QUARTERLY FINANCIAL SERVICES UPDATE

First Quarter 2023

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From the adoption of CECL on January 1, 2023 (for most community banks) to a chaotic few weeks involving bank failures and a winddown, the first quarter of 2023 was nothing short of exciting. In this edition of our quarterly accounting and reporting update, we have highlighted the regulatory focus on crypto-assets and included a comparison of CECL model validations to an internal audit.

In addition to the items above, we have provided information about other financial reporting and accounting issues – some of which are currently being evaluated by regulatory agencies and not resolved at this time. We have also compiled a list of items for consideration in your financial reporting and disclosures for the first quarter and a summary of recently issued accounting pronouncements (see Appendices for summary of recently issued accounting pronouncements and the related effective dates).

This quarterly update is organized as follows:

Frequent Topics of Discussion across the Industry

CECL Model Validations and Internal Audits

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Fifteen years after the financial crisis that led to its creation and six and a half years since the issuance of ASU 2016-13, the implementation date for current expected credit loss methodology (CECL) has ***finally*** come and gone. As with many areas of CECL, regulatory guidance explaining when model validations are warranted versus when an internal audit may be appropriate, has been infrequent and ambiguous. To make this determination more confusing, there are wide-ranging definitions of the word "validation" being used by vendors across the industry. In this article, we discuss the difference between an internal audit and a validation and provide some perspective on items to be considered when making the determination as to which is more appropriate for your institution.

Model Validation

While the specific procedures performed during a validation may vary depending on an institution's selected methodology and model design, there are a core set of procedures that should be considered, based on guidance found in the Federal Reserve's SR Letter 11-7. When discussing model validation procedures with institutions, we have found it easiest to bucket the validation framework into three categories: (1) Model Governance, (2) Conceptual Design, and (3) Technical Construct. Those buckets can be summarized as follows:

Model Governance - examination of the documentation, internal controls, and processes surrounding the model, including:

- Formal documentation (policies, procedures, model whitepapers, etc.)
- Internal control framework (design and operating effectiveness)
- Model oversight (by both management and the Board)
- Outcomes analysis / backtesting (design and operation)
- Sensitivity analysis / stress testing (design and operation)

Conceptual Design - Evaluation of the appropriateness and supportability of model elections and assumptions deployed, such as:

- Model methodology
- Loan segmentation
- Intentional exclusions (immaterial loan segments, securities, etc.)
- Use of peer data
- Reasonable and supportable forecast
- Simplifying assumptions / overrides
- Individually evaluated loans (methods for identification and evaluation)
- Qualitative factors (methods for selection, anchoring and ongoing adjustment)
- Unfunded commitments (methods for deriving funding expectations and expected losses)

Technical Construct - Testing and independent recalculation of model and upstream mathematics, including:

- Model inputs
- Accurate segmentation (both balances and losses/defaults)
- Peer derived data points
- Manual overrides
- Upstream inputs (attrition rates, prepayment rates, probability of default rates, loss given default rates, remaining lives, etc.)
- Individually evaluated loans
- Qualitative factors
- Model outputs

Frequent Topics of Discussion across the Industry, *continued*

Collectively, the *Technical Construct* procedures should result in an end-to-end recalculation of the model logic at the segment and loan levels. Procedures should also verify that the segment-level information is being appropriately applied at the loan-level, and vice versa, when applicable.

Based on our continued review of model validation reports, we see significant disparity in the level of detail with which engagements are performed. Below, we have highlighted a couple items to be considered when developing a validation plan or reviewing proposals from external providers:

Use of Challenger Models
While running a challenger model can serve as a "gut check" for the reasonableness of model outputs, it does not comply with validation expectations as set forth in SR 11-7. Using this approach provides no assurance that the model is performing as expected, nor does it prove that the model is in alignment with its design objectives.

End-to-End Reperformance of Model Logic
Contrary to the approach above, the end-to-end reperformance of a model's logic will provide the highest level of assurance that mathematical equations and application of assumptions within the model are working in the intended manner. These procedures will vary depending on model methodology but should include the recalculation of components like historical loss rates, prepayment rates, remaining maturity, and funding rates. It should also include reperformance of linear regressions or other mathematical methods of forecasting and qualitative factor processes. Lastly, these procedures should include the tracing of model outputs being applied at the loan level back to their segment-level derivation. An example of this would be tying probability of default and loss given default rates applied to a loan back to the corresponding segment-level calculation from which they were derived.

Mathematical Accuracy of Manual Inputs/Overrides
We often find institutions using manual overrides for key assumptions in their model. These overrides typically include components like peer derived loss rates, prepayment speeds borrowed from interest rate risk models, and subjective funding rate assumptions. These inputs are likely key drivers of model outputs and should be thoroughly evaluated as part of the validation. CECL model validation procedures should include a reconciliation of these data points back to their origins and, if not tested elsewhere, a recalculation of mathematical formulas used to derive the values. Furthermore, given the static nature of override values within a model, these values should be challenged and stressed regularly. Knowing the correlation between changes in these factors and the model output is crucial to demonstrating a thorough understanding of the model and knowing how to best manage it moving forward.

Internal Audit
Since institutions and service providers have their own unique methods for performing risk assessments and developing audit plans, there is wide variability in the depth of internal audits being performed over CECL. While this variability is reasonable and expected, we recommend that the following items be considered as a baseline when developing an audit plan:

- Review and approval of policies
- Adequacy of management and board oversight
- Administration of the model in accordance with applicable guidance and internal policies
- Review and approval of material changes to the model (segmentation, methodology, assumptions, etc.)
- Effectiveness of management review controls
- Proper application of qualitative factors
- Reporting and disclosures (compliance with GAAP and regulatory guidance)
- Existence of outcomes analysis / backtesting
- Existence of sensitivity analysis / stress testing
- Remediation of previously identified issues
- Adequacy and objectivity of model validation activities

Frequent Topics of Discussion across the Industry, *continued*

To date, many internal audit procedures have revolved around model development, design effectiveness of internal controls, and planned model governance. As we move forward and the industry shifts its focus from implementation to administration, we expect the scope of audits to transition towards being more heavily focused on operational effectiveness. Furthermore, we expect to see a higher emphasis placed on monitoring activities such as outcomes analysis (back testing) and sensitivity analysis (stress testing).

