

TMT sector game changers

TMT sector game changers is a biannual report highlighting accounting and reporting trends affecting the technology, media and telecommunications (TMT) industries, some of the most dynamic and competitive segments of today's economy. The report is designed to help you stay informed and ahead of the curve in an ever changing marketplace.

In this edition, we spotlight accounting for warrants issued in a special purpose acquisition company (SPAC) transaction and highlight emerging hot topics relative to current FASB projects on accounting for acquired revenue contracts and subsequent accounting for goodwill. This issue also includes our observations related to trends in human capital disclosures, TMT sector trends in M&A and capital markets, and SEC comment letter trends.



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TMT capital markets highlights

It's more than a year into the pandemic and the bond and loan markets remain on solid footing, supported by improved economic conditions, the vaccine rollout and continued support from the Federal Reserve. Refinancings, driven by low interest rates, continue to be the dominant form of issuance, particularly in the bond market. The TMT sector has seen a significant increase in M&A and LBO activity as buyout firms seek companies with cash flows that are more resilient to external factors such as a global pandemic.

Investment grade bond issuance across all sectors raised \$531 billion in the first four months of 2021, returning to pre-pandemic levels. The TMT sector raised \$125 billion, which was a slight increase in proceeds in 2021 over the same period in 2020. The improving economic environment helped drive acquisition-related financings as deal-makers showed more confidence.

The high yield bond market across all sectors has continued its strong run this year with issuance of \$198 billion as of April 30, an 82% increase over the same period in 2020. TMT issuance has grown in prevalence with \$40 billion raised so far. TMT borrowers continue to take advantage of low interest rates to extend maturities, refinance existing bonds and raise capital to support a variety of corporate purposes as the vaccine rollout supports a return to normalcy.

Leveraged loan market issuance across all sectors almost doubled in the first four months of 2021, raising \$290 billion as of April 30, almost double the prior period. This market has been supported by a significant increase in M&A and LBO activity, primarily driven by high levels of dry powder and low rates. The TMT sector in particular has been extremely popular for buyout financings, with 41% of all issuance supporting LBO transactions. We expect the leveraged loan market to continue speeding along as issuers look for floating rate debt as economic growth and the possibility of increased inflation continue to grow.

We expect to see the broader debt capital markets continue to grow as investors need to put dry powder to work, and issuers are locking in lower rates and pushing out maturities. A hot M&A market is also driving issuance of acquisition-related debt. The TMT sector is a large part of the M&A market and will likely be actively seeking acquisition-related financing. Many factors, including the possible emergence of inflation and geo-political events, will combine to produce an exciting and growing debt market looking forward.



IPOs and SPAC mergers

US equity capital markets continued its 10-year run of growth despite a challenging 2020, with the S&P 500 up 11% as of April 30. As dry powder continues to pile up in the investment community, the search for yield has provided record inflows into equities, and that has provided the impetus for record IPO activity.

The 38 IPOs reported in the TMT sector in the first four months of 2021 raised \$27 billion, much of it in the technology/software area aimed at directly supporting new ways of living and working. Investors in TMT sector IPOs are currently up 13%, outperforming the S&P 500's return of 11%.

SPAC IPOs garnered significant media attention as they reached record levels, and they swamped traditional IPOs in terms of volume over the past couple of years. SPAC mergers have proven to be a popular vehicle for TMT companies to gain a public listing, providing just under half of all the SPAC mergers in the first four months of 2021.

We expect the TMT sector to continue to account for a large share of future IPOs. The fundamental economic and investor-driven environment that is supportive of a buoyant IPO market, are also present in the TMT sector. Technology/software companies will likely be the largest share of the TMT sector, with a focus on the production of software-driven solutions such as cloud computing, corporate applications to automate and streamline procedures, FinTech, streaming technology and virtual collaboration.

There are also many private high-growth TMT companies in cutting-edge areas such as artificial intelligence that are still in the venture capital stage, and that may provide an exciting pipeline for IPOs.

Please note: IPOs with deal values that are less than \$25 million, best efforts offerings, oil and gas royalty trusts, business development companies, pricing on OTC Bulletin Board and OTC Pink Sheets are excluded from this narrative. Data from PwC US Capital Markets Watch, SEC filings and third-party databases (Dealogic, S&P Capital IQ, S&P LCD and Refinitiv) as of 4/30/21.

