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CPE NETWORK

ACCOUNTING & AUDITING REPORT

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Topics for future editions may include:

- Nonaudit attestation options
- Risk management
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EXECUTIVE SUMMARY

PART 1. ACCOUNTING

PPE Presentation and Disclosures.....3

Russ Madray, CPA explains the disclosures required in accounting for property, plant, and equipment from acquisition through disposal, along with impairment. [Running time: 34:35]

Learning Objectives: Upon completion of this segment, the user should be able to:

- Determine the required disclosures for PP&E
- Determine when assets should be tested for impairment
- Identify how to account for PPE held for sale, held for use, and as part of discontinued operations

PART 2. AUDITING

Recent ISSB Activity 19

Jennifer Louis, CPA reviews recent International Sustainability Standards Board activity and what that means for financial statements. [Running time: 31:20]

Learning Objectives: Upon completion of this segment, the user should be able to:

- Identify who the ISSB is
- Identify the types of emissions to be disclosed
- Identify the type of sustainability-related financial information to be disclosed

PART 3. SMALL BUSINESS

Prospective and Pro Forma Financial Information Engagements 37

Kurt Oestrieher, CPA, discusses the types of engagements that can be performed on prospective and pro forma financial information. [Running time: 28:03]

Learning Objectives: Upon completion of this segment, the user should be able to:

- Define pro forma financial information and the types of engagements that may be performed on it
- Identify the characteristics of a forecast
- Identify the standards that apply to prospective financial information engagements and related ethical concerns

ABOUT THE SPEAKERS

Russ Madray, CPA, CGFM, has more than 30 years of professional experience, including stints at two Big 4 accounting firms. Russ is a nationally-known accounting and auditing thought leader, writer, and advisor helping CPAs throughout the country understand and implement technical accounting and auditing issues.

Jennifer Louis, CPA, is a CPA and president of Emergent Solutions Group, LLC. She has more than 25 years experience in designing and instructing high-quality training programs. Ms. Louis was previously executive vice president and director of training services at AuditWatch Inc., a premier training and consulting firm serving the auditing profession. She also served as financial/operational audit manager for the AARP, and as an audit manager for Deloitte.

Kurt Oestrieher, CPA, is a CPA and partner with the accounting firm of Oestrieher and Company in Alexandria, Louisiana. He is in charge of accounting and auditing services, and is also involved in litigation support and small business consulting engagements. In addition to his client responsibilities, Kurt has served as a discussion leader for numerous accounting and auditing courses. He has served on the AICPA Accounting and Review Services Committee and is currently serving a three-year term on the AICPA Council.

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Program Level	Update
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Advance preparation	None required
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—From a Declaration of Principles jointly adopted by a *Committee of the American Bar Association and Committee of Publishers and Association*

PART 1. ACCOUNTING

PPE Presentation and Disclosures

Property, plant, and equipment is among the most common of productive assets on the balance sheet. The guidance on accounting for these assets is found in Codification Topic three sixty. It isn't just the measurements that are important though, the notes to the financial statements provide valuable information to decisionmakers on expected future cash flows. When businesses anticipate retiring or disposing of these assets, the notes is where the reader can find that information. If a segment of a business is being discontinued or sold, the notes are frequently where that will be revealed.

For more on property, plant, and equipment accounting and disclosures, let's join Russ Madray, a CPA in Greenville, South Carolina, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

Today we are going to talk a little bit about property, plant, and equipment—not the “PPE” that they referred to during COVID-19, but the normal “PP&E” that we think of, which is property, plant, and equipment—specifically, the presentation and the disclosure requirements. Now, the information provided by the recognized amounts in the financial statements is important, but the information that can be provided in that form is very limited. So, with that in mind, could you give us an overview of the presentation and disclosure requirements related to property, plant, and equipment?