Which Do I Need?
Supervisory guidance on model risk management (SR 11-7) states:

> *Validation activities should continue on an ongoing basis after a model goes into use, to track known model limitations and to identify any new ones. Validation is an important check on model use during periods of benign economic and financial conditions, when estimates of risk and potential loss can become overly optimistic, and when the data at hand may not fully reflect more stressed conditions. Ongoing validation activities help to ensure that changes in markets, products, exposures, activities, clients, or business practices do not create new model limitations. For example, if credit risk models do not incorporate underwriting changes in a timely manner, flawed and costly business decisions could be made before deterioration in model performance becomes apparent.*
>
> *Banks should conduct a periodic review—at least annually but more frequently if warranted—of each model to determine whether it is working as intended and if the existing validation activities are sufficient. Such a determination could simply affirm previous validation work, suggest updates to previous validation activities, or call for additional validation activities. Material changes to models should also be subject to validation. It is generally good practice for banks to ensure that all models undergo the full validation process, as described in the following section, at some fixed interval, including updated documentation of all activities.*

Our interpretation of this excerpt is that institutions should continue to monitor their models through validation-based activities. Generally, the industry supports institutions setting a cadence in which they receive a full validation every "#" year(s), with internal audits performed in the year(s) between. What exactly that cadence looks like will vary, depending on many factors including: the opinions of regulators and external auditors, the size and complexity of the institution, the nature and complexity of the model, changing economic conditions, and whether there have been adjustments to key model inputs, assumptions, or calculations. Situations in which there is a strong case for electing a validation include, but are not limited to:

- An internally developed model has been deployed but not yet validated
- An outsourced model, lacking a model certification, has been deployed but not yet validated
- The institution is subject to an internal controls over financial reporting audit (FDICIA or SOX)
- The model has been previously validated, and there were significant findings/exceptions identified
- The model has been previously validated, but there have been substantial changes made

In closing, guidance around when a validation is necessary is ambiguous and open to interpretation. Ultimately, the decision is left in the hands of management with input from the institution's regulators, external auditors, and other advisors.

FASB Update

The following selected Accounting Standards Updates (ASUs) were issued or proposed by the Financial Accounting Standards Board (FASB) during the first quarter. A complete list of all ASUs issued or effective in 2023 is included in Appendix A.

FASB Issues New Guidance on Leases Between Related Entities Under Common Control

In March, the FASB issued ASU 2023-01, *Leases (Topic 842) Common Control Arrangements*, to clarify how related business entities that are controlled by the same owner are to approach: 1) determining whether a lease exists; and 2) accounting for leasehold improvements.

Practical Expedient

Accounting Standards Codification (ASC) 842, *Leases*, requires that entities determine whether a related party arrangement between entities under common control (common control arrangement) is a lease. If the arrangement is determined to be a lease, an entity must classify and account for the lease on the same basis as an arrangement with an unrelated party (i.e., on the basis of legally enforceable terms and conditions). Private company stakeholders observed that determining the enforceable terms and conditions of a common control arrangement to apply ASC 842 often is difficult and costly. Specifically, private company stakeholders stated that determining the enforceable terms and conditions of those arrangements could necessitate obtaining a formal legal opinion in certain cases, which could be challenging because of the common control nature of the arrangement (even for written arrangements). The amendments in this ASU provide a practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement to determine:

1. Whether a lease exists
2. The classification of and accounting for that lease

Entities are not required to determine whether written terms and conditions are enforceable when applying the practical expedient and may apply the practical expedient on an arrangement-by-arrangement basis. If the lease is verbal, the company must document the existing unwritten terms in order to apply lease accounting rules. The practical expedient is only applicable for written leases.

Leasehold Improvements

ASC 842 generally requires that leasehold improvements have an amortization period consistent with the shorter of the remaining lease term and the useful life of the improvements. Lessees recognize leasehold improvements when they are the accounting owner of those improvements. Private company stakeholders noted that amortizing leasehold improvements associated with arrangements between entities under common control determined to be leases (common control leases) over a period shorter than the expected useful life of the leasehold improvements may result in financial reporting that does not faithfully represent the economics of those leasehold improvements, particularly in common control leases with short lease terms. Those stakeholders further noted that this accounting, depending on the salvage value assigned to the leasehold improvements, may fail to recognize the transfer of value between the entities under common control when the lessee no longer controls the use of the underlying asset.

The amendments in this ASU require that leasehold improvements associated with common control leases be:

1. Amortized by the lessee over the useful life of the leasehold improvements to the common control group (regardless of the lease term) as long as the lessee controls the use of the underlying asset (the leased asset) through a lease. However, if the lessor obtained the right to control the use of the underlying asset through a lease with another entity not within the same common control group, the amortization period may not exceed the amortization period of the common control group.
2. Accounted for as a transfer between entities under common control through an adjustment to equity (or net assets for not-for-profit entities) if, and when, the lessee no longer controls the use of the underlying asset.

FASB Update, *continued*

Effective Dates

The amendments in ASU 2023-01 are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been made available for issuance. If an entity adopts the amendments in an interim period, it must adopt them as of the beginning of the fiscal year that includes that interim period.

Proposed ASU on Accounting for Crypto Assets

In March 2023, the FASB published a proposed ASU intended to improve the accounting for and disclosure of certain crypto assets. During the FASB's recent agenda consultation process, stakeholders from all professional backgrounds identified digital assets as a top priority area for the Board to address. The FASB heard feedback that the accounting for crypto assets as indefinite-lived intangible assets, which is a cost-less-impairment model, does not provide investors with decision-useful information or reflect the underlying economics of those assets.

The amendments in this proposed ASU would improve the accounting for certain crypto assets by requiring an entity to measure those crypto assets at fair value each reporting period with changes in fair value recognized in net income. The proposed amendments also would improve the information provided to investors about an entity's crypto asset holdings by requiring disclosure about significant holdings, restrictions, and changes in those holdings.