For more information, contact [Daniel Klausner](#), Capital Markets Advisory Leader.



Accounting for warrants issued in a SPAC transaction

The trend continues, and SPAC mergers continue to gain significant traction. We've seen an active IPO market since 2020 and SPACs are taking their fair share of that market. Most SPAC transactions involve issuing warrants to purchase a company's common stock. In many cases, the warrants are issued to founders/sponsors when the SPAC is formed and to the public when the SPAC executes its IPO. Warrants may also be issued to PIPE (Private Investment in Public Equity) investors and the public when a SPAC legally acquires an operating company and additional capital is raised.

These warrants are typically analyzed under the equity-linked instrument accounting models, including ASC 480 and ASC 815-40. See the warrants section of our SPAC [In depth](#) for a summary of these models and related references to the PwC financing guide for additional information. The acting director of the SEC's Division of Corporate Finance and the SEC's acting chief accountant issued a [public statement](#) on April 12, 2021 regarding their recent evaluation of fact patterns relating to the accounting for warrants issued in connection with a SPAC's formation.

Indexed to the company's own stock

One of the key messages in the SEC's statement is that if the warrants issued by SPAC entities include any provisions that could change the settlement amount or how the settlement amount is calculated based on who holds the warrants, the warrants would not be considered indexed to an entity's own stock. As a result, the warrants would be classified as liabilities and reported at fair value with changes in fair value reported in current earnings. In our experience, there are a number of features in warrants that are issued to the founders/sponsors of a SPAC that may cause changes in how a warrant's settlement amount is calculated in the event the founder/sponsor transfers the warrant to a third party. There may also be features in warrants issued to the public that may involve different settlement terms depending on who holds them. Warrant agreements should be carefully reviewed and any provisions that change the settlement amount or how settlement is calculated, regardless of the significance of such impact, should be evaluated under the SEC's public statement. Analyzing a warrant under the indexation guidance requires careful analysis of all of the provisions both individually and collectively.

The merger of a SPAC with a target company presents several challenges. Our [In Depth](#) publication highlights several of the financial reporting and accounting considerations and our responses to frequently asked questions on the SPAC merger process.



Standard-setting developments: Goodwill

Non-public business entities

FASB issues private company goodwill impairment alternative

On March 30, 2021, the FASB issued [guidance](#) introducing an accounting alternative allowing private companies and not-for-profit entities to forgo the evaluation of goodwill impairment triggering events occurring throughout a reporting period.

The accounting alternative is intended to reduce the cost and complexity of the existing model, which was further exacerbated for many private companies due to the economic uncertainty and volatility caused by the COVID-19 crisis. The accounting alternative, if adopted, allows private companies to evaluate goodwill impairment triggering events only as of the end of the reporting period, whether interim or annual, and to recognize and measure any resulting goodwill impairment as of that date, if necessary. This may provide relief to private companies by eliminating the requirement to evaluate goodwill impairment triggering events as they occur during the reporting period.

Similar to other private company accounting alternatives, companies should consider whether they currently meet the definition of a public business entity and whether they expect to meet that definition in the future. If a company that is private today later meets the definition of a public business entity (due to a public offering of the company's securities, for instance), it would no longer be eligible to apply the goodwill alternative and would be required to retrospectively adjust its historical financial statements to apply the requirements of the existing goodwill accounting guidance. Given the nature of the goodwill triggering event accounting alternative, "unwinding" such an election would likely present significant challenges.

The guidance is effective prospectively for fiscal years beginning after December 15, 2019. Early adoption is allowed for any financial statements that have not been issued or made available for issuance as of March 30, 2021. Similar to other private company accounting alternatives, entities are provided with an unconditional one-time option to adopt the guidance alternative prospectively at any time after its effective date without assessing preferability. Private companies are allowed to elect the new accounting alternative irrespective of whether they have elected the existing accounting alternative that allows for the amortization of goodwill.

Read our [In Brief](#) for additional information regarding the private company goodwill impairment alternative.



