TMT insights: Financial reporting and accounting quarterly - Q1 2023

A PwC report on emerging trends affecting technology, media and telecommunications companies

In this edition:

- After years of growth, technology, media and telecommunication (TMT) companies now face increases in the cost of capital, a potential recession, heightened regulatory scrutiny and new challenges in China.
- Despite these challenges, the TMT sector has multiple reasons to feel confident as there are numerous opportunities for buyers to capitalize on valuation resets and transform their businesses with the right strategies and investments.
- Beginning in Q1 of 2023, calendar year-end companies will be required to provide new disclosures about supplier finance programs under ASU 2022-04.
- TMT companies making organizational or strategic changes should consider whether these changes require a reassessment of their reportable segments.
- Significant FASB activity this quarter includes a new proposal that would require a number of additional income tax disclosures.
- While the timing and content of the SEC's final climate disclosure rule is uncertain, there have been significant developments related to the other sustainability reporting frameworks proposed last year.

Issue spotlight

Find out the likely outlook for TMT deals in 2023.

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Business update

After years of staggering growth, technology, media and telecommunication (TMT) companies are now facing strong headwinds, including continued increases in the cost of capital, a potential recession, heightened regulatory scrutiny and new challenges in China. While many of these macroeconomic headwinds have led to a sustained decline in tech valuations, there are still multiple reasons to feel confident as the TMT sector has historically thrived on disruption. There continue to be numerous opportunities for buyers to capitalize on valuation resets and transform their businesses with the right strategies and investments.

TMT Deals

Given the macroeconomic headwinds driving valuation resets, the sector already faces a challenging deals outlook for 2023. Further, in the US, TMT companies are facing an increasingly complex regulatory landscape, producing an environment that is primed to be less friendly to technology M&A. While acquisitions have allowed TMT companies to fast-track growth, we're now living in a new regulatory era that's trending toward protectionist policies.

Despite the challenges, technology assets continue to be one of the most active in the M&A market. This presents new ground for many companies as they acquire new technologies to drive strategies and expand into new or existing industries. The challenge for dealmakers, however, is understanding how certain technologies could evolve, especially in emerging technologies such as artificial intelligence.

IPOs

The recent traditional IPO market has been the slowest it has been in 20 years. The health of the 2023 market for IPOs and direct listings will be largely dependent on the Fed's ability to reduce inflation. The Fed's monetary tightening policy has made progress: Inflation declined from 9.1% in June 2022 to 6% in February 2023, marking eight consecutive months of deceleration.

Even in the event of a mild recession, we are optimistic that the IPO market will be receptive to high-quality, profitable companies — likely backed by proven financial sponsors such as venture capital and private equity.

IPO investors are placing a strong emphasis on financial fundamentals and intrinsic valuation, rather than market valuations emphasizing high-growth stories. There is a heightened focus on return via margins, operating leverage and cash flow. Companies that are likely to be positively placed for IPO success in 2023 will be those that can demonstrate profitability — or at least a clear path to profitability.

Read more insights in our publication Next in TMT: Capitalizing on 2023 challenges and Dealmakers' regulatory playbook: How TMT companies can navigate the new era. Our 2023 Deals outlook can be accessed at Technology: US Deals 2023 outlook and Media and telecommunications: US Deals 2023 outlook.

Accounting update

In this issue, we summarize new guidance for public companies that include required disclosures for supplier finance programs beginning in the first quarter. We also offer timely reminders on how adjustments to organizational structures or business strategies could affect a company's reportable segments and provide an update on accounting considerations related to minimum tax legislation. On the standard-setting front, the Financial Accounting Standards Board (FASB) made progress on multiple standard-setting projects and issued a proposal that would require significant new income tax disclosures. Notably, the FASB also wrapped up its discussions on a new accounting model for crypto assets and reached key tentative decisions on its project on income statement expense disaggregation.

New resource for accounting in uncertain economic times

Rising interest rates, inflation, geopolitical conflict and supply chain challenges will continue to impact many TMT companies in 2023. Our Accounting in uncertain economic times placemat series is an interactive tool that can help identify how different macroeconomic trends may impact accounting and reporting, illustrate the judgments involved and locate additional PwC resources to navigate these issues.

New disclosures for supplier finance programs

Beginning in Q1 of 2023, calendar year-end companies will be required to provide new disclosures about supplier finance programs under **ASU 2022-04**. While the new standard does not address the accounting for these arrangements, it does require disclosures intended to enhance transparency regarding the key terms and amounts subject to the program.