The amendments in this proposed ASU would apply to all entities holding crypto assets that meet all the following criteria:

- Meet the definition of intangible asset as defined in the FASB Accounting Standards Codification Master Glossary
- Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets
- Are created or reside on a distributed ledger based on blockchain technology
- Are secured through cryptography
- Are fungible
- Are not created or issued by the reporting entity or its related parties

FASB Issues Proposal to Improve Income Tax Disclosures

In March 2023, the FASB published a proposed ASU that addresses requests for improved income tax disclosures from investors, lenders, creditors, and other allocators of capital (collectively, "investors") that use the financial statements to make capital allocation decisions. The FASB's proposed enhancements to income tax disclosures, primarily related to the rate reconciliation and income taxes paid information, are intended to help investors better assess how an entity's worldwide operations and related tax risks and tax planning and operational opportunities affect its tax rate and prospects for future cash flows.

During the FASB's 2021 agenda consultation process and other stakeholder outreach, investors expressed concerns that existing income tax disclosures do not provide sufficient information to understand the tax provision for an entity that operates in multiple jurisdictions. Investors currently rely on the rate reconciliation table and other disclosures, including total income taxes paid in the statement of cash flows, to evaluate income tax risks and opportunities. While investors said they generally find these disclosures helpful, they suggested possible enhancements to better (1) understand an entity's exposure to potential changes in jurisdictional tax legislation and the ensuing risks and opportunities, (2) assess income tax information that affects cash flow forecasts and capital allocation decisions, and (3) identify potential opportunities to increase future cash flows.

The amendments in this proposed ASU would address investor requests for more transparency about income tax information, including jurisdictional information, by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction.

Regulatory Update

Agencies Issue Joint Statement on Crypto-Asset Risks to Banking Organizations

On January 3, 2023 the Federal Reserve Board (Fed), FDIC and OCC issued a joint statement highlighting key risks of crypto-assets to banking organizations. The statement noted during the past year there was significant volatility and exposure of vulnerabilities in the crypto-asset sector which brought to light several key risks related to crypto-assets and the crypto-asset sector including possibility of fraud and scams, legal uncertainties associated with custody practices and ownership rights, inaccurate or misleading representations and disclosures and potential impacts on deposit flows of crypto-asset companies. The agencies have "significant safety and soundness concerns with business models that are concentrated in crypto-asset-related activities or have concentrated exposures to the crypto-asset sector." The agencies will continue to closely monitor crypto-asset related exposures of banking organizations.

FHFA Releases MSR guidance for Managing Counterparty Credit Risk

The Federal Housing Finance Agency (FHFA) issued an advisory bulletin on January 12, 2023 communicating supervisory expectations for Fannie Mae and Freddie Mac (the Enterprises) related to the valuation of mortgage servicing rights (MSRs). The bulletin outlines risk management expectations to ensure MSRs values are reasonable and objective. The FHFA noted that Fannie and Freddie's "risk management policies and procedures should be commensurate with an Enterprise's risk appetite and based on an assessment of seller/servicer financial strength and MSR risk exposure levels." The bulletin includes the following guidance: objective evaluation of MSR values; MSR valuations for mortgage loans owned or guaranteed by Fannie and Freddie and stress testing; MSR valuations for mortgage loans not owned or guaranteed by the Enterprises; market data input; use of third-party providers; frequency of evaluations; and discount to MSR values when servicing rights are terminated.

Fed Issues Policy Statement to Level Playing Field Between Uninsured, Insured Banks for Crypto-Asset Activities

On January 27, 2023, the Fed issued a policy statement to make it clear that uninsured and insured banks supervised by the Fed will be subject to the same limitations on activities, including novel banking activities, such as crypto-asset-related activities. National banks, which are overseen by the OCC, are also subject to the same limitations. This was done to promote a level playing field for all banks with a federal supervisor, regardless of deposit insurance status. The statement emphasizes that banks conduct their business in a safe and sound manner and that the activities they engage in are allowed under the law. The Fed's policy statement comes on the heels of the January 3, 2023 interagency joint statement (see above) in which banking regulators highlighted key risks and concerns about safety and soundness of crypto-asset related activities of banking organizations.

CFPB Proposes Significant Reduction in Credit Card Late Fees

On February 1, 2023, the Consumer Financial Protection Bureau (CFPB) proposed a rule to decrease the late payment fee amount on credit cards from $30 to $8. The $8 late fee would apply for both first and subsequent late payments. The proposal focuses on credit card fees; however, the CFPB is also requesting comments on whether the proposed changes should apply to other penalty fees such as overnight limits or whether the penalty fee safe harbor should be eliminated altogether. The CFPB's proposal was much more dramatic than anticipated which resulted in sharp criticisms from some in the banking industry. Comments on the proposal are due April 3, 2023.

Agencies Warn Banks of Crypto-Asset Liquidity Risks

On February 23, 2023, the FDIC, Federal Reserve Board, and OCC released a joint statement highlighting liquidity risks to banking organizations associated with certain sources of funding from crypto-asset-related entities and some effective practices to manage those risks. While the statement indicates that banking organizations are not prohibited or discouraged from providing banking services to customers of any specific class or type, the statement warns that using sources of funding from crypto-asset-related entities may expose banks to elevated liquidity risks "due to the unpredictability of the scale and timing of deposit inflows and outflows." The statement specifically noted deposits that constitute stablecoin-related reserves are another risk as they are "susceptible to large and

Regulatory Update, *continued*

rapid outflows stemming from, for example, unanticipated stablecoin redemptions or dislocations in crypto-asset markets." The statement does not create new risk management principles, but it highlights the importance for banking organizations to actively monitor liquidity risks inherent in funding sources from crypto-related asset entities and to establish and maintain effective risk management and controls corresponding with the risks. The statement identifies examples of effective practices, including understanding the direct and indirect drivers of potential depositor behavior and assessing concentration and interconnectedness across deposits and the attendant liquidity risks.

