TMT insights: Financial reporting and accounting quarterly — Q1 2024

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

In this edition:

- Investments in emerging tech continue to support new business models and enhance customer and employee experiences.
- Transformational deals, driven by factors like disruption, climate change, and emerging technology, account for nearly half of all deals as businesses seek to reinvent themselves.
- New accounting guidance effective in 2024 includes fair value measurements of equity securities subject to restrictions and leases for common control arrangements.
- Pillar Two tax legislation impacts first quarter reporting, requiring companies to estimate full-year Pillar Two taxes and update estimated annual effective tax rates accordingly.
- On March 6, the SEC issued landmark rules requiring companies to disclose climate-related risks, risk management, the financial effects of severe weather events and more.
- The SEC's finalized rules for SPACs enhance filing and disclosure requirements to align with traditional IPOs.

Issue spotlight

Stay ahead of the curve as we head into the second quarter of 2024 with updates on emerging tech impacts on the sector, the latest accounting guidance, Pillar Two implications, SEC climate rules and more.

Business update

The big message for TMT business leaders as we head into the second quarter of 2024? Prepare for further TMT transformation. Big opportunities and challenges ahead from GenAI to the need to evolve talent strategy to address ongoing labor disruption in the sector.

Experiences powered by emerging tech

Business leaders across industries and functions are recognizing the opportunities and investing in GenAI, with 67% expecting to use it to support new business models, according to PwC's Pulse Survey. There are big expectations for this emerging tech to leave its mark on customer and employee experiences, especially in the telecommunications sector. By embracing AI solutions such as conversational AI-driven interactive voice response, knowledgeable customer virtual assistants, AI-enabled agents, and interactive kiosks, we're already seeing how telecom providers can reduce complexity, streamline workflows, and enhance cost savings, customer satisfaction and revenue growth. And we expect these advancements to expand as the year continues.

Emerging technologies can also lead to cross-sector potential opportunities. We're seeing these opportunities arise in the game tech industry as they push boundaries with innovations like physics-based game engines and AR/VR to monetize research and development investments.

The sector's businesses would be nowhere without their people, and we've seen continuing disruption on the people front. The first quarter of the year saw a high number of tech and media layoffs, but despite the onslaught of instability, there's still a lot of hiring going on in some parts of the sector — and a driving need to retain top talent. This reshuffling has many sector leaders focusing on their talent strategy, which includes finding and keeping top performers who can keep pace with technological disruption and help usher in the next wave of innovation that can help drive growth.

Business model reinvention

In addition to tech innovations, we're seeing continued consolidation and new business models for media and telecom companies. The decline of linear TV and the rise of streaming platforms will only accelerate these changes for legacy media and telecom companies. With consumers facing subscription fatigue and a saturated market, it's crucial for these companies to reinvent their business models, form strategic relationships, and improve operational efficiencies to reduce churn and drive growth.

Charting new roles in the value chain and devising innovative revenue strategies, can help legacy media and telecom companies thrive as we head into the second quarter — and into the post-linear TV era. This advice also holds true for the sports industry whose interdependence with these companies continues to help shape the content consumption landscape. In 2023, an uptick of M&A activity across the sports industry and record team valuations are predicted to continue their rise in 2024, having a cascading effect on ancillary businesses, entertainment districts and more.

Achieving sales growth through M&A

According to PwC's 2023 M&A Integration Survey, transformational deals account for nearly half of all deals. Many businesses are looking to reinvent themselves for a range of reasons such as technological and supply chain disruption, climate change, new customer demands, demographic shifts, or to utilize emerging technology. Although these deals can create significant value, simply doing a deal may not automatically unlock the organization's transformational goals. The ability to capture incremental revenue growth and synergies depends upon complex coordination.

Successful integration teams are able to elevate deal performance by successfully operationalizing business cases and go-to-market value creation levers. Revenue synergies will continue to underpin transformational deals, and the most savvy dealmakers will be able to develop and execute a plan to orchestrate deal momentum. Read more about the Keys to achieving sales revenue growth through M&A.

Accounting update

In this issue, we highlight new accounting guidance impacting 2024 and the implications of Pillar Two tax legislation on first quarter reporting.

New accounting guidance effective in 2024

For calendar year-end public TMT companies, a handful of new accounting standards need to be adopted beginning with the first quarter of 2024, while other new requirements are not effective until the 2024 annual period. Additionally, there are a few standards companies are not required to adopt in 2024, but can elect to adopt early.