Background on supplier finance programs

When a reporting entity (buyer) purchases goods or services from a supplier, the buyer often recognizes its payment obligation as a trade payable. It has become increasingly popular for buyers to establish a supplier finance program with a bank or other financial intermediary. In a typical program, the buyer validates the invoice received from the supplier, and the intermediary may offer an early payment option (typically a discounted amount) to the supplier. The buyer will generally make its payment according to the terms of the original invoice, but it's important to understand that the terms of various arrangements can vary significantly.

When accounting for supplier finance programs, a key judgment involves determining whether invoices in the program should be presented as trade payables or as debts. A range of factors and evidence should be considered when deciding whether the substance of the obligation is more akin to a trade payable or a debt. These considerations include:

- **Has the buyer's obligation been modified so significantly that it should be considered a new arrangement (i.e., debt)?** Examples include significantly extending the payment terms, requiring the buyer to post collateral, changing the payable's seniority, charging interest or permitting the buyer to earn a fee based on vendor participation.
- **Has the supplier agreed to atypical invoice terms because a supplier finance program is in place?** Extended payment terms may indicate that the buyer's obligation is more akin to debt because the program offers payment terms that are well beyond what it would get with a typical trade payable.

New disclosure requirements

Some of the disclosure requirements are effective for fiscal years that begin after December 15, 2022, for all entities. Early adoption is permitted. Disclosures required for calendar year-end companies are summarized below:

2023	2024 and beyond
All interim and annual periods:* • Information about the program's key terms • Balance sheet presentation as trade payables or debt • Confirmed amount outstanding at the end of the period (regardless of whether the amount has been discounted to the supplier by the intermediary) * Since 2023 is the first year of adoption, all annual disclosures (except for the roll-forward) are required in each interim period. The disclosures should be made retrospectively for each period for which a balance sheet is presented.	**Interim periods:** • Confirmed amount outstanding at the end of the period (regardless of whether the amount has been discounted to the supplier by the intermediary) **Annual period:** • Information about the program's key terms • Balance sheet presentation as trade payables or debt • Confirmed amount outstanding at the end of the period (regardless of whether the amount has been discounted to the supplier by the intermediary) • Roll-forward of annual activity* * The roll-forward disclosure requirement is applied prospectively.

For more information

For more details, refer to Section 11.3.1.5 of our Financial statement presentation guide. Also, listen to our recently released podcast, Supplier finance: New disclosures aim to enhance transparency

Other accounting standards effective in 2023

In addition to new disclosures about supplier finance obligations (discussed above), new accounting standards related to business combinations, hedge accounting and credit losses are effective for many public companies in 2023.

Accounting for acquired contract assets and contract liabilities

ASU 2021-08 requires that contract assets and contract liabilities (i.e., deferred revenue) acquired in a business combination be recognized and measured by the acquirer on the acquisition date in accordance with ASC 606, Revenue from Contracts with Customers, rather than measuring these assets and liabilities at fair value. Generally, this new guidance will result in the acquirer recognizing contract assets and contract liabilities at the same amounts recorded by the acquiree. For more information, refer to our **Accounting for acquired contract assets and contract liabilities**.

Fair-value hedging – portfolio layer method

ASU 2022-01 replaces the recently added last-of-layer hedging guidance and provides the ability to hedge the benchmark interest rate risk of a closed portfolio of fixed-rate, fixed-income securities with multiple hedging relationships. For more information, refer to our **Derivatives and hedging** guide.

Troubled debt restructurings and vintage disclosures

ASU 2022-02 eliminates the troubled debt restructuring guidance for creditors that have adopted the new credit loss guidance (commonly referred to as CECL) and adds new disclosure requirements. This guidance does not impact the accounting for borrowers. For more information, refer to our **Amendments to CECL eliminate TDRs and add disclosures**.

For a complete list of recently issued accounting standards and their effective dates, including links to 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.

Navigating changes to reportable segments

With TMT companies continuing to navigate a challenging economic environment, many are making adjustments to their organizational structure or business strategy. Below are some timely reminders about when these changes could require reassessing a company's reportable segments and the resulting accounting and reporting implications.

Factors that could result in a change to reportable segments

The segment standard does not provide specific guidance on when a company should reassess its reportable segments, so whether a reassessment is needed will depend on a company's specific facts. Typically, segment conclusions need to be reassessed upon significant acquisitions or dispositions and changes to the organizational structure, such as a different individual or group being identified as the chief operating decision-maker (CODM). Changes to reportable segments can also occur if there are changes to the individuals that report to the CODM, the information reviewed by the CODM, or how the CODM allocates resources, assesses performance or determines budget.