FDIC Releases Quarterly Banking Profile

On February 28, 2023, the FDIC published its Quarterly Banking Profile covering the fourth quarter 2022. The Quarterly Banking Profile is a quarterly publication that provides the earliest comprehensive summary of financial results for all FDIC-insured institutions. The report includes data from 4,706 commercial banks. Highlights from the Fourth Quarter 2022 Quarterly Banking Profile are included below:

- Net income of $263.0 billion for the full year of 2022, which is lower than 2021 net income but still higher than the pre-pandemic average.
- Net interest margin for the quarter was 3.37%, which was above the pre-pandemic average of 3.25%. The year-over-year growth in the net interest margin was the largest reported increase in the history of the QBP.
- Unrealized losses on securities remain high. However, unrealized losses on securities for the quarter decreased by 10.1% from the third quarter 2022.
- Loan balances increased 1.9 % from the prior quarter and 8.7% from a year ago.
- Total deposits declined $487.4 billion (2.5%) between 2021 and 2022.
- Asset quality remains favorable with slight declines from prior quarter.
- Thirty-six institutions merged, three new banks opened and no banks failed during the fourth quarter 2022

Chairman of FDIC Remarks on Recent Bank Failures and the Regulatory Response

On March 28, 2023, Martin J. Gruenberg, Chairman of the FDIC Board of Directors, addressed recent bank failures and the federal regulatory response to the Senate Banking Committee. The comments by Chairman Gruenberg provided a picture of what may be on the horizon in relation to 1) the FDIC's handing of the insurance fund and 2) what this means for future banking regulation.

Insurance Fund

The recent failures will result in a need to replenish the FDIC's deposit insurance fund, which will come through a special assessment, or assessments. Twice Gruenberg sites that the law governing these assessments requires consideration of "the types of entities that benefit from the action taken," among others. This could mean there will be different consideration for banks with different risk profiles, or banks below a certain size range that weren't the primary concern of the FDIC when they backstopped Silicon Valley Bank and Signature Bank's deposits? It appears Gruenberg is leaving this open for "risk-based pricing," which is being considered in the expected May 2023 proposed rulemaking from the FDIC on a special assessment.

Regulation

On the regulatory front, Gruenberg described the causes of each of these failures/wind downs. Each had similarities, but each had its differences. Although each had an overly large reliance on uninsured deposits. Gruenberg makes it clear, there will be a heightened focus in exams on interest rate risk, liquidity, and capital levels This will likely be much more focused and deeper review, specifically on short-term liquidity needs and asset mismatches, as well as contingency funding if an institution's deposit portfolio experiences rapid attrition. Gruenberg makes a point that longer duration asset mismatches, along with a moderate decline in deposits is a "latent vulnerability" within the system, especially given how quickly deposits can move in this day and age. Regulators will likely be diving

Regulatory Update, *continued*

deeper than ever before on how your institution is tracking liquidity, along with what levers are available in a contingency funding situation and are those levers going to be available to the full extent needed in a stress situation. Gruenberg also seems to make clear, that in his mind, a $100 billion institution is systematically important (SIFI), so expect further discussion from regulators and lawmakers on this threshold.

SEC Commissioner Suggests Audited Financial Statement Requirement for Private Companies Using Regulation D Offering

Securities and Exchange Commission (SEC) Commissioner, Caroline Crenshaw, during a recent speech, floated the idea of requiring large private companies that raise funds using the Rule 506 exemption in Regulation D to provide audited financial statements to investors. It would be modeled after Regulation A, which has a tiered system. Larger private companies that raise capital using the Regulation A exemption are subject to more stringent reporting requirements, including audited financials.

Her proposed reforms come as the SEC staff is currently working on a draft proposal that would be presented to commissioners on Regulation D, which allows private companies to raise an unlimited amount of capital from an unlimited number of “accredited investors.” Unlike public offerings, companies that use exempt offerings such as Regulation A or Regulation D do not have to follow a full set of SEC regulations intended to protect investors that buy and sell stocks of publicly listed companies. They are exempt from securities registration. The accredited investor definition in Regulation D under the Securities Act of 1933 allow individuals who hold a Series 7, 65, or 82 license in good standing to qualify. Individuals also qualify if they had at least an income of $200,000, joint income of $300,000, or at least $1 million in net worth, excluding a primary residence. The threshold is intended to allow those who can withstand financial losses or are financially savvy.

However, Crenshaw said that private offerings have grown at a faster pace than public offerings over the past decade. In Crenshaw’s opinion, Regulation D could have scaled requirements like Regulation A. Tier 1 under Regulation A is for offerings of up to $20 million in a 12-month period. Tier 2 is for offerings of up to $75 million in a 12-month period. Both Tier 1 and 2 offerings have to comply with basic requirements, such as an offering circular, subject to review and qualification by the SEC staff, and must file two years of financial statements. Along with audited financial statements, companies using Tier 2 offerings must file annual, semiannual, current and special financial reports with the SEC.

SEC Proposes Electronic Filing of Certain Forms

In March, the SEC voted unanimously to issue a proposal that would require electronic filing of certain forms on the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system. Currently, some forms are required to be filed in paper format. This is part of a broader effort to modernize the collection and analysis of information filed by regulated entities. In certain cases, the SEC proposal would also require data to be machine-readable, using either inline eXtensible Business Reporting Language (XBRL) or eXtensible Markup Language (XML). Entities that would be covered under the proposal include self-regulatory organizations (SROs), clearinghouses, broker-dealers, swap dealers and majors swap participants. The SEC would make certain amendments regarding the Financial and Operational Combined Uniform Single (FOCUS) Report to harmonize it with other rules and make technical corrections or clarifications.

SEC Publishes Compliance and Disclosure Interpretations for Pay Versus Performance Rule

The SEC’s Division of Corporation Finance has updated Compliance & Disclosure Interpretations (C&DIs) for Regulation S-K to provide the staff's interpretations of the new “pay versus performance” rules mandated by the Dodd-Frank Act in Section 953(a). The SEC added new Item 402(v) to Reg S-K, requiring companies to disclose a table that includes the measure of total compensation and a measure reflecting “executive compensation actually paid” for the principal executive officer. The same information should be presented as an average for the other named executive officers. Companies began complying with the requirements for fiscal years ending on or after December 16, 2022.