Mr. Madray

Yes, I would be glad to. And you are right, there is a limit to what can be conveyed on the face of the financial statements and in the actual numbers—the financial statement line items—so that is where we depend on the notes to provide that additional information, that detail, the context, and so on. So, clearly, as we all know, the notes are a critical part of understanding what is in the numbers on the financial statements themselves.

Today we are talking about property, plant, and equipment because this is an area that we have seen, through peer review comments and so on, where some entities are missing some things, or not quite getting the disclosure/presentation requirements right. Hopefully, this will provide an information refresher or maybe alert some folks to some things they were not aware of when it comes to disclosure and presentation related to property, plant, and equipment.

On this slide, you can see the categories of requirements that we will take a look at and, by the way, these requirements come from FASB Accounting Standards Codification (ASC) Topic 360, which is Property, Plant, and Equipment. The categories you see here, the general disclosures, disclosures related to impairment, disclosures related to assets that are held for sale, and there are some specific requirements for individually significant disposal components. Then, finally, some requirements related to disposal gains and losses—recognizing and reporting gains and losses on sales of property, plant, and equipment. Those are major areas and through our discussion today, I think we can cover most of those, or all of those. Again, hopefully that will be helpful to folks to understand what those requirements actually are.

Ms. Grove Casey

You mentioned general disclosures, and so I want to start there but, what are the requirements for those disclosures? Because that sounds pretty encompassing—besides the impairment, which is a whole set of issues on its own.

Mr. Madray

Yes, it is encompassing. Think of it as if we didn't have any of the other stuff—didn't dispose of any assets, didn't have any impairment issues, and some of the other things I just mentioned—then you are always going to have these disclosure requirements if you have property, plant, and equipment. So, as I mentioned, the requirements come from

Topic 360 in the Accounting Standards Codification, specifically 360-10-50, and that is what we are going to refer to as the general disclosure requirements. Essentially, what that guidance says is because of the significant effects on the financial position of the company, results of operations, things like depreciation methods, a reporting entity would need to provide disclosures for the items that we see on the next slide.

One of those is the amount of depreciation that is recognized as expense during the period; secondly, the balances of major classes of the depreciable assets at the balance sheet date, categorized either by nature or by function; a disclosure of the amount of accumulated depreciation, either by major class of asset or in total, at the balance sheet date; and then, finally, a description of the depreciation methods that are used for each major class of depreciable assets. On the next slide we have an example of that, and you will see that part of it is in the accounting policy note. So, here in this example, we record property, plant, and equipment consisting of land, building improvements, machinery, equipment, software, hardware, furniture, fixtures, and so on, at cost and, then, depreciate them using the straight-line method over their estimated lives.

There is a discussion of repairs and maintenance. We charge expenditures for maintenance and repairs to earnings as incurred. We capitalize any additions, renewals, and betterments. Upon retirement or other disposition, we remove the related costs and accumulated depreciation from the respective accounts, and include any gain or loss in operations.

There is a summary of the estimated useful lives in the table that you see there: buildings and improvements, ten to forty years; software and hardware, two to seven years; machinery and equipment, two to ten years; and a statement that they include tooling, dies, and fixtures as part of machinery and equipment, and depreciate them over a period generally not exceeding ten years. Then, more of that requirement is in the property, plant, and equipment note.

There is a table summarizing property, plant, and equipment at the end of each of the reporting periods, broken down by, again, the major classes that they had identified, less the accumulated depreciation and amortization. They have some construction in progress and, then, a total. We have a discussion of the depreciation of the tangible assets and amortization of software for each of the reporting years that are presented, and a description of the large increase that appeared in construction in progress due to cost incurred for purchase of land, and design and construction.

Then, there is a table summarizing the depreciation and amortization expense by line item. So, portions of it appear in cost of sales, some of it is through research and development, selling and marketing, general and admin, and interest expense, to get to the total depreciation and amortization. Again, if we didn't have any of those other things that I mentioned earlier, if you simply have property, plant, and equipment, then these types of things will need to be disclosed similar to the example that we just looked at here. Now, of course, if we do have some of those other issues, there are going to be additional disclosures related to those types of things that we will get around to in a moment.