Effective for interim and annual periods beginning in 2024

Accounting standard	Key impacts	PwC publication
Fair value measurements of equity securities subject to restrictions (ASU 2022-03)	Clarifies that a contractual restriction on the sale of an equity security (e.g., an underwriter lock-up agreement) is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The standard also introduces new disclosure requirements.	Section 20.2 of our Financial statement presentation guide
Leases: Common control arrangements (ASU 2023-01)	Applies to leases between entities under common control and includes a requirement that lessees amortize leasehold improvements over an asset's useful life to the common control group regardless of the lease term.	Section 8.11.1 of our Leases guide
Accounting for tax credit investments (ASU 2023-02)	Expands the use of an approach described as the proportional amortization method (PAM) to account for equity investments in tax credit structures that meet certain criteria.	FASB changes accounting for tax credit investments

Effective for the 2024 annual period

Accounting standard	Key impacts	PwC publication
Segment reporting (ASU 2023-07)	Requires incremental disclosures about a public entity's reportable segments, including significant segment expenses that are (1) regularly provided to the chief operating decision maker and (2) included in the reported measure of segment profit or loss.	FASB updates segments guidance
Supplier finance programs (ASU 2022-04)	Beginning in 2023, calendar year-end companies were required to provide certain new disclosures about supplier finance programs. Beginning in the 2024 annual period, companies will be required to disclose a roll forward of annual activity.	Section 11.3.1.5 of our Financial statement presentation guide

Not required in 2024, but can be early adopted

Accounting standard	Key impacts	PwC publication
Joint ventures (ASU 2023-05)	Requires an entity that meets the accounting definition of a joint venture to initially measure all contributions received upon its formation at fair value.	FASB issues guidance on accounting for joint venture formations
Crypto assets (ASU 2023-08)	Provides accounting and disclosure guidance for certain crypto assets.	FASB issues guidance on accounting for crypto assets
Income tax disclosures (ASU 2023-09)	Requires disaggregated information about a company's effective tax rate reconciliation as well as information about income taxes paid.	FASB issues guidance on income tax 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.

What Pillar Two means for first quarter reporting

The Pillar Two Model Rules released by the Organisation for Economic Cooperation and Development (OECD) established a global framework of minimum taxation. In several jurisdictions around the world, aspects of Pillar Two legislation became effective for tax years beginning in January 2024. For more background on Pillar Two, see our publication, **OECD Pillar Two: Time to act on the global minimum tax**. Below are key questions TMT companies should consider heading into the first quarter:

Now that Pillar Two legislation is effective in several jurisdictions, how will it impact companies' first quarter taxes?

Pillar Two taxes modeled after the OECD's Model Rules are considered alternative minimum taxes under US GAAP. Accordingly, the tax is accounted for as a period cost impacting the effective tax rate in the year the Pillar Two tax obligation arises. This means beginning in the first interim period a Pillar Two tax is effective (the first quarter of 2024 for calendar year companies), a company must include an estimate of its full-year Pillar Two taxes in its estimated annual effective tax rate. Consistent with general interim provision rules, this estimated tax rate will be updated at each interim reporting date.

How does Pillar Two work?

The objective of the Pillar Two model is that companies pay a minimum of 15% tax in each jurisdiction where they operate. The Pillar Two model is based on a company's financial statement results (book income) by jurisdiction and before intra-group eliminations, with certain modifications. Pillar Two taxes are based on a comparison between a calculated jurisdictional effective tax rate (ETR) and the 15% minimum tax.

The complexity of a global minimum tax based on book income should not be underestimated. Many factors including, but not limited to, book income adjustments, transfer pricing, tax incentives and credits, permanent book-tax differences, and "push down" entries may result in ETRs below 15% despite the statutory rate exceeding 15%.

Accordingly, companies will need to assess their potential exposure to Pillar Two even if they operate entirely in jurisdictions with statutory rates greater than 15%. Also, due to the jurisdictional nature of Pillar Two, companies operating in jurisdictions with a low ETR may be subject to Pillar Two taxes, regardless of the presence of other jurisdictions with high-taxed earnings.

Historical transactions may require special consideration when determining the interim effects of Pillar Two. For example, intercompany restructurings or business combinations in prior years may require adjustments to either book income or taxes included in the Pillar Two jurisdictional ETR.

The OECD has published guidance, which has been enacted by countries, with respect to certain temporary or transitional safe harbors to reduce the burden of Pillar Two. Companies will need to carefully assess whether they qualify for relief, which can present additional challenges.

What happens if additional jurisdictions enact Pillar Two legislation or if additional guidance is issued?

The OECD is likely to continue publishing new guidance related to Pillar Two; however, the OECD is not a legislative body. Each jurisdiction must enact its own domestic Pillar Two legislation, including determining whether and how they adopt guidance that is released by the OECD.