Regulatory Update, *continued*

Senate Bill Would Add Cooling Period for Executive Stock Sales after Buyback

In March, three Senate Democrats introduced legislation mandating a 12-month holding period for executive stock compensation following the announcement of a share buyback. The *Advancing Long-term Incentives for Governance Now Act* would also require a three-year holding period for executive stock compensation after it is granted, with some exceptions, and direct the SEC to make rules requiring corporate share repurchase disclosures within one day of authorization. The bill is sponsored by Senator Mark Warner of Virginia, who is joined by cosponsors Elizabeth Warren of Massachusetts and Tammy Baldwin of Wisconsin. The measure is the latest in a years-long Democratic campaign to crack down on corporate stock buybacks and accompanying executive stock sales, a push that intensified following the 2017 Trump tax cuts.

The bill comes as the SEC plans to finalize rules that would rework the safe harbor under Rule 10b-18, which shields companies buying back stock from liability for market manipulation, provided they make certain disclosures. The commission's December 2021 proposal in Release No. 34-93783, *Share Repurchase Disclosure Modernization,* would establish a new scheme for next-day reporting under new Form SR. Form SR would need to include basic data on the transaction such as the date of the repurchase and average price paid per share, and additional disclosures such as aggregate total number of shares purchased on the open market and the aggregate total number of shares purchased in reliance on the safe harbor in Rule 10b-18 . Under the proposed SEC rules, an issuer would also be required to indicate whether any officers or directors subject to the Exchange Act's Section 16(a) reporting requirements bought or sold shares of the class subject to the repurchase plan within 10 business days before or after announcing the plan.

Senate Bill Would Expand Dodd-Frank Whistleblower Protections

In March, a bipartisan group of senators introduced legislation that would boost the anti-retaliation protections for corporate whistleblowers under the *Dodd-Frank Act*, among other provisions. The *SEC Whistleblower Reform Act* is sponsored by Senators Chuck Grassley, an Iowa Republican, and Elizabeth Warren, a Massachusetts Democrat.

Section 922 of the *Dodd-Frank Act* established both a bounty program for whistleblowers who report fraud and other misconduct and new protections that bar employers from demoting, suspending, firing, or otherwise retaliating against a whistleblower. The SEC finalized its rules implementing Section 922 in 2011. The bill spells out that those protections will be available to whistleblowers who report their concerns to a direct superior, instead of going directly to the commission or certain other officials. The new provision in March 2023 is a response to the Supreme Court's 2018 ruling in *Digital Realty Trust v. Somers*, which limited the scope of the Dodd Frank anti-retaliation provisions only to whistleblowers who report directly to the SEC. In the unanimous ruling, the Supreme Court concluded that Paul Somers, who was fired as vice president of a data center real estate company after he reported potential violations directly to the company's management, was not entitled to the Dodd-Frank protections because he didn't first go to the commission. Also under the Grassley-Warren bill, the SEC would be subject to new requirements around the timely payment of awards, and pre-dispute arbitration agreements could not be used to force whistleblowers into arbitration.

SEC to Hold Annual Small Business Forum in April

The SEC will hold the 42nd Annual Small Business Forum from April 24 to 27, 2023. This yearly conference brings together startup companies, smaller public companies and their investors, and regulators to discuss ways to improve capital creation. This year's forum will take place over four virtual 90-minute sessions. Participants in the forum develop policy recommendations for the SEC to consider, including potential rule changes to make compliance with regulations less burdensome. A report of the policy recommendations is also sent to Congress.

Regulatory Update, *continued*

The 2023 forum agenda is as follows, and it starts at 1 p.m. each day for 90 minutes:

- Monday, April 24: Exploring the Early-Stage Landscape: Trends and Strategies in Capital Raising
- Tuesday, April 25: Building Entrepreneurial Ecosystems: Laying the Groundwork to Support Small Businesses and Their Investors
- Wednesday, April 26: Investing in Small Business: Successes and Challenges Facing Smaller Funds
- Thursday, April 27: Accessing the Public Markets: Becoming and Staying a Public Reporting Company

The event is hosted by the Office of the Advocate for Small Business Capital Formation, and it is inviting the public to submit policy ideas in advance of the forum to smallbusiness@sec.gov.

On the Horizon

The following selected FASB exposure drafts and projects are outstanding as of March 31, 2023.

Projects on Environmental Credits, Consolidation, and KPIs

In May 2022, the FASB added a project to its technical agenda on the recognition, measurement, presentation and disclosure of environmental credits that are legally enforceable and tradeable, following a review of the staff's initial research on accounting for environmental credits, including feedback that there is diversity in practice in this area. The project will address the accounting by participants in compliance and voluntary programs, as well as by creators of environmental credits. In addition, the FASB added a project on consolidation for business entities to its research agenda after removing its project on consolidation reorganization and targeted improvements from the technical agenda. The new project will explore whether a single consolidation model could be developed for business entities. In response to feedback received on the FASB's Invitation to Comment, Agenda Consultation, the FASB also added a project on financial key performance indicators (KPIs) to the research agenda to explore standardizing the definitions of financial key performance indicators.

Free Access to Accounting Standards

In February 2023, the Financial Accounting Foundation (FAF) launched its free, enhanced online access to the Accounting Standards Codification and the Governmental Accounting Research System. The Accounting Standards Codification ("the Codification") is the complete and official version of Generally Accepted Accounting Principles (GAAP) published by the Financial Accounting Standards Board (FASB) and used by public companies, private companies, nonprofit organizations, and employee benefit plans in the United States. The Governmental Accounting Research System ("GARS") is the complete and official version of GAAP published by the Governmental Accounting Standards Board (GASB) and used by states, cities, and other governmental entities in the United States. While free versions of both the Codification and GARS have been available online for years, the new system provides enhanced features compared to the former free offering. These include enhancements to navigation, search, printing, and copy/paste. As a result of this change, the former "Professional View" paid subscription service has been eliminated. The URLs to access the updated websites are:

- Accounting Standards Codification: https://asc.fasb.org
- Governmental Accounting Research System: https://gars.gasb.org

FASB Advisers Urge Development of a Standard Definition of EBITDA

In March 2023, the Financial Accounting Standards Advisory Council (FASAC) discussed the possibility of the FASB standardizing the definition of EBITDA, (the acronym for Earnings Before Interest, Taxes, Depreciation, and Amortization) as a starting point to drive consistency around those figures. EBITDA is a business metric that was developed in the 1970s which allows investors to project a company's long-term profitability and cash flows. EBITDA is not a metric recognized under U.S. GAAP but is one of the most popular non-GAAP earnings measures.

