

Welcome!

What's Next for 2021: Accounting and SEC Reporting Updates

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CPAS AND PROFESSIONAL ADVISORS

Polling Question #1

What is your position within your company?

- a. CEO
- b. CFO
- c. Controller
- d. Accounting Department
- e. Other

2020 ASUs and COVID-19 Response

General Codification Improvements

ASU	Description	Effective Date (Public)
2020-03	Codification Improvements to Financial Instruments	Multiple
2020-08	Codification Improvements to Subtopic 310-20	Fiscal years beginning after December 15, 2020, including interim periods within those years
2020-10	Codification Improvements	Annual periods beginning after December 15, 2020

Timing Deferrals

ASU	Description	Effective Date (Public)
2020-02	Financial Instruments-Credit Losses (Topic 326) and Leases (Topic 842)	Fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021
2020-05	Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)	N/A
2020-11	Financial Services – Insurance (Topic 944): Effective Date and Early Application	Fiscal years beginning after December 15, 2022, including interim periods within those years (For smaller reporting entities, fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025)

SEC Alignment

ASU	Description	Effective Date (Public)
2020-02	Financial Instruments-Credit Losses (Topic 326) and Leases (Topic 842)	Fiscal years beginning after December 15, 2019, including interim periods within those years
2020-09	Debt (Topic 470): Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762	January 4, 2021

Other 2020 ASUs

ASU	Description	Effective Date (Public)
2020-01	Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)	Fiscal years beginning after December 15, 2020, including interim periods within those years
2020-04	Reference Rate Reform (Topic 848)	From March 12, 2020 through December 31, 2022
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)	Fiscal years beginning after December 15, 2021, including interim periods within those years (December 15, 2023 for smaller reporting entities)
2020-07	Not-for-Profit Entities (Topic 958)	N/A

FASB COVID-19 Response

- <https://www.fasb.org/COVID19>
- Delayed certain effective dates
 - ASU 2020-05
 - ASU 2020-11
- Guidance on Applying Taxonomy to COVID-19 Pandemic and Relief Disclosures
- Guidance on Debt Restructurings and Modifications

FASB COVID-19 Response

- Targeted Accounting Guidance, in consideration of COVID-19, for
 - Leases
 - Accounting for Lease Concessions
 - Hedges
 - Evaluating Timing Delays for Forecasted Transactions
 - Evaluating Missed Forecasts

SEC Updates COVID-19 Relief Rule S-K Modernization

SEC Updates

- Final Rules issued and effective:
 - Amended “Accredited Investor” Definition, August 2020
 - Publication or Submission of Quotations Without Specified Information, September 2020
- Upcoming proposed rules on Earnings Releases v Quarterly Report filings, expected in Second Quarter 2021

COVID-19 Reliefs

- No additional filing extensions are planned for public company reports
- Shareholder meetings will continue to be allowed flexibility in format: virtual, in-person, or hybrid
- Requirements for manual signatures and other document retention under Rule 302(b) of Regulation S-T are still on hold

Rule S-K Modernization

- Selected Financial Data
 - Item 301 disclosure requirements have been eliminated
- Supplementary Financial Information
 - Streamlined required disclosures for retrospective changes pertaining to the income statement
 - Rule 1-02(bb) clarified to allow disclosures to vary to conform to the nature of the entity's business

Rule S-K Modernization

- MD&A Restructuring and Streamlining
 - Amended Item 303(a) amends disclosures to allow for investors to view the financial statements from management's perspective
 - Adds a “reasonably likely” threshold for disclosure of material events and uncertainties that could have an impact on future operations
 - Amended Item 303(b) requires additional narrative discussion of material changes, including “reasons underlying” rather than superficial explanation of causes
 - Expands segment information and subdivisions to include product lines as a relevant area

Rule S-K Modernization

- Other Impacted Areas
 - Capital Resources Disclosures – disclosure required for material cash “requirements,” including anticipated sources of funds and general purpose of requirements
 - Results of Operations – disclosure required for events that management knows or believes are reasonably likely to cause material changes in the relationship between costs and revenues
 - Off-Balance Sheet Arrangements – expanded to provide a more principles-based approach