As the legislative landscape evolves, companies will need to monitor changes and update their Pillar Two estimates. ASC 740 requires recognition of the tax effects of changes in tax laws in the period the law is enacted. When addressing new guidance, companies will need to consider when information impacting their estimates was readily accessible. A change in accounting estimate results from new information since a previous financial reporting date, while an error reflects the misapplication or omission of information that was available at a previous financial statement reporting date.

What disclosures should companies consider?

There are no incremental Pillar Two disclosures specifically required for US GAAP reporters. However, certain existing disclosures will be affected, such as the ETR reconciliation and uncertain tax position disclosures. An SEC registrant's MD&A will also likely be impacted. Companies should provide transparent disclosures to address their ongoing evaluation of the impact of Pillar Two. For IFRS reporters, the IASB introduced new required disclosures in their amendments to IAS 12 to address Pillar Two taxes.

What else should companies keep in mind?

Pillar Two has the potential to be one of the most complex tax challenges ever faced. Compliance with Pillar Two will not only require an extensive knowledge of each individual jurisdiction's newly enacted and evolving tax laws but will also require a deep understanding of book income. As a result, it will require a cross-functional effort well beyond the tax function.

Given the anticipated data requirements, companies may need to modify existing systems, processes, governance and controls. The data required will often be at a more granular level than previously necessary for financial reporting purposes. Additionally, clear communication with both internal and external stakeholders about the implications of Pillar Two will be critical.

For more information and resources, refer to our Income tax accounting landing page on Viewpoint.

Regulatory update

On the regulatory front, we highlight the SEC's landmark climate disclosure rules, including effective dates for TMT companies to consider. We also provide an update on other sustainability reporting developments, the SEC's new rules for SPACs, and the most recent trends in SEC comment letters for TMT companies.

SEC issues landmark climate disclosure rules

On March 6, the SEC adopted final rules designed to enhance public company disclosures related to the risks and impacts of climate-related matters. The new rules include disclosures relating to climate-related risks and risk management as well as the board and management's governance of such risks. In addition, the rules include requirements to disclose the financial effects of severe weather events and other natural conditions in the audited financial statements. Larger registrants will also be required to disclose information about greenhouse gas emissions, which will be subject to a phased-in assurance requirement.

The final rules differ in several respects from the initial proposal, most significantly in changes to the financial statement footnote disclosures as well as reductions to the scope of and number of registrants subject to the greenhouse gas emission disclosures.

The new rules call for a dramatic change in the nature and extent of disclosures companies are required to make about the impact of climate change. The gathering and reporting of these incremental disclosures may require significant changes to a registrant's systems, processes, and controls and effective adoption will require cross-functional coordination among finance, financial reporting, legal, investor relations and others.

The earliest effective dates start with reporting on 2025 information in 2026. Initial compliance dates are based on the year the registrant's fiscal year begins and vary depending on the particular provisions and type of filer:

	Disclosure and financial statement effects[1]	GHG emissions and related assurance		
Registrant type	Disclosures, other than GHG emissions[2]	Scope 1 and scope 2 GHG emissions	Limited assurance	Reasonable assurance
Large accelerated filers	FYB 2025	FYB 2026	FYB 2029	FYB 2033
Accelerated filers (other than SRCs and EGCs)	FYB 2026	FYB 2028	FYB 2031	Not applicable
SRCs, EGCs and non-accelerated filers	FYB 2027	Not applicable	Not applicable	Not applicable

[1] As used in this chart, "FYB" refers to any fiscal year beginning in the calendar year listed. Information for prior periods is only required to the extent it was previously disclosed in an SEC filing.

[2] There are three specific Regulation S-K disclosures (Item 1502(d)(2), Item 1502(e)(2), and Item 1504(c)(2)) related to the qualitative and quantitative impact of material expenditures incurred and material impacts on certain financial estimates and assumptions for which the effective date is one year later than listed in this table.

On April 4, the SEC stayed its climate disclosure rules to "facilitate the orderly judicial resolution" of pending legal challenges.

For more information

For details on the SEC's final rules, refer to our publication, **Navigating the SEC climate-related disclosure requirements**, and listen to our podcast.

Other developments in sustainability reporting

Significant developments this quarter in sustainability reporting in the EU include finalization of the change in the financial thresholds to be in scope of CSRD and a provisional agreement to postpone adoption of the sector specific and third-country standards. In the US, the new California climate-related reporting requirements are now facing a legal challenge, while other states introduce similar bills.