Last year, FASB Chair, Richard Jones, added a project to the board's research agenda to consider the interaction with standardizing KPIs within the current regulatory framework. A research project is a pre-step to determine whether a topic meets the bar to be added to the board's rulemaking technical agenda. It would also help the board to gauge the scope of its work, including whether to address the definition of EBITDA.

EITF Agenda Items

The Emerging Issues Task Force (EITF) does not have any open issues and did not meet during the first quarter of 2023. The next meeting is scheduled for June 15, 2023.

On the Horizon, *continued*

PCC Activities

The Private Company Council (PCC) met on Friday, December 16, 2022. Below is a summary of topics addressed by the PCC at the meeting:

- Summary of December 15, 2022 Meeting with the AICPA Private Companies Practice Section, Technical Issues Committee (TIC): PCC members reported on the issues discussed with the TIC during their annual PCC-TIC Liaison meeting. PCC members shared observations on a variety of topics including the implementation of ASC 842, *Leases*, and common control arrangements, stock compensation disclosures, accounting for software costs, joint venture formations, and taxes paid by pass-through entities. PCC members thanked the TIC for the insightful dialogue.

- Leases (ASC 842): Common Control Arrangements: The PCC discussed the post-implementation review activities related to ASC 842, *Leases*, including the proposed ASU to improve accounting guidance for arrangements between entities under common control. PCC members were supportive of the proposed practical expedient that would allow nonpublic entities to use written terms and conditions of an arrangement between entities under common control to determine whether a lease exists. Some members discussed the degree of formality required in documenting agreed upon terms and conditions, with those members observing that entities have latitude to use reasonable judgment when deciding how the terms and conditions of the arrangement are conveyed in writing. Under the proposed ASU, leasehold improvements associated with arrangements between entities under common control would be amortized by the lessee over the economic life of the leasehold improvements as long as the lessee controls the use of the leased asset. PCC members discussed the judgment required under current GAAP to determine the owner of improvements made by a lessee to the leased asset in a common control lease for purposes of determining whether the lessee capitalizes those improvements as leasehold improvements. Those PCC members acknowledged that the issue with that determination is not unique to common control arrangements or the adoption of ASC 842 (that is, that same determination also was being made under ASC 840, *Leases*).

- Accounting for Government Grants, Invitation to Comment: The PCC reviewed a summary of the feedback received in response to the Invitation to Comment—*Accounting for Government Grants by Business Entities: Potential Incorporation of IAS 20, Accounting for Government Grants and Disclosure of Government Assistance*, into Generally Accepted Accounting Principles. Overall, PCC members were supportive of a project that would result in the development of accounting guidance for recognition, measurement, and presentation of government grants with IAS 20 as a starting point. Given the pervasiveness of government grants, some PCC members noted that IAS 20 permits different recognition, measurement, and presentation based on the type of grant, which could result in a workable solution to account for various types of grants. Some PCC members stated that there are challenges with certain aspects of IAS 20, such as applying the reasonable assurance threshold for recognition. PCC members discussed how additional examples could be helpful when accounting for various types of government grants. PCC members who are users emphasized the need for conservatism and consistency in the accounting, in addition to understanding the predictability and risk related to future cash flows.

- Revenue—Implementation Issues: The PCC discussed the post-implementation review activities completed to date for ASC 606, *Revenue from Contracts with Customers*. PCC members were generally supportive of the revenue standard. PCC members also observed some ongoing implementation challenges for private companies in the following areas: insufficient familiarity with ASC 606, especially by smaller companies/firms; disclosures about opening contract balances; and principal versus agent determination in service transactions.

On the Horizon, *continued*

- Scope Application of Profits Interests Awards: Compensation—Stock Compensation (ASC 718): The PCC reviewed the Board's recent decision to add a project to its technical agenda that would add illustrative examples to the ASC to demonstrate how an entity would apply the scope guidance in Subtopic 718-10, *Compensation—Stock Compensation—Overall*, to determine whether a profits interest or similar award should be accounted for by applying ASC 718. A proposed ASU is expected to be issued in the first quarter of 2023 with a 60-day comment period. PCC members expressed support for the project and related Board decisions on the illustrative examples and transition. Some PCC members suggested that the FASB increase communication about the project with smaller entities who may not be aware of the proposed guidance.

- Accounting for and Disclosure of Software Costs: The PCC reviewed and discussed recent outreach and the alternatives being explored by the staff for future consideration by the Board. Many PCC members supported the initial development cost model. One PCC member supported a model that would expense all software development costs, while other PCC members acknowledged the lack of a conceptual basis in that model. PCC members discussed the challenges with distinguishing between maintenance and enhancements, tracking software development activities, and determining a useful life for software with continued enhancements under a capitalization model. PCC members who are users supported increased transparency about software costs and highlighted that their focus is to predict future cash flows.

- Accounting for and Disclosure of Crypto Assets: The PCC reviewed the Board's recent decisions on scope, measurement, presentation, and disclosure. One PCC member commented on the Board's decision to exclude a disclosure about the nature and purpose of crypto asset holdings. In contrast, another PCC member observed that users of private company financial statements have access to management that allows them the opportunity to ask questions about the nature and purpose of crypto asset holdings.

The next PCC meeting is scheduled for Tuesday, April 25, 2023.

Appendix A

Important Implementation Dates

The following table contains significant implementation dates and deadlines for standards issued by the FASB and others.