Ms. Grove Casey

Let's move on to impairment. Are there specific disclosure requirements related to impairment of those assets that are held and used?

Mr. Madray

Yes. Remember, long-lived assets held and used versus long-lived assets held for disposal or held for sale are treated differently—we will talk more about the other in a moment—but those that are held and used means that these are the long-lived assets that we are using in operations and intend to continue using in operations. But even those assets may need to be tested for impairment. Now, again, we won't get into the specific impairment model here but, essentially, it is a trigger-based impairment test where, if there are indicators of impairment, then those assets will need to be tested for impairment and if impairment (meaning that if the carrying amount of the assets exceeds the fair value of the assets, the amount of impairment would be that difference), and the entity recognizes that impairment loss on a long-lived asset or an asset group, then there are some specific disclosures that are required related to that impairment.

We have those listed on this next slide: a description of the asset or asset group and the circumstances that led to the impairment; the amount of the impairment, unless it is explicitly presented on the face of the income statement, as well as where it is presented on the income statement; the method that is used to determine fair value for purposes of calculating the impairment loss (that might be quoted market prices, that might be comparable prices of similar assets, that could be some other valuation technique or model); and finally, the segment to which the asset or asset group belongs—if we are talking about a public company, which has to report segment information.

In the next slide, there is an example related to the asset impairment charges. In this example, in fiscal 2018, two retail asset groups, which consisted of two separate retail banners, indicated a decline in their results of operations and cash flow projections. As a result, the two retail asset groups were selected for an undiscounted cash flow review. Both of those failed the recoverability test; therefore, a fair value assessment using the income approach was performed over each group's long-lived assets. The carrying value of both asset groups exceeded the estimated fair value and were reduced to the lower of the carrying value or fair value, which resulted in an impairment charge of \$47 million, which is reported within the selling and admin expense of discontinued operations. Then it goes on to 2017, the prior year, a similar discussion and description of an impairment charge that occurred there.

So, when we have a situation where long-lived assets are held and used in operations (indicator of impairment, undiscounted cash flow recoverability test, then measuring fair value for purposes of measuring the impairment), then we have those requirements. It would trigger those disclosure requirements, as well, related to that impairment charge that we have recognized in the income statement for that period.

Ms. Grove Casey

Well, you mentioned earlier the difference between “held for sale” and “held and used.” Let's talk a little bit more about the components of property, plant, and equipment that are held for sale. I am assuming that there are some specific disclosures required in that case.

Mr. Madray

Yes, definitely. During an accounting period, if a reporting entity disposes of a long-lived asset or classifies it as held for sale—because remember, there are criteria there—they are actively seeking to sell the asset, it is priced at a price that they expect to receive, and [so on and so forth], it would lead to classification of the asset as held for sale. In that case, the asset is separately presented on the balance sheet as “asset held for sale” and [they can] no longer depreciate or amortize assets that are held for sale.

If we have assets that qualify for that classification, then Topic 360 requires the entity to provide several disclosures related to those assets held for sale. We have those on the next slide: a description of the facts and circumstances that resulted in the disposal or the anticipated disposal; the timing and the means of carrying out the disposal or anticipated disposal; the amount of the reporting entity's gain or loss in accordance with these specific guidelines that you see here; the line item on the income statement or statement of activities of a not-for-profit where the entity reports the gain or loss on disposal, unless they present the gain or loss separately on the income statement itself; also, the major classes of assets and liabilities that are part of a disposal group that the classified as held for sale, unless they separately present those amounts on the face of the balance sheet.

Further, entities would need to recognize a loss on the disposal group classified as held for sale, if any, and if they recognize a loss in accordance with those provisions, the entity cannot allocate the loss among the major classes of the assets and liabilities in that disposal group. And then, finally, for public companies, we have to disclose the segment within which the entity previously reported that long-lived asset or disposal group.