Public business entities

FASB continues its project related to subsequent accounting for goodwill

The FASB currently has a project on its agenda that revisits the subsequent accounting for goodwill and identifiable intangible assets broadly for all entities. In July 2019, the FASB issued an invitation to comment (ITC) to obtain input on the scope of these topics. The ITC drew considerable interest from stakeholders with over 100 responses. The comment letter responses were analyzed and presented to the board about a year ago with mixed feedback from respondents.

The board met in December 2020 to discuss the research performed by FASB staff on goodwill amortization periods and methods for a hybrid impairment-with-amortization model. The following tentative decisions were reached at that time: 1) an entity should amortize goodwill on a straight-line basis; 2) an entity should amortize goodwill over a 10-year period unless the entity elects and justifies another amortization period; 3) an entity that elects another amortization period would be subject to a cap; and 4) an entity would not be required to reassess the amortization period.

At its April 2021 meeting, the board discussed 1) whether certain intangible assets should be subsumed into goodwill and 2) the factors to consider for estimating the useful life of goodwill if entities choose to deviate from the default period and the cap on that amortization period. The board directed the staff to perform additional research and outreach related to user perspectives on what types of intangibles provide decision-useful information and certain factors that may be used to estimate the useful life of goodwill. No additional decisions were reached at this meeting.

While a timeline has yet to be established, we expect that further FASB deliberations will likely lead to an exposure draft later this year or early next year. For more information, listen to our podcast, [*Accounting for goodwill: details on the FASB and IASB projects.*](#)

Exposure draft on acquired revenue contracts

The FASB's proposed accounting standard update to ASC 805 is aimed at improving the accounting for acquired revenue contracts with customers in a business combination by addressing diversity and inconsistency related to the recognition of an acquired contract liability.

The amendments in this proposed update would require that the acquiring entity recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. Generally, this would result in an acquirer recognizing and measuring the acquired contract assets and contract liabilities consistent with how they were recognized and measured in the acquired entity's financial statements.

The FASB received a total of 43 responses from registrants and practitioners, and they were mainly in support of the proposed update. We expect the FASB to begin redeliberations later this year based on the feedback received.

Read our [full response](#) to the FASB's exposure draft.



SEC comment letter trends: TMT

The SEC Division of Corporate Finance’s filing review process is a key function used by the SEC staff to monitor critical accounting and disclosure decisions applied by registrants. Our analysis of SEC comment letters identifies the frequency of topical areas addressed by the SEC staff and how their focus areas have changed over time. Read more on [SEC comment letter trends for TMT companies](#), in which we provide insights on the nature of the SEC staff comments, sample text from the comments and provide links to sites where you can learn more about the accounting and disclosure requirements addressed in each area. The topics receiving the most attention in the 12 months ended December 31, 2020 are largely consistent with the same period in 2019.

Current Period (04/01/2020 – 03/31/2021)*	Relative change in number of letters compared to the Prior Period*
Non-GAAP measures	↓
Revenue recognition	↔
Management’s discussion and analysis	↑
Segment reporting	↑
Goodwill and other intangibles	↑
Fair value measurement	↔
Debt, quasi-debt, warrants and equity	↑
Disclosure controls and ICFR	↔
Income taxes	↔
Accounting changes and error corrections	↔

*This analysis was performed based on topical areas assigned by research firm Audit Analytics for comment letters publicly issued in the 12 months ended March 31, 2021 (“Current Period”) and the 12 months ended March 21, 2020 (“Prior Period”) in relation to Form 10-K and Form 10-Q filings. Total comment letters evaluated during the Current Period and Prior Period were approximately 185 and 230, respectively.

Legend

- ↑ The relative number of comment letters has increased.
- ↓ The relative number of comment letters has decreased.
- ↔ The relative number of comment letters has not changed significantly.



Observations from comment letters

Non-GAAP financial measures: These result in frequent comments regarding compliance with Item 10(e) of Regulation S-K, sometimes resulting in requests to remove or substantially modify non-GAAP metrics. Focus areas include presentation of a non-GAAP measure with greater prominence than a GAAP measure or failure to reconcile the non-GAAP measure to the most directly comparable GAAP measure; appropriateness of adjustments to eliminate or smooth items identified as non-recurring, infrequent or unusual; use of individually tailored accounting principles; and disclosure of why management believes the non-GAAP presentation provides useful information to investors.