Selected Implementation Dates (FASB/EITF/PCC)

Pronouncement	Affects	Effective Date and Transition
ASU 2023-01, Leases (Topic 842) Common Control Arrangements	Practical expedient: Entities other than public business entities, not-for-profit conduit bond obligors, and employee benefit plans that file or furnish financial statements with or to the SEC Leasehold improvements: All lessees	The amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been made available for issuance. If an entity adopts the amendments in an interim period, it must adopt them as of the beginning of the fiscal year that includes that interim period.
ASU 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848	All entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform.	Effective upon issuance.
ASU 2022-05, Financial Services—Insurance (Topic 944): Transition for Sold Contracts	Insurance entities that have derecognized contracts before the effective date of ASU 2018-12.	The effective dates of the amendments are consistent with the effective dates of the amendments in ASU 2020-11.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
ASU 2022-04, Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations	All entities that use supplier finance programs in connection with the purchase of goods and services	The amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, except for the amendment on roll-forward information, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted.
ASU 2022-03, Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions	All entities	For public business entities, the amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance.
ASU 2022-02, Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures	All entities	For entities that have adopted ASU 2016-13, the amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted ASU 2016-13, the effective dates for the amendments are the same as the effective dates in ASU 2016-13.
ASU 2022-01, Derivatives and Hedging (Topic 815): Fair Value Hedging—Portfolio Layer Method	All entities that elect to apply the portfolio layer method of hedge accounting in accordance with ASC 815	For public business entities, the amendments are effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years.
ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers	All entities that enter into a business combination	For public business entities, the amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The amendments should be applied prospectively to business combinations occurring on or after the effective date of the amendments. Early adoption of the amendments is permitted, including adoption in an interim period.
ASU 2020-11, Financial Services—Insurance (Topic 944): Effective Date and Early Application	Insurance entities that issue long-duration contracts	The amendments in this ASU delay the effective date of ASU 2018-12.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
ASU 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): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity	Entities that issue convertible instruments and/or contracts in an entity's own equity.	Effective for public business entities that meet the definition of a SEC filer, excluding entities eligible to be smaller reporting companies as defined by the SEC, for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years.
ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting	All entities	Effective for all entities as of March 12, 2020 through December 31, 2022.
ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments—Credit Losses	All entities	For entities that have not yet adopted the amendments in ASU 2016-13 as of the issuance date of this ASU, the effective dates and transition requirements for the amendments are the same as the effective dates and transition requirements in ASU 2016-13. For entities that have adopted the amendments in ASU 2016-13, the amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period after issuance of this ASU as long as an entity has adopted the amendments in ASU 2016-13.
ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates	All entities	The amendments in this ASU delay the effective dates of ASU 2016-13, ASU 2017-12, and ASU 2016-02, and ASU 2017-04.
ASU 2019-09, Financial Services—Insurance (Topic 944): Effective Date	Insurance entities	The amendments in this ASU defer the effective date of the amendments in ASU 2018-12 for all entities.
ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments	Entities that hold financial instruments	The effective date of each of the amendments depends on the effective date and adoption of ASU 2016-01, ASU 2016-13, and ASU 2017-12.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses	All entities that hold financial assets and net investment in leases that are not accounted for at fair value through net income	The effective date and transition requirements are the same as the effective dates and transition requirements in ASU 2016-13, as amended by this ASU.
ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts	Insurance entities that issue long-duration contracts	For public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC the amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025. Early application of the amendments is permitted.
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	All entities that hold financial assets and net investment in leases that are not accounted for at fair value through net income.	For public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC, the new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For all other organizations, the new standard is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements

For the Quarter Ended March 31, 2023

The illustrative disclosures below are presented in plain English. Please review each disclosure for its applicability to your organization and the need for disclosure in your organization's financial statements.

{Please give careful consideration to appropriateness of highlighted text.}

ASU 2016-13 — Applicable to entities that hold financial assets and net investment in leases that are not accounted for at fair value through net income:
In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The guidance requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the income statement will reflect the measurement of credit losses for newly-recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. The amendments will be effective for the Company for *[fiscal years beginning after December 15, 2022 including interim periods within those fiscal years.-all other entities] [The Company is currently in the process of evaluating the impact of adoption of this guidance on the financial statements] [The Company adopted the guidance on January 1, 2023 (include impact of addition on the financial statements).*

ASU 2018-12 — Applicable to insurance entities that issue long-duration contracts:
In August 2018, the FASB amended the Financial Services—Insurance Topic of the Accounting Standards Codification to make targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. The amendments will be effective for the Company for *[fiscal years beginning after December 15, 2021, and interim periods within those fiscal years.-public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC] [for fiscal years beginning after December 15, 2023, and interim periods within fiscal year beginning after December 15, 2024.-all other entities]* The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2018-19 — Applicable to entities that hold financial assets and net investment in leases that are not accounted for at fair value through net income:
In November 2018, the FASB issued guidance to amend the Financial Instruments—Credit Losses topic of the Accounting Standards Codification. The guidance aligns the implementation date of the topic for annual financial statements of nonpublic companies with the implementation date for their interim financial statements. The guidance also clarifies that receivables arising from operating leases are not within the scope of the topic, but rather, should be accounted for in accordance with the leases topic. The amendments will be effective for the Company for ~~*[reporting periods beginning after December 15, 2019, including interim periods within those fiscal years.-SEC filers] [reporting periods beginning after December 15, 2020, including interim periods within those fiscal years.-public business entities that are not SEC filers]*~~ *[fiscal years beginning after December 15, 2021, including interim periods within those fiscal years.-all other entities]* Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

ASU 2019-09 — Applicable to insurance entities that issue long-duration contracts:
In November 2019, the FASB issued guidance to defer the effective date of ASU 2018-12, Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts. The new effective date will be [~~*for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years.-public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC]*~~ *[for fiscal years beginning after December 15, 2023, and interim periods*