Potential accounting implications

If there are changes to a company's reportable segments, management should also assess whether the company's reporting units have changed. Reporting units are defined as the same as, or one level below, the operating segments. This is important because goodwill is tested for impairment at the reporting unit level.

If the composition of one or more reporting units changes, the company's assets and liabilities should be reassigned to the reporting units affected before allocating goodwill. Then, goodwill should be reassigned using a relative fair-value approach. Changes to the composition or carrying amount of a reporting unit's net assets may trigger the need to perform a goodwill impairment test. It would not be appropriate, however, for a company to reorganize its reporting structure simply to avoid an impairment charge.

Presentation and disclosure considerations

A change to reportable segments is reflected in the period of change by recasting the segment footnote for all periods presented, unless it is impracticable to do so. Outside of the financial statements, the company will also need to update any information in the management discussion and analysis (MD&A) about the results of operations of its individual reportable segments.

Changes that occur after period end, but before issuing the financial statements, are treated as unrecognized subsequent events. That is, the information in the segment footnote is not recast to reflect the change. However, companies should consider disclosing that a change will occur in the subsequent period.

When a change to reportable segments occurs during an interim period, a company is not required to immediately recast either the current year's earlier interim periods or the prior years' annual segment footnotes. Recasting of the prior period information is typically done in the next filing that presents those periods. However, the issuance of a registration statement may accelerate the need to recast prior period annual financial statements.

Additional considerations for changes in an interim period

When a company changes its reportable segments in an interim period, there are reporting implications if those interim financial statements are included or incorporated by reference into a new or amended registration statement before the company's next annual filing.

In this situation, the company is required to recast its prior period annual financial statements to reflect the segment information on a comparable basis, assuming that the effect on previously issued annual financial statements is material. If the company presents three years of financial statements, this requires recasting three years of segment information, rather than just the two historical years that would be required if the segment footnote was not recast until the next annual filing after the change. MD&A may also need to be updated. **For more information**

For more guidance on changes to reportable segments, refer to Section 25.7.8 of our Financial statement presentation guide.

Tax accounting for OECD Pillar Two taxes

Various jurisdictions have made significant advancements in enacting domestic legislation based on the minimum tax described in the Global Anti-Base Erosion rules ("GloBE minimum tax" or “Pillar Two tax”), raising questions about the related accounting impact. At the FASB’s February 1, 2023 meeting, the FASB staff provided their view that the GloBE minimum tax is an alternative minimum tax as discussed in ASC 740, Income Taxes. Based on this conclusion, reporting entities would not recognize or adjust deferred tax assets and liabilities for the estimated future effects of Pillar Two taxes as long as enacted legislation is consistent with the OECD’s GloBE Model Rules and associated commentary. Rather, the tax would be accounted for as a period cost impacting the effective tax rate in the year the GloBE minimum tax obligation arises.

Concurrent with these developments from the FASB, the International Accounting Standards Board (IASB) issued an Exposure Draft proposing amendments to guidance from the International Financial Reporting Standards (IFRS) to introduce a temporary, but mandatory, exception to the accounting for deferred taxes arising from the implementation of the Pillar Two rules, along with extensive disclosure requirements.

The number of companies expected to be impacted by Pillar Two continues to expand as more jurisdictions introduce and advance domestic legislation based on the Pillar Two rules. While the majority of Pillar Two legislation is anticipated to be effective in 2024 and beyond, enactment in 2023 would likely trigger disclosure requirements. Multinational entities should continue to monitor developments of Pillar Two legislation and assess the potential accounting and disclosure implications.

For more information

For more details on the FASB staff’s views, refer to our In brief, **FASB staff weighs in on tax accounting for OECD Pillar Two taxes**. For more background on the OECD’s international corporate tax reform and Pillar Two’s Model Rules, read our publication, In the loop: **The OECD minimum tax: What US companies need to know**.