Revenue recognition: Topics most frequently addressed in the SEC staff's comments include the nature of performance obligations, why goods or services are distinct, and how a company estimates variable consideration, the timing of when control of a performance obligation transfers, gross versus net presentation judgments and disaggregated revenue disclosures.

Management's discussion and analysis (MD&A): Most frequent topics include discussion and analysis of results of operations, including the description and quantification of unusual or infrequent events or any significant economic changes, trends or uncertainties such as the impact of the COVID-19 crisis; metrics used by management in assessing performance, including how they are calculated and period-over-period comparisons; critical accounting estimates, including the judgments made in the application of significant accounting policies and the likelihood of materially different reported results if different assumptions or conditions were to prevail; and liquidity and capital resources, including a clear discussion of drivers of cash flows, along with the trends and uncertainties related to meeting known or reasonably likely future cash requirements.

Segment reporting: The SEC staff frequently questions how registrants have identified operating segments and aggregated them into reportable segments, often due to events reported by companies in press releases or Form 8-K disclosures. The SEC staff may expect to see changes in segments when the company has disclosed significant acquisitions or dispositions, changes in organizational structure or changes in key personnel. To resolve segment questions, the SEC staff may request a copy of the reporting package or other documents used by the chief operating decision-maker to evaluate the support for management's reporting conclusions.

Climate Change: While climate change themed comment letters have not yet emerged in the top ten, in recent months, the SEC has been responding to the increased disparity between public statements and what's included in regulatory filings with increased attention on the quality and adequacy of climate change disclosures.

Companies will be well served to evaluate their impact on the climate and the climate's impact on them, and to make transparent disclosures based on that evaluation. And it shouldn't be just about risk; if climate change, or the reaction to climate change results in business opportunities, those should be disclosed, too. With the heightened focus from a variety of stakeholders, what a company does not say can be as influential as what it does say. There is much that investors and other stakeholders want to know, and much that current SEC rules already require.

Climate change creates direct and indirect risks for companies in nearly all industries. Investors want to know about risk because it informs their decision making. The SEC is acknowledging the growing interest in ESG disclosures and reminding companies how they are already obligated to consider the impact of climate change in their current disclosures.

Read more in our [In the Loop](#) publication [Don't wait until the SEC staff asks you about climate change. Are you responding to a comment letter? Read our best practices on The comment letter process.](#) Also, read more observations related to [SEC comment letter trends for technology, media and telecommunications companies.](#)