Rule S-K Modernization

- Other Impacted Areas (cont'd)
 - Contractual Obligations Table – amended rules specifically require disclosure of material cash requirements from known contractual and other obligations as part of liquidity and capital resources, on short-term and long-term basis
 - Critical Accounting Estimates – disclosure of critical accounting estimates is now explicitly required in order to eliminate duplication of discussion of significant accounting policies and promote analysis of measurement uncertainties
 - Interim Period Discussion – allows for flexibility in MD&A discussions of comparative periods in interim reports

Rule S-K Modernization

- Other Impacted Areas (cont'd)
 - Safe Harbor for Forward-Looking Information – specific rules related to this item have been eliminated and all Safe Harbor information is expected to be incorporated into the larger MD&A discussion
 - Smaller Reporting Companies – Item 303(d) has been eliminated and replaced with Item 303(b), which requires disclosure of material cash requirements as part of a liquidity and capital resources discussion

Polling Question #2

Have you been following the SEC and FASB releases and guidance pertaining to COVID-19 and its ongoing impacts?

- a. Yes
- b. No
- c. Some



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SEC 2020 Update: Current Priorities and Case Review



SEC 2020 Update: Current Priorities and Case Review

Agenda

- I. Overview and Trends**
- II. Whistleblower Program**
- III. Accounting and Disclosure Case Review**
- IV. Cooperation**
- V. Key Takeaways**
- VI. Looking Forward**