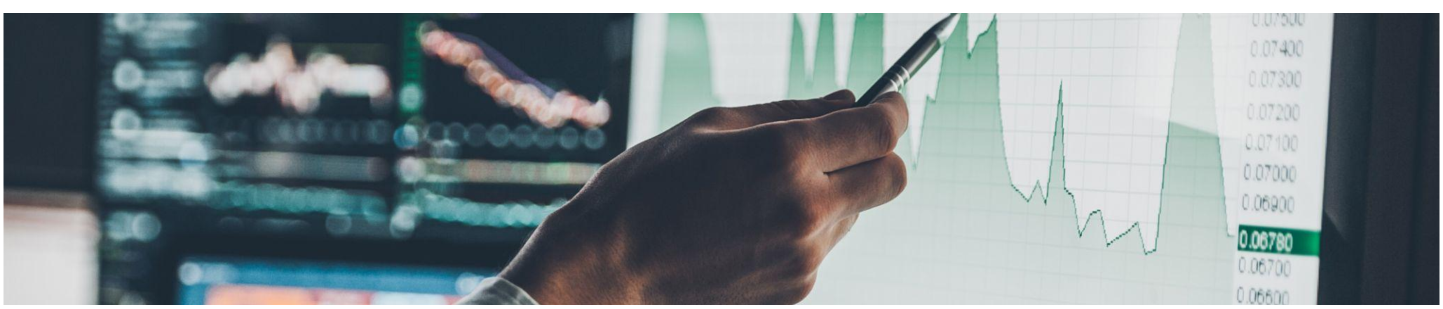
FASB proposes significant new income tax disclosures

In March, the FASB issued a new proposal that would require a number of additional income tax disclosures, primarily focused on the disclosure of (a) income taxes paid and (b) the rate reconciliation table.

Companies would need to disaggregate the disclosure of income taxes paid (net of refunds received) by federal, state, and foreign taxes, both on an interim and annual basis. On an annual basis, companies would disclose income taxes paid disaggregated by individual jurisdiction using a quantitative threshold of 5% of total income taxes paid.

Public business entities would also be required to provide, on an annual basis, rate reconciliation information by specific categories (including state and local income tax), the effect of cross-border tax laws, foreign tax effects, and tax credits, among others. Additionally, some categories would then require disaggregation based on a quantitative threshold of 5%. The foreign tax effect category would require disaggregation by both jurisdiction and nature. The proposal also requires additional qualitative disclosures.

The proposed amendments would be applied on a retrospective basis upon adoption. Comments on the proposal are due May 30.



Coming soon: proposed accounting model for crypto assets

In February, the FASB completed its initial deliberations on the accounting for and disclosure of crypto assets, with an exposure draft expected potentially as soon as the end of this month. The scope of the proposed guidance would include crypto assets that meet the definition of an intangible asset and that:

- 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 or blockchain;
- are secured through cryptography; and
- are fungible.

In addition, the FASB decided to exclude from the scope of the proposed guidance crypto assets created or issued by the reporting entity or their related parties, as well as assets commonly referred to as "wrapped tokens."

All crypto assets in scope would be measured at fair value, applying ASC 820, Fair Value Measurement. Changes in fair value would be recognized in net income each reporting period and would be separately presented from the income statement effects of other intangible assets, such as amortization or impairments. The FASB considered, but decided against, pursuing a measurement alternative for crypto assets with inactive markets.

The proposal is expected to include a number of required disclosures for each reporting period, including the name, fair value, units held and cost basis for each significant crypto asset holding, as well as information about crypto assets that are restricted from sale. For annual periods only, required disclosures would also include a reconciliation of activity for crypto asset holdings and the difference between the sale price and cost basis for crypto asset dispositions. Additionally, in-scope crypto assets would be required to be presented separately from other intangible assets on the balance sheet.

Based on tentative FASB decisions, an entity would be required to recognize a cumulative-effect adjustment to retained earnings as of the beginning of the annual period in which the guidance is adopted. Early adoption is expected to be permitted.

Once issued, the proposal will be available for public comment for 75 days. For more information, refer to the FASB's project page. To learn more about the accounting for crypto assets under the current accounting framework, read our **Crypto assets** guide.

FASB makes key decisions on income statement disaggregation project

The FASB continues to make headway on its project on disaggregation of income statement expenses. In January, the FASB reached a number of tentative decisions, providing a preview of new disclosures that could be proposed later this year.

The FASB tentatively decided to require footnote disclosure that disaggregates each income statement expense line item into four categories: (1) employee compensation, (2) inventory expenses, (3) depreciation of fixed assets and (4) amortization of intangibles. Companies would provide a qualitative description of the remaining amount not covered by these categories. Similar disaggregation would also be required for costs incurred that are capitalized into inventory during the reporting period. Lastly, companies would be required to separately disclose total "selling expenses" for the reporting period.

