

# US Week in Review

Week ending 1 April 2021

The US Week in Review highlights this week's developments and emerging issues in the financial reporting world and gives you direct access to relevant technical accounting guidance and thought leadership produced by EY.

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## What's new from EY

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### **To the Point: Private companies and NFPs can evaluate goodwill for impairment only as of their reporting dates**

Our publication discusses final FASB guidance that provides an accounting alternative that allows private companies and not-for-profit entities to assess whether triggering events for goodwill impairment have occurred only as of their reporting dates. Entities can elect the accounting alternative regardless of whether they have elected the existing accounting alternative that allows them to amortize goodwill. The guidance is effective for fiscal years beginning after 31 December 2019. Entities may apply it for financial statements that have not yet been issued or made available for issuance as of 30 March 2021.

### **Technical Line: Revisiting the SEC's guidance on climate change disclosures in today's environment**

As part of its increased focus on disclosures related to environmental, social and governance matters, the SEC staff will be assessing compliance with the Commission's 2010 guidance on climate-related disclosures and updating that guidance. Our publication revisits the 2010 guidance, which addressed how the existing SEC disclosure rules applied to climate change matters and the types of disclosures that might be required, in light of today's environment. It is aimed at helping registrants apply the guidance today and respond to any inquiries from the SEC staff about their disclosures.

## **Quarterly tax developments - March 2021**

Our March 2021 edition of *Quarterly Tax Developments* is designed to help you identify changes in tax law and other events when they occur so the accounting can be reflected in the appropriate period. This edition includes summaries of certain enacted and effective tax legislation, as well as regulatory developments, legislative proposals and other items, through 16 March 2021, except as noted, to consider as you prepare your income tax provision. The summaries refer to tax and other publications for more detail on the topics we discuss.

## **Regulatory matters**

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### Securities and Exchange Commission (SEC)

#### **SEC staff issues statements on risks related to SPACs**

The staffs of the **Division of Corporation Finance** and the **Office of the Chief Accountant** issued separate statements on the risks related to the increase in transactions that allow a private company to go public by merging with a special purpose acquisition company (SPAC) rather than through a traditional initial public offering.

Mergers between the SPAC (i.e., the existing public company) and the private companies they are acquiring (i.e., SPAC targets) are often completed in as little as a few months. This timing can create challenges for entities and their advisers in making sure the newly merged public company complies with all of the accounting, auditing and regulatory requirements. The SEC staff identified several accounting areas that SPACs and the SPAC targets should focus on including:

- ▶ Transition to public company disclosure requirements and US GAAP for public business entities, including reporting on segments and earnings per share
- ▶ Determination of the accounting acquirer
- ▶ Accounting for earn-out or compensation arrangements
- ▶ Accounting for complex financial instruments including warrants

The SEC staff emphasized the need for management of the new merged public company to understand and have a plan in place to comply with both the general requirements in the Exchange Act to maintain adequate books and records and internal controls and the specific requirements related to internal control over financial reporting and disclosure controls and procedures. The SEC staff also emphasized the importance of board oversight before, during and after the de-SPAC merger and noted that companies listed on a national stock exchange are required to have a majority of independent members and an independent audit committee with members who possess specialized experience, among other requirements. Effective communication between the audit committee, auditor and management is important to address reporting, control or audit issues that may arise during and after the merger process, the staff said.

In addition, the SEC staff said auditors need to apply appropriate acceptance and continuance procedures when a formerly private audit client prepares to go public through a SPAC merger to make sure they are staffing the audit team with people who have enough time and the appropriate level of experience to perform the audit. The staff also noted that the company and the auditor need to comply with SEC and PCAOB independence standards.

Finally, the SEC staff identified a number of regulatory restrictions that apply after a de-SPAC merger.

## SEC Division of Investment Management staff issues Dear CFO Letter

The staff of the Chief Accountant's Office of the SEC's Division of Investment Management issued a **Dear CFO Letter** to provide new guidance and modify or withdraw certain existing guidance in the **Accounting Matters Bibliography** applicable to registered investment companies, business development companies, issuers of insurance product securities, registered investment advisers and their auditors. The Dear CFO Letter, among other things, modifies the guidance related to the use of combined financial statements to comply with Rule 206(4)-2 of the Investment Advisers Act of 1940 and withdraws the guidance related to the application of the SEC's Accounting Series Release Nos. 113 and 118 when auditing the valuation of certain portfolio investments.

## Standard Setter updates

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### Financial Accounting Standards Board (FASB)

#### 31 March 2021 FASB meeting

The FASB discussed its project on Fair value hedging: portfolio layer method. For details, see the **FASB's Tentative Board Decisions**.

#### Upcoming meetings

##### 7 April 2021 FASB meeting

The Board will discuss whether to add a project to its agenda to address Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations*. It also will discuss its project on Identifiable intangible assets and subsequent accounting for goodwill. For details, see the **FASB's calendar**.

## Upcoming webcasts

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### **How digital forensics is defined in litigation and investigation**

14 April 2021, 11 a.m. Eastern time

Information regarding upcoming events can be found on the **EY webcasts site**.

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