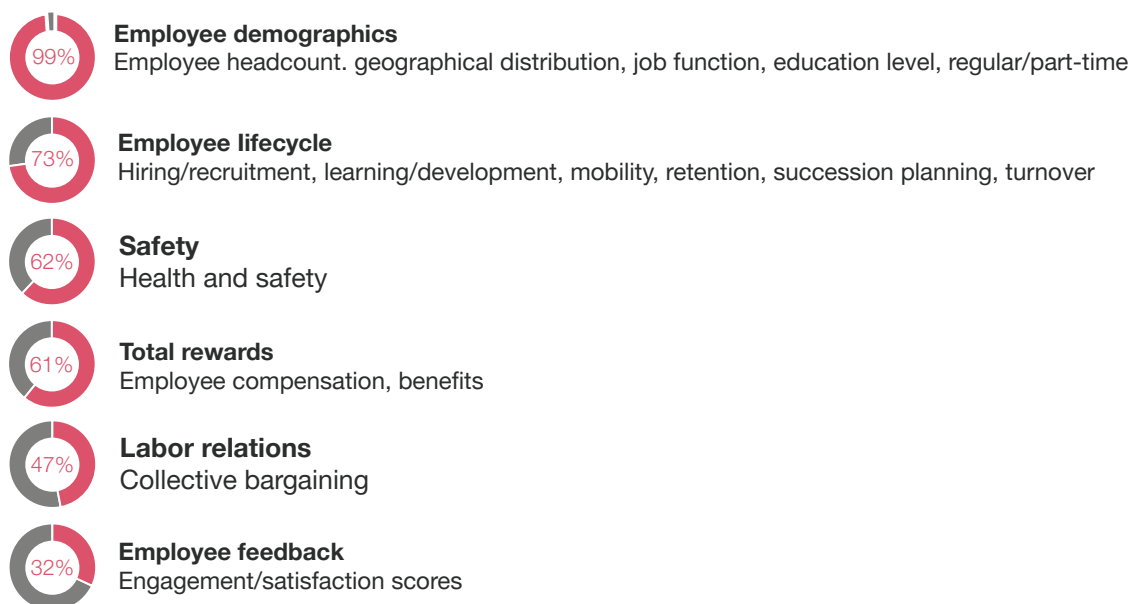
Human capital disclosure trends

The SEC introduced revised disclosure requirements in August 2020 designed to provide stakeholders insight into human capital — including the operating model, talent planning, learning and innovation, employee experience and work environment. These disclosures may help stakeholders evaluate whether a business has the right workforce to meet immediate and emerging business challenges and the nature and magnitude of the related investments.

With the SEC's new human capital disclosure rules now effective, PwC looked at more than 2,000 Form 10-Ks filed from November 9, 2020, the effective date of the new rules, through February 28, 2021. In these Form 10-Ks, we noted:

- 89% included both qualitative and quantitative metrics.
- 75% included disclosures related to the COVID-19 crisis and the impact on human capital, most of which were qualitative.
- 66% disclosed DEI information (gender, sexual orientation, ethnicity, veteran status, culture, strategy, age, religion), much of which was qualitative. Many companies did not include measures or objectives related to diversity at the management level, and the quantitative DEI metrics disclosed primarily included the total number of employees and gender percentages.

Other trends include*:



*Includes both quantitative and qualitative disclosures

What's ahead

The new administration in the White House and the SEC could influence the focus on human capital disclosures. Two SEC commissioners dissented to the final rule and pushed the commission to play a more active role in enhancing reporting for topics such as ESG, including climate change. With all these broader unknowns, we recommend that companies make sure they accurately and thoroughly describe the impacts on human capital of current events and the focus on DEI in particular, if material. In addition, they should periodically assess whether the human capital measures disclosed continue to be the most relevant. Appropriate controls and processes will need to be maintained, especially when it comes to the underlying data supporting human capital disclosures. Effective and transparent disclosure of human capital initiatives will provide stakeholders with a new window into how a company manages its workforce and invests in its people to create long-term value.

For more information, listen to our podcast [Human capital disclosure trends in recent 10-Ks](#) and our recently updated In the Loop report, [New human capital disclosure rules: Getting your company ready](#).



Effective dates

Calendar year-end	PBEs	Nonpublic companies
2021	Equity securities, equity method, and derivatives NFP entities: contributions of non-financial assets Simplifying accounting for income taxes	Cloud computing Collaborative arrangements Consolidation: VIE related party Defined benefit plan disclosure requirements Episodic television series Hedging NFP entities: contributions of non-financial assets
2022	Convertible debt and contracts in own equity (a)	Equity securities, equity method, and derivatives Leases (b) Simplifying accounting for income taxes
2023	Insurance: long-duration contracts (c)	Credit losses (d) Goodwill impairment (d)
2024		Convertible debt and contracts in own equity (a)
2025		Insurance: long-duration contracts (c)