In the next slide, we have an example of this where, during fiscal year 2017, we incurred a loss of \$57 million due to impairment of 16 apartment communities and two parcels of unimproved land, recognized impairments respectively on three apartment communities and the basis and circumstances for that—including poor leasing activity and declining rental rates. Those properties were written down to the estimated fair value based on an independent

appraisal in the case of one property, and management cash flow estimates and market data on the remaining assets. And again, further description and discussion of those and other properties.

Then, similar in the prior year for other properties in fiscal year 2016. And again, at the end of that example, you see that these properties were written down to estimated fair value during fiscal year 2016, based on receipt of individual market offers to purchase and our intent to dispose of the properties or, in the case of one, the sale listing price and our intent to dispose of the property, and then, another property classified as held for sale April 30th of that year.

So, again, assets, individual assets, or asset groups that meet the requirements under Topic 360 to be classified as held for sale, again, presented separately on the balance sheet, no further depreciation or amortization of those, and they have to be carried at the lower of carrying value or fair value, less cost to sell which, then, triggers the disclosures that we just mentioned.

Now, there is also another related requirement for disposing of what is considered an individually significant disposal component. This is where you have a circumstance where a long-lived asset or disposal group includes an individually significant component of the reporting entity that either has been disposed of or is classified as held for sale, but doesn't meet the criteria for presentation as a discontinued operation. In those circumstances, in addition to the disclosures that we just covered related to long-lived assets that are held for sale, there are some additional disclosure requirements related to this type of situation. The disclosures will depend on the type of organization.

If you look on the next slide, if the reporting entity is a public business entity or a not-for-profit conduit bond obligor, it has to provide these two disclosures: first, the business entity's pretax profit or loss from that individually significant component for these accounting periods—for the period in which the entity has disposed of or classified the disposal group as held for sale and, also, for each prior period presented in the income statement or statement of activities; in addition, the business entity's pretax profit or loss, or for the case of a not-for-profit the change in net assets, attributable to the parent entity, if that individually significant component includes a noncontrolling interest for those same accounting periods that we just saw.

Now, if the entity is not a public company or a not-for-profit conduit bond obligor (in other words, all other entities), then there are two disclosures required—two requirements—related to these individually significant components: first, the business entity's pretax profit or loss, or change in assets in the case of a not-for-profit, from the individually significant component, and the entity needs to disclose the amount for the period that it disposes of the assets or component of the entity, or classifies them as held for sale; then, also, the business entity's pretax profit or loss or change in assets that is attributable to the parent entity, if that significant component includes a noncontrolling interest.

So, in the case of assets that are disposed of or held for sale, we also need to consider whether any of that includes an individually significant component, which is something that is, again, considered individually significant yet doesn't meet the requirements for presentation as a discontinued operation. Again, that triggers these disclosures which will differ based on whether the company is a public company or a non-public company.

There is also some guidance for presentation related to gains and losses that are recognized on the sale of long-lived assets. I think we wanted to touch on those as well, is that correct? Some area where there was some confusion, I believe, that we might need to take a look at.

Ms. Grove Casey

Yes, we did. How in depth did you want to go on those individually significant disposal components?

Mr. Madray

I think, for the individually significant components, we have covered those requirements.

Ms. Grove Casey

Yes, there is almost always some confusion related to gains and losses on disposal. I realize that the FASB changed the guidance a number of years ago now but, still, we have the existing guidance and then there is the way we used to do it—and the way we used to do it still occurs in some places. So, let's talk about what is going on and what the actual guidance currently says.