Corporate Sustainability Reporting Directive (CSRD)

A 25% increase to the asset and net turnover (revenue) thresholds used to determine the scope of the CSRD passed the scrutiny period and became law in December 2023. Also in December 2023, EFRAG released draft implementation guidance on double materiality and value chain assessments. The public comment period ended in February 2024 and EFRAG will consider the feedback before issuing final guidance. Further, the Council of the European Union and the European Parliament reached a provisional agreement on the decision to delay the issuance of the sector specific and third-country standards under the CSRD from June 2024 to June 2026; however, there is no change to the required reporting dates. The provisional agreement will now need to be formally endorsed by both co-legislators. Lastly, EFRAG released the first set of responses on the ESRS Q&A Platform, which may serve as a useful resource but are non-authoritative in nature. For more details about the CSRD, read our publications, Take the next step - decide how to report under CSRD and Worldwide impact of CSRD - are you ready?

International Sustainability Standards Board (ISSB)

The ISSB issued educational material that explains how companies can use the standards by the Sustainability Accounting Standards Board (SASB) to meet the requirements in IFRS S1, General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1), given that IFRS S1 requires companies to “refer to and consider” the applicability of the disclosure topics in the SASB standards. In addition, we are seeing more territories moving toward adoption of the IFRS Sustainability Disclosure Standards, with Malaysia’s Advisory Committee on Sustainability Reporting issuing its proposed adoption in February 2024. For more information, read our publication, IFRS Sustainability Disclosure Standards – Guidance, insights and where to begin.

State climate disclosure bills

On January 1, 2024, the California bill requiring information about certain emissions claims and the sale and use of carbon offsets to be posted to a company’s website (AB 1305) became effective. Also in January, certain business groups filed a lawsuit challenging California bills SB 253 and SB 261. Together, these bills require greenhouse gas emissions and climate-related financial risk reporting. The lawsuit contends that these bills compel speech in violation of the First Amendment and seek to regulate an area that is outside California’s jurisdiction and subject to exclusive federal control by virtue of the Clean Air Act and the federalism principles embodied in the US Constitution. It is unclear if this lawsuit will have any impact on these bills and companies should continue to plan for reporting following the timeline included within these laws. For more details on the California bills, read our publication, California's not waiting for the SEC's climate disclosure rules.

Other states, including Illinois and New York, have introduced climate bills similar to those in California. These bills are in committee review and will need legislative approval and signature by the governor before becoming law.

For more information

We are excited to announce the release of the first chapter of our new global Sustainability Reporting Guidance. The initial chapter helps companies navigate the scope of US and global sustainability reporting frameworks. Stay tuned for additional chapters to be released in phases over the course of 2024.

SEC finalizes new rules for SPACs

In January, the SEC adopted final rules related to filing and disclosure requirements for special purpose acquisition company (SPAC) initial public offerings (IPOs) as well as the subsequent merger between a SPAC and private operating company (de-SPAC). The rules aim to enhance investor protection by requiring additional disclosure and aligning reporting requirements with traditional IPOs.

New requirements

The final rules require additional disclosure in SPAC IPOs related to the SPAC sponsors, affiliates, and promoters, including compensation that has been or will be awarded on completion of a de-SPAC transaction, terms of lock-up agreements, conflicts of interest, and potential sources of dilution. Similarly, new required disclosures in filings for the de-SPAC transaction (e.g., Forms S-4 or F-4 or Schedule 14A) include: the compensation received or to be received by the SPAC sponsor, its affiliates and promoters; tabular presentation of the nature and amounts of each source of potential dilution; conflicts of interest. The rules also more closely align the financial statement requirements for a de-SPAC transaction with those of a traditional IPO and expand existing rules regarding the use of projections for all reporting entities.

Next steps

The final rules will become effective on July 1, 2024. Any filings made on or after the effective date must comply with the final rules. In addition, certain information must be tagged using inline XBRL in filings made on or after June 30, 2025.

For more information

For details on the filing and disclosure requirements, read our publication, SEC updates rules for SPAC filings.

SEC Chief Accountant calls for commitment to high-quality audits

In February, SEC Chief Accountant Paul Munter issued a statement emphasizing the importance of professional skepticism in performing high-quality audits. In addition to auditor responsibilities, the statement highlights management's responsibilities in maintaining a financial reporting environment capable of producing reliable financial disclosures, as well as the importance of audit committees in prioritizing and promoting audit quality.

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. For 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 each area, see our publication: SEC comment letter trends for TMT companies.

Within the TMT sector, the top three areas of focus for the 12-months ending December 31, 2023, 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.
- **Revenue recognition:** continued SEC staff focus on gross vs. net presentation and identification of performance obligations, as well as judgments made in disaggregated revenue disclosures.

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 328,000 professionals in 152 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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