial Intelligence

- Artificial Intelligence (AI) is increasingly impacting Internal Control over Financial Reporting (ICFR) in various ways:
  - Process Automation
  - Data Analysis and Validation
  - Continuous Monitoring
  - Predictive Analytics
  - Fraud Detection and Prevention
  - Natural Language Processing (NLP) in Compliance
  - Audit and Assurance Support
    - Identifying high-risk areas
    - Selecting appropriate samples for testing
    - Assist in audit procedures
  - Risk Assessment

What are the AI benefits?

- Reduce the risk of human error and inconsistency
  [Enhance Accuracy]
- Detect anomalies, patterns, and potential control weaknesses, enabling prompt corrective actions
  [In-Depth Analysis]
- Strengthen control mechanisms to prevent and detect financial fraud
- Improve their compliance efforts, ensuring adherence to relevant regulations and standards
- Increase efficiency in executing control activities, reducing the time and effort required for manual tasks
- Ability to address emerging risks effectively
- Reduce operational costs associated with ICFR (time, resources, and potential error rectification)
- Generate detailed audit trails and logs, providing a transparent record of control activities and outcomes
- Improve decision making

What are the AI challenges specific to ICFR?

- Model Bias: Biased models may result in inaccurate or unfair decisions, affecting the effectiveness of control mechanisms.
- Data Quality Issues: Poor data quality, such as incomplete or inconsistent data, can lead to flawed results and compromise the reliability of AI-enabled control mechanisms.
- Lack of Interpretability: AI systems often employ complex algorithms and techniques that can be difficult to interpret and explain.
  - How did AI arrive at specific decisions or conclusions?
  - Transparency and interpretability are crucial for audits, regulatory compliance, and effective control assessment.
- Potential Cybersecurity Threats:
  - Manipulate AI systems
  - Compromise data integrity
  - Gain unauthorized access to sensitive information.

What to do now?

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Risk Assessment

Conduct a comprehensive risk assessment to identify and evaluate potential risks associated with AI adoption in ICFR.

- AI models
- Data sources
- Integration points

Data Management

Implement effective data governance practices to ensure data quality, integrity, and security across the AI-enabled ICFR processes.

- Data governance frameworks
- Data cleansing
- Validation
- Data protection process and controls

Model Validation

Establish validation processes to assess the accuracy, reliability, and fairness of AI models used in ICFR.

- Model development
- Testing
- Biases Assessment
- Ongoing monitoring

Explain-ability and Auditability

Choose AI models and techniques that offer transparency and interpretability to facilitate scrutiny by auditors and regulatory bodies.

- Audit trails
- Documentation and explain-ability features

Continuous Monitoring

Regularly monitor the performance, effectiveness, and security of AI-enabled control systems.

- AI models
- Data inputs
- Data outputs
- Encryption, Access Controls, Intrusion Detection, Security Audits

Collaboration with Experts

Seek external expertise from auditors, data scientists, or consultants.

- Proper implementation
- Validation
- Compliance with regulations and standards

How to approach process automation with an ICFR mindset

1. Understand the process, tasks and activities that are being automated.
2. Assess the design of the implementation, including the workflow, control logic, and exception handling mechanisms.
3. Review process documentation, configuration settings, change logs, and user manuals.
4. Identify the key data sources used and assess quality, accuracy, and relevance.
5. Evaluate the change management processes for code releases or updates, including testing procedures performed to ensure accuracy and reliability.
6. Understand the monitoring activities, exception reporting, and error handling procedures to ensure the continued effectiveness of controls in the automated process.
7. Understand access controls, encryption, data segregation, and mechanisms to prevent unauthorized changes or data breaches.
8. Assess whether robust audit trails and logging mechanisms are in place.
9. Perform data testing and validation of the solution outputs (compared to expected outcomes) to ensure accuracy and completeness of the automated financial reporting process.

What are examples of ICFR continuous monitoring through AI?

1. **Financial Transaction Monitoring** - Detect unusual transaction patterns, high-risk transactions, or potential fraudulent activities.
2. **Operational Process Monitoring** - Analyze process metrics to identify process variations or control breakdowns.
3. **Compliance Monitoring** - Analyze relevant regulations, laws, and guidelines, and whether operations, transactions, or financial reporting adhere to compliance requirements.
4. **Data Quality Monitoring** - Detect issues such as inconsistent, incomplete, or inaccurate data.
5. **Controls Testing** - Automate the testing of controls.

Question #4

Which of these topics would you like to learn more about?

a) Income taxes
b) Cybersecurity
c) Climate Change rules and disclosures
d) Segment reporting
e) Internal Controls

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Questions?

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ACCOUNTING & SEC UPDATE

REGISTER NOW TO MARK YOUR CALENDAR WITH OUR 2024 DATES!

Thursday, June 20| 1:00 PM CST | Weaver's Accounting and SEC Update, Q2 2024

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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SCAN ME

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Join us for our upcoming webinar in April!

The SEC Climate Rule: Simplifying the Climate Disclosure Requirements and Providing Practical Strategies

RESERVE YOUR SEAT TODAY!