Overview and Trends

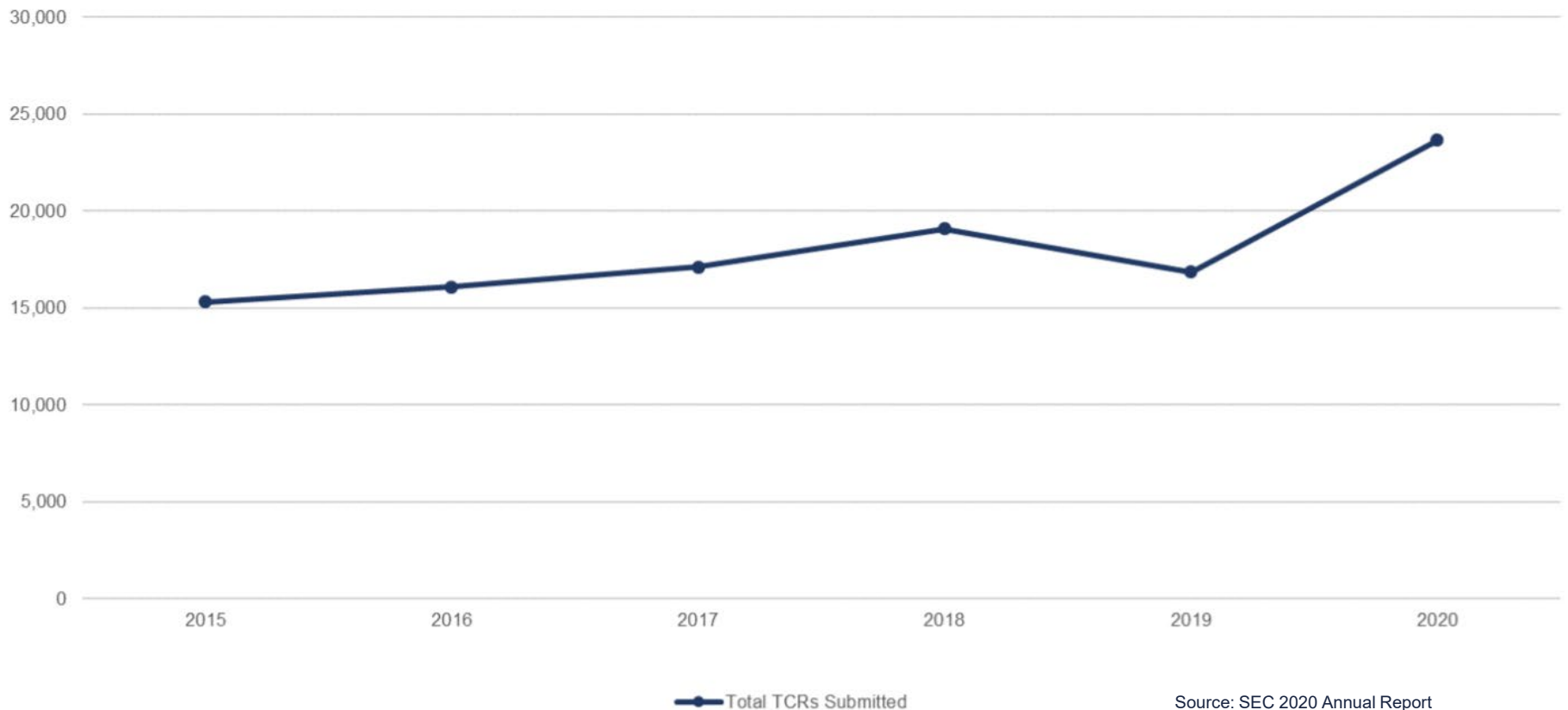
2020 Overview and Trends

- In 2020, the SEC focused on actions that spanned across the securities markets including conduct involving—
 - Offering fraud
 - Misconduct by IA/BDs
 - Financial fraud
 - Market Manipulation
 - Insider trading
 - Foreign Corrupt Practices Act (“FCPA”) violations



SEC Tips, Complaints, Referrals

Total TCRs Submitted by Fiscal Year
FY 2015 - FY 2020

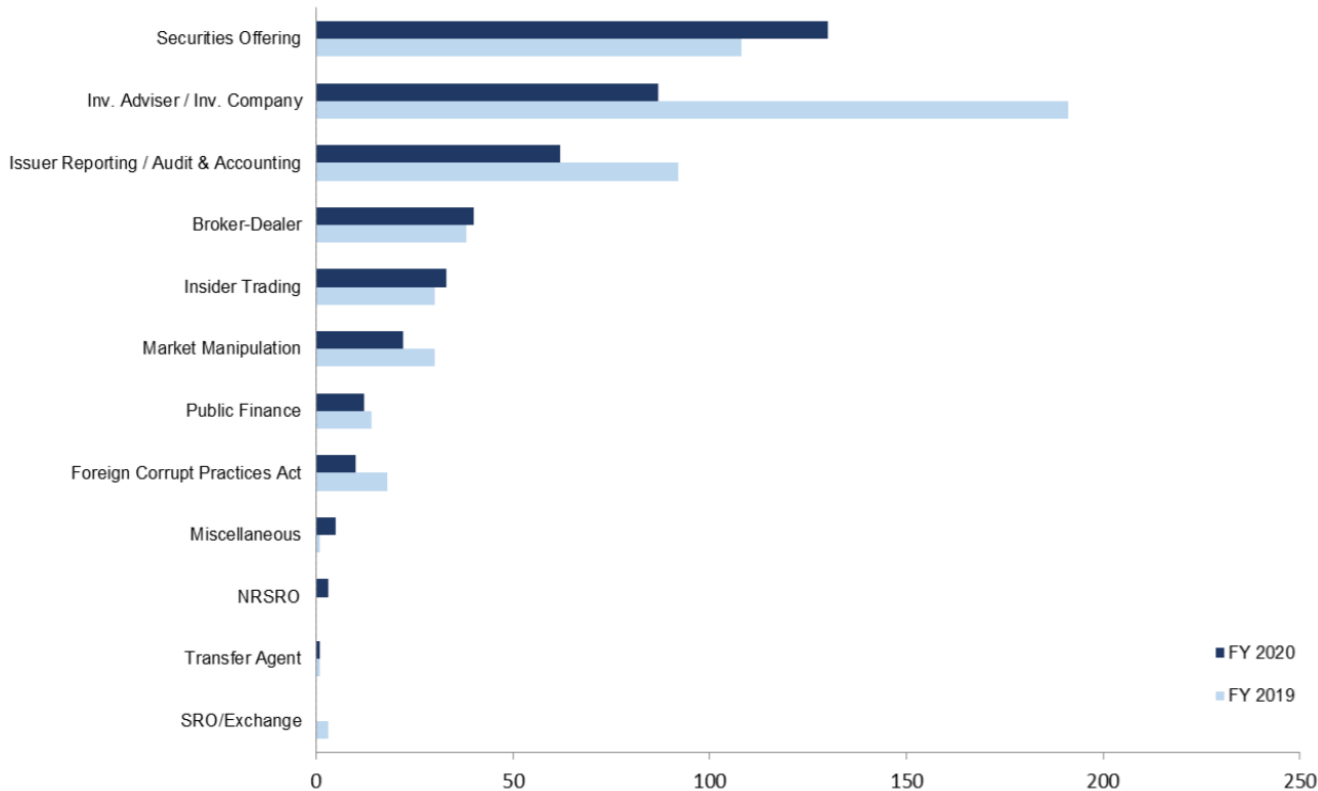


Polling Question #3

In which of the following subject areas did the SEC bring the most cases in 2020:

- a. Insider trading
- b. Public company reporting and disclosures
- c. Broker-dealer
- d. Market manipulation

Types of Cases



Source: SEC 2020 Annual Report

- Out of the SEC's 405 standalone cases in FY 2020, the largest category (32%) concerned securities offerings.
- Investment advisory and investment company issues comprised 21%.
- Issuer reporting/accounting and auditing matters comprised 14%.