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended March 31, 2023

within fiscal year beginning after December 15, 2024.-all other entities] The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2019-10 — Applicable to all entities:
In November 2019, the FASB issued guidance to defer the effective dates for private companies, not-for-profit organizations, and certain smaller reporting companies applying standards on current expected credit losses (CECL), leases, hedging. The new effective dates will be *CECL: ~~[fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.-public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC]~~ [fiscal years beginning after December 15, 2022 including interim periods within those fiscal years.-all other entities]*; *Hedging~~: [fiscal years beginning after December 15, 2020 and interim periods within fiscal years beginning after December 15, 2021.-entities other than public business entities]; Leases: [fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. all entities other than public business entities; not-for-profit entities that have issued or are conduit bond obligors for securities that are traded, listed, or quoted on an exchange or an over-the-counter market; and employee benefit plans that file or furnish financial statements with or to the SEC]~~* The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2019-11 — Applicable to all entities:
In November 2019, the FASB issued guidance that addresses issues raised by stakeholders during the implementation of ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments affect a variety of Topics in the Accounting Standards Codification. *~~[For entities that have adopted the amendments in ASU 2016-13, the amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years]~~ [For entities that have not yet adopted the amendments in ASU 2016-13, the amendments are effective for ~~fiscal years beginning after December 15, 2019, including interim periods within those fiscal years-public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC]~~ [fiscal years beginning after December 15, 2022 including interim periods within those fiscal years-all other entities]*. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2020-04 — Applicable to all entities:
In March 2020, the FASB issued guidance to provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The amendments are effective as of March 12, 2020 through December 31, 2022. In December 2022, FASB issued ASU 2022-06 to defer the sunset date of ASC 848, Reference Rate Reform from December 31, 2022 to December 31, 2024. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2020-06 — Applicable to all entities:
In August 2020, the FASB issued guidance to improve financial reporting associated with accounting for convertible instruments and contracts in an entity's own equity. The amendments are effective for *~~[fiscal years beginning after December 15, 2021, including interim periods within those fiscal years – public business entities that meet the definition of a SEC filer, excluding entities eligible to be smaller reporting companies as defined by the SEC]~~ [fiscal years beginning after December 15, 2023, including interim periods within those fiscal years – all other entities]*. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2020-11 — Applicable to insurance entities that issue long-duration contracts:
In November 2020, the FASB issued guidance to defer the effective dates for insurance entities which have not yet applied the long duration contracts guidance by one year. The new effective dates will be *[fiscal years beginning after December 15, 2022, and interim*

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended March 31, 2023

periods within those fiscal years.-public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC] [for fiscal years beginning after December 15, 2024, and interim periods within fiscal year beginning after December 15, 2025.-all other entities] The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2021-08 — Applicable to all entities that enter into a business combination

In October 2021, the FASB amended the Business Combinations topic in the Accounting Standards Codification to require entities to apply guidance in the Revenue topic to recognize and measure contract assets and contract liabilities acquired in a business combination. The amendments are effective for *[fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. - public business entities] [fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. - all other entities]* The amendments are applied prospectively to business combinations occurring on or after the effective date of the amendments. Early adoption of the amendments is permitted, including adoption in an interim period. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2022-01 — Applicable to entities that elect to apply the portfolio layer method of hedge accounting

In March 2022, the FASB issued amendments which are intended to better align hedge accounting with an organization's risk management strategies. The amendments are effective for *[fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. - public business entities] [fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. - all other entities]*. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2022-02 — Applicable to entities that hold financial assets and net investment in leases that are not accounted for at fair value through net income:

In March 2022, the FASB issued amendments which are intended to improve the decision usefulness of information provided to investors about certain loan re-financings, restructurings, and write-offs. The amendments are effective for *[fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. - entities that have adopted the amendments in ASU 2016-13] [fiscal years beginning after December 15, 2022 including interim periods within those fiscal years.-entities that have not yet adopted the amendments in ASU 2016-13]*. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2022-03 — Applicable to all entities:

In June 2022, the FASB issued amendments to clarify the guidance on the fair value measurement of an equity security that is subject to a contractual sale restriction and require specific disclosures related to such an equity security. The amendments are effective for *[fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. - public business entities] [fiscal years beginning after December 15, 2024 including interim periods within those fiscal years. - all other entities]*. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2022-04 — Applicable to all entities that use supplier finance programs in connection with the purchase of goods and services:

In September 2022, the FASB issued amendments to enhance the transparency about the use of supplier finance programs for investors and other allocators of capital. The amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, except for the amendment on roll-forward information, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended March 31, 2023

ASU 2022-05 — Applicable to Insurance entities that have derecognized contracts before the effective date of ASU 2018-12:
In December 2022, the FASB issued amendments to reduce implementation costs and complexity associated with the adoption of ASU 2018-12 for contracts that have been derecognized in accordance with the amendments in this ASU before the effective date of ASU 2018-12. The amendments are effective for *[fiscal years beginning after December 15, 2022, and interim periods within those fiscal years.-public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC] [fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025.-all other entities]* The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2022-06 — Applicable to all entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform:
In December 2022, the FASB issued amendments to defer the sunset date of the Reference Rate Reform Topic of the Accounting Standards Codification from December 31, 2022, to December 31, 2024, because the current relief in Reference Rate Reform Topic may not cover a period of time during which a significant number of modifications may take place. The amendments were effective upon issuance. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2023-01 — Practical expedient: Applicable to all entities other than public business entities, not-for-profit conduit bond obligors, and employee benefit plans that file or furnish financial statements with or to the SEC; Leasehold improvements: Applicable to all lessees:
In March 2023, the FASB amended the Leases topic in the Accounting Standards Codification to provide a practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement to determine whether a lease exists and, if so, the classification of and accounting for that lease. The amendments also change the guidance for public and private companies to require that leasehold improvements be amortized over the useful life of those improvements to the common control group regardless of the lease term. The amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

Applicable to all:
Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

Appendix C

Recently Issued Accounting Pronouncements

***NOTE*: The disclosures in the previous appendix are not intended to be all inclusive. All pronouncements issued during the period should be evaluated to determine whether they are applicable to your Company. Through March 31, 2023, the FASB has issued the following Accounting Standard Updates during the year.**

- ***ASU 2023-01***, *Leases (Topic 842) Common Control Arrangements*