We expect the FASB to make additional decisions at an upcoming meeting before moving the project to the proposal stage. For more information, including example disclosures reflecting the FASB's tentative decisions, refer to the FASB's project page.

Sunset date deferred for reference rate reform relief

In December 2022, the FASB issued ASU 2022-06, which defers the sunset date of ASC 848, Reference Rate Reform, from December 31, 2022 to December 31, 2024. ASC 848 provides temporary relief relating to the potential accounting impact relating to the replacement of LIBOR or other reference rates expected to be discounted as a result of reference rate reform. The standard is effective immediately for all entities. Refer to Section 4.1.4 of our Reference rate reform guide for further details.

Regulatory update

On the regulatory front, we provide an update on ESG reporting proposals and take a look at the most recent trends in the US Securities and Exchange Commission (SEC) comment letters for TMT companies

ESG reporting: checking in on the "big three" frameworks

While the timing and content of the SEC's final climate disclosure rule is uncertain, there have been significant developments related to the other significant sustainability reporting frameworks proposed last year.

Corporate Sustainability Reporting Directive (CSRD)

In December 2022, the final CSRD was published in the European Union (EU) Official Journal after adoption by the European Parliament and the Council of the EU. Beginning January 2023, EU member states have 18 months to transpose the CSRD into their own national laws. The reporting standards enacting the CSRD — the European Sustainability Reporting Standards — continue to be evaluated by the European Commission. An additional public consultation on these standards will be conducted prior to their expected adoption in mid-2023. In addition, certain sector standards are expected to be issued as exposure drafts for public consultation in the second quarter.

The CSRD's reporting requirements are extensive, spanning environmental, social, and governance topics. Their scope includes non-EU headquartered companies with operations in the EU. The first companies within the scope of the CSRD will have to apply the new sustainability regime starting for fiscal year 2024, reporting in 2025. This includes certain non-EU companies listed on EU-regulated markets. For further information, listen to our podcast, **Talking ESG: What's next for EU reporting requirements?**.

International Sustainability Standards Board (ISSB)

At its February meeting, the ISSB concluded the decision-making deliberations on its draft standards and initiated the drafting and formal balloting process phase. The ISSB plans to finalize its two draft sustainability standards (one on general sustainability-related financial information and one on climate disclosures) by the end of the second quarter, with an effective date starting in January 2024. This would mean reporting as early as 2025 in those jurisdictions choosing to adopt the ISSB's standards.

Recent decisions reached by the ISSB are intended to improve alignment with International Financial Reporting Standards, including enhanced disclosure about significant judgments and estimates, more quantitative disclosures about the financial effects of significant risks and opportunities, and introducing the concept of "reasonable and supportable information that is available at the reporting date without undue cost and effort." The ISSB also provided relief related to greenhouse gas (GhG) emissions reporting period alignment. When GhG emissions information arises from entities in the company's value chain with reporting periods that differ from the company's own, this relief will allow a company to measure its GhG emissions using information for different reporting periods in certain circumstances.

Listen to our podcast, **Talking ESG: Recap of the ISSB's fast-paced deliberations**, to get further information on recent developments.

For more information

For insights about how companies are addressing current SEC climate-related disclosure requirements, read our publication, **Today's SEC climate disclosures - how do you measure up?** In addition, we have updated our comparison of the big three frameworks, **Navigating the ESG landscape**, for recent developments. For updates on what companies are doing to prepare for these reporting requirements, listen to our podcast, **Talking ESG: How companies are preparing for mandatory reporting**.