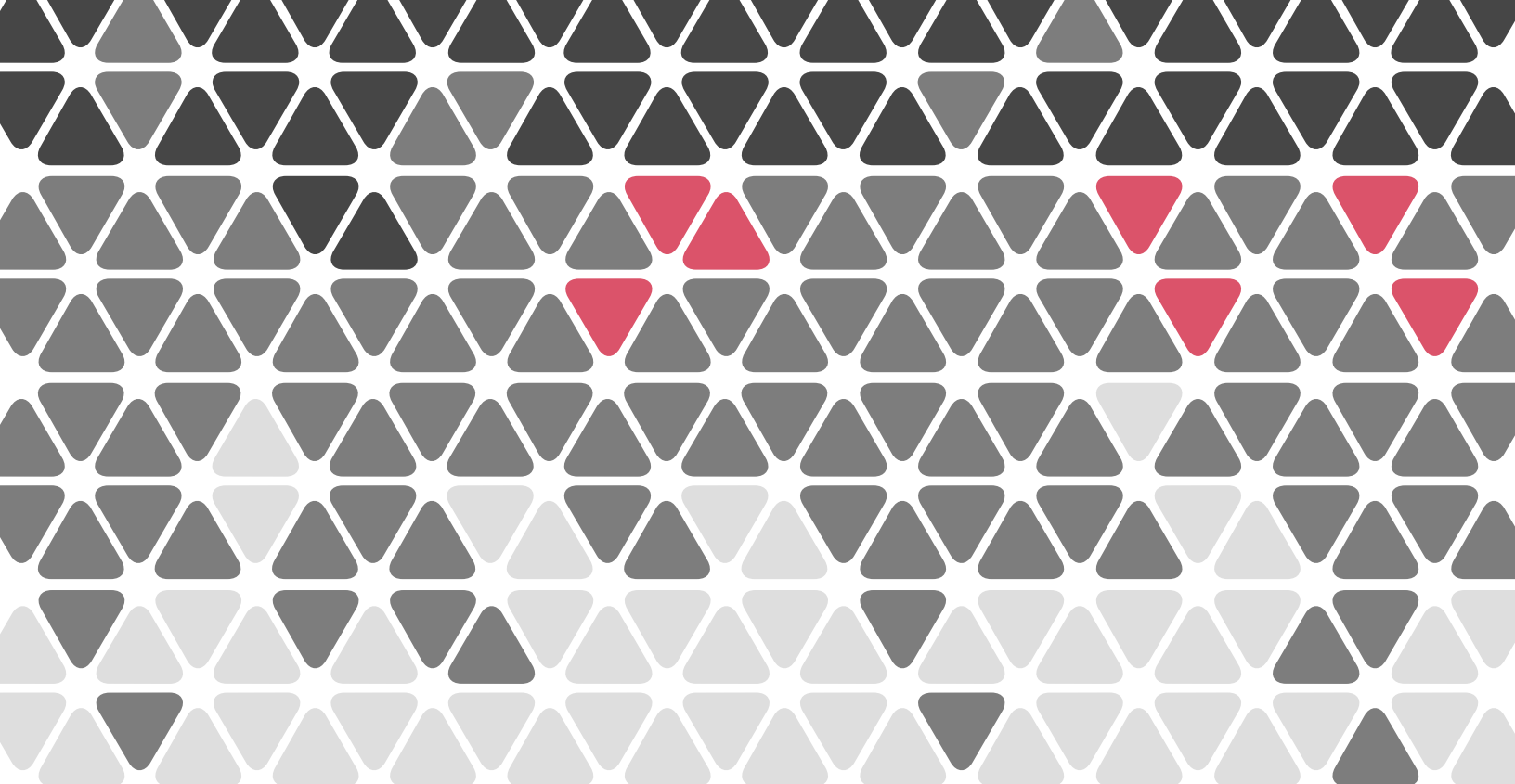
a) Effective in 2022 for SEC filers other than SRCs; effective in 2024 for all other companies, including SRCs.

b) Effective in 2022 for “all other” entities that have not yet issued financial statements or made financial statements available for issuance reflecting the adoption of ASC 842 as of June 3, 2020.

c) In November, the FASB issued ASU 2020-11, provided an additional one-year deferral of the Insurance: long-duration contracts standard for all entities. The standard is now effective in 2023 for SEC filers other than SRCs, and effective in 2025 for all other entities, including SRCs.

d) Effective in 2020 for SEC filers other than smarter reporting companies (SRCs); effective in 2023 for all other companies, including SRCs.

For further information on the new accounting guidance for public and nonpublic companies, including available PwC resources, refer to the [Guidance effective for calendar year-end public companies](#) and [Guidance effective for calendar year-end nonpublic companies](#) pages on Viewpoint, and see our In depth, [How to apply the FASB’s deferral of effective dates](#).



About PwC's TMT industry practice

TMT practice strives to help business leaders in the Technology, Media and Telecommunications industries manage their complex businesses and capitalize on new windows of opportunity. At PwC, our purpose is to build trust in society and solve important problems. PwC is a network of firms in 155 countries with over 284,000 people who are committed to delivering quality in assurance, advisory and tax services.

Let talk

For a deeper discussion on the content included in this edition of TMT Sector Game Changers or other challenges, please reach out to any of our TMT leaders to discuss. We're here to help.

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