Whistleblower Program

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Whistleblower Program



- In 2020, the SEC undertook a series of process improvements to streamline and accelerate the evaluation of claims by whistleblowers. These include amending the rules governing the whistleblower program to provide greater clarity around review and processing of claims.
- The result appears to be an increase in the total number of awards made as well as the quantum of those awards.
- In Fiscal Year 2020, the SEC issued 315 preliminary determinations (a 95% increase over the next highest year) and 197 final orders (a 19% increase over the next highest year).
- In Fiscal Year 2020, the SEC also awarded approximately \$175 million in total awards to 39 individuals. This is a 200% increase over the next-highest year, in the number of individuals awarded.
- In October 22, 2020, the Whistleblower Program issued its single highest award in history—approximately \$114 million to a single whistleblower. The next highest award, issued in June 2020, was for \$50 million. When the award was issued, SEC Chairman Clayton commented that the award is a testament to the Commission’s “commitment to award whistleblowers who provide the agency with high-quality information.”

Accounting and Disclosure Case Review

Accounting and Disclosure Case Review

Notable Cases

- Financial Statement Misstatements:
 - *Scana Corp.*: ongoing case regarding alleged false reports of business plans
 - *Super Micro Computer*: ongoing case relating to premature revenue recognition
 - *World Acceptance Corp.*: FCPA books and records case
 - *Power Solution*: ongoing case relating to revenue overstatement
 - *Iconix*: ongoing case relating to alleged fraudulent scheme to create fictitious revenue
- Distorting non-GAAP Metrics:
 - *Wells Fargo*: misleading investors about bank's core business
 - *BMW, AG*: \$18 million fine for false sales volume reporting
 - *Bausch Health*: \$45 million fine for improper revenue recognition
 - *Hill International*: ongoing case relating to fraudulent accounting practices
 - *Ericson*: \$1 billion fine + installation of independent monitor for large-scale foreign bribery

Cooperation

SEC Encouraging Cooperation

- SEC continues to focus on rewarding cooperation to accelerate investigations and enhance outcomes.
- For example, in the BMW case, the SEC ordered a reduced penalty in recognition of substantial cooperation and in the Transamerica case, the SEC did not impose a penalty at all.
 - BMW: Despite travel restrictions, work-from-home orders, and office closures, BMW gathered and made available a large volume of information in response to document, information, and data requests. BMW also made multiple current and former employees available for interviews, and provided presentations and narrative submissions that highlighted critical facts.
 - Transamerica: SEC did not impose a penalty where Transamerica self-reported the conduct, took prompt steps to remediate, and cooperated with the SEC's investigation.

Key Takeaways

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Key Takeaways

- Tips, complaints, and referrals, and particularly whistleblower complaints, continue to generate an outsized proportion of SEC investigations. Companies should take care to ensure that internal compliance and ethics programs effectively address insider reports of potential compliance concerns.
- Data analytics are generating an increasing number of SEC investigations and enforcement actions. Companies should consider mapping key financial metrics (e.g., EPS) for year-over-year changes and evaluating the reasonability of year-over-year changes. Also consider benchmarking key financial metrics with competitors.
- Companies should evaluate their disclosures relating to executive perquisites, which continue to be an enforcement division focus.
- Companies should take care to ensure the effectiveness of disclosure controls around non-GAAP financial metrics and disclosures, which also continue to be an enforcement division priority.

Looking Forward

Looking Forward

Potential Priorities of a New Commission

1. ESG disclosures
2. Workforce/board composition disclosures
3. Proxy access
4. Corporate penalties
5. Tightened restrictions on “bad actor” capital market waivers
6. Tightened restrictions on private placements
7. Increased thresholds for accredited investors
8. Investment advisor duties

Thank you!

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Please fill out an evaluation, coming shortly!

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