TMT SEC comment letter trends

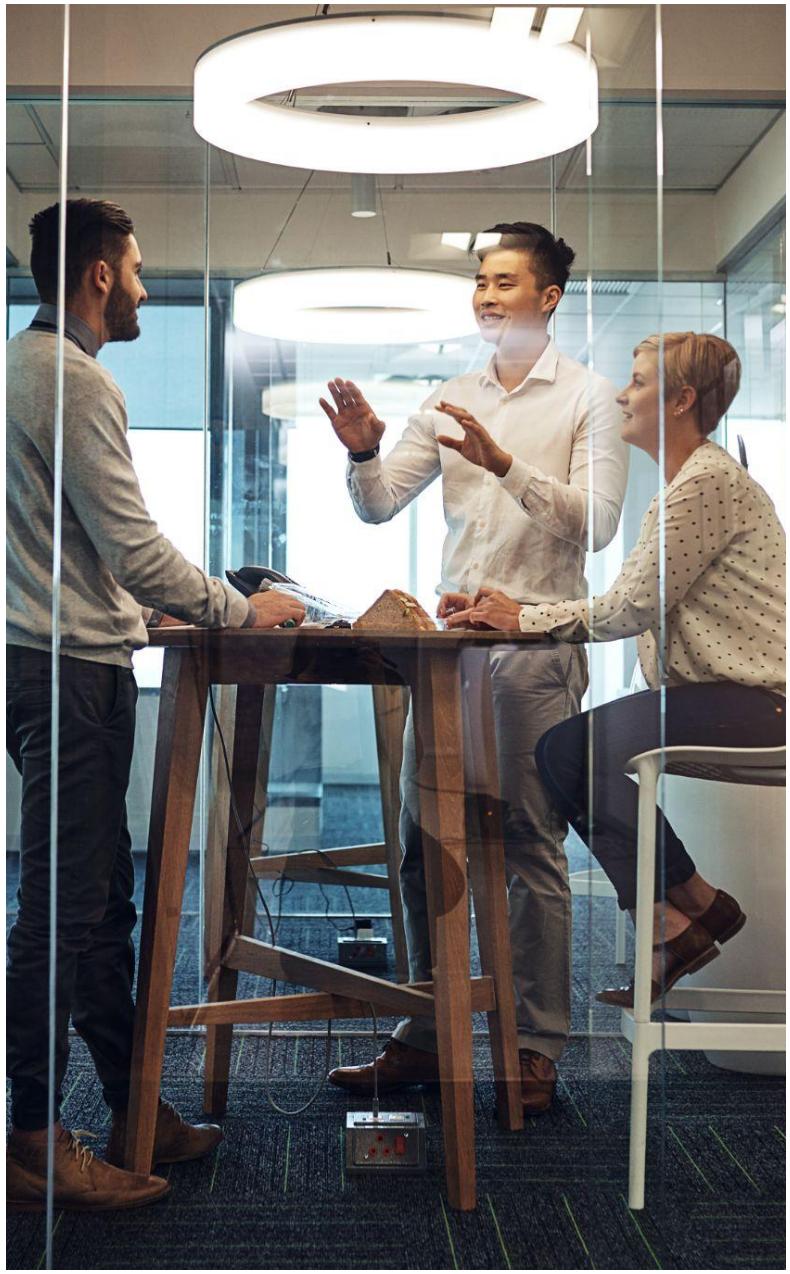
The SEC Division of Corporate Finance's filing review process is a key function used by SEC staff to monitor critical accounting and disclosure decisions applied by registrants. PwC's analysis of SEC comment letters identifies frequent topics and how their focus has changed over time. Read more on SEC comment letter trends for TMT companies, which provides insights on the nature of the SEC staff comments, sample text from the comments, and links to sites where you can learn more about the accounting and disclosure requirements addressed in each area.

Within the TMT sector, the top three areas of focus for the 12 months ending December 31 are:

- **Non-Generally Accepted Accounting Principles (GAAP) measures:** compliance with Item 10(e) of Regulation S-K and the related compliance and disclosure interpretations
- **Management's discussion and analysis:** emphasizing requirements in Item 303 of Regulation S-K and the related disclosure objectives
- **Segment reporting:** how registrants have identified operating segments and aggregated them into reportable segments.

Updated SEC guidance on non-GAAP measures

In December 2022, the SEC staff updated its compliance and disclosure interpretations relating to non-GAAP financial measures. The staff noted that the updates were intended to memorialize existing staff views provided through public statements or comment letters. A key focus of the updates was to provide further guidance on non-GAAP measures that are considered misleading, including guidance on operating expenses that are "normal and recurring," labeling of non-GAAP measures and adjustments, and measures that represent a tailored accounting principle.



About PwC’s TMT industry practice

At PwC, our purpose is to build trust in society and solve important problems. Our TMT practice is dedicated to helping business leaders in the technology, media and telecommunications industries manage their complex businesses while delivering sustained outcomes. In doing so, we provide professional services across two segments: Trust Solutions and Consulting Solutions. Within these segments, we bring a range of capabilities, including risk, transformation, cloud and digital, deals, ESG, cybersecurity and privacy, governance/boards, tax services and much more. With our global network of more than 327,000 professionals in 155 countries, we are committed to advancing quality in everything we do.

Let’s talk

For deeper insights regarding the topics addressed in this latest edition of our **TMT insights: Financial Reporting and Accounting Quarterly**, please contact:

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