Mr. Madray

Yes, we are talking about assets disposed of and assets classified as held for sale, and we have been focusing primarily on disclosures—primarily, note disclosures—related to that information, but there is an issue that comes up quite often related to the presentation of the monetary numerical gain or loss that is recognized. There is some specific guidance on that in Topic 360. According to that guidance in Topic 360, entities have to present any recognized gain or loss on the sale of a long-lived asset or a disposal group on the income statement as part of continuing operations before income taxes, unless the sale represents part of discontinued operations. Also, part of that requirement is if the entity presents a subtotal for income from operations, the entity needs to show the pretax gain or loss on the sale as part of that subtotal.

Now that gets a little confusing because I have talked to folks about this before and they [ask], “Is that a change? Is that different?” Not really, but you have to look at what it is saying. First and foremost, it is part of continuing operations which is kind of self-evident, unless it is (and unless you have something presented on the income statement as) discontinued operations. So again, what that is saying is it is not appropriate to present this as discontinued or outside of income from continuing operations if it is not, in fact, if it does not meet the criteria for presentation as a discontinued operation.

The other part of that, about income from operations, basically says, if you report a subtotal on the income statement called “income from operations,” then the gain or loss on the sale of a fixed asset is part of that subtotal. What that is saying is it is not appropriate to have a subtotal income from operations and then have a separate line outside of that that says “gain or loss on the sale of property, plant, and equipment.” It is part of income from operations. So, folks get a little confused about what that requirement is and how to present that. But it is clearly in Topic 360, specifically in ASC 360-10-45-5, that you will find that specific requirement on where to present that disposal gain or loss related to any type of property, plant, and equipment.

Ms. Grove Casey

Let's change gears and talk about the capitalization of property, plant, and equipment. To begin with, maybe you want to talk about what the guidelines are under U.S. GAAP. Sometimes we have policies, but the policies may or may not entirely conform.

Mr. Madray

Right. Essentially, U.S. GAAP requires capitalization of cost and when we say *capitalize*, we are talking about recording an asset as opposed to expensing some type of cost. Broadly and generally, it requires capitalization of costs when a future benefit from the expenditure exists. So, the obvious example is if a company purchases a building, the benefits of the building are going to extend into the future; therefore, the company would record an asset and then depreciate the building, and allocate that cost over time. In some cases (like the purchase of a building, the purchase of a piece of equipment), the decision is pretty straightforward, but there are some situations where that decision about capitalization is not as clear. One of those would be in the area of repairs and maintenance.

The general guideline for accounting for property, plant, and equipment expenditures that are made after acquisition is that if the expenditure provides additional service potential beyond the useful life, then those costs should be capitalized. If they don't provide additional service potential, then those costs will be expensed as incurred. Now, this is where you have to be careful because it doesn't matter what you call the expenditure, it matters what the nature

of the expenditure is. So, whether you call it repairs and maintenance, or whether you call it something else, that is all well and good, but what is the nature of the underlying expenditure?

If you look on this next slide, you see there are three ways that we might provide where the cost, the expenditure, might provide additional service potential. One of those is an extension of the useful life of the asset. So, if the expenditure extends the useful life, we should capitalize that. Or, if there is an increase in the operating efficiency of the asset—that could come from an increase in the quantity of goods or services produced, or a decrease in the future operating cost—an expenditure that accomplishes that, we would capitalize. The third way is if we increase the quality of the goods or services that are produced by the asset. If that is the case, we would capitalize that type of expenditure. So, any expenditure that falls into one of those three categories would be considered to extend or add additional service potential to the asset and, in that case, we would capitalize the cost initially, and then, expense it in future periods through depreciation, amortization, or whatever the case may be.

Now, in all cases, of course, materiality is a factor in this. So, if we do something that extends a useful life but it is really not a material cost or expenditure, then we may just expense that under a materiality approach.

Mechanically, there are three ways to actually record the cost, these types of costs that we are capitalizing, and I have illustrated these on the next slide. One is substitution. If we use this approach, then the improvement is recorded as both a disposition of the old component and the acquisition of a new component. It is really, conceptually pure, you might say, but it is practical only if the original cost and accumulated depreciation of the old component can be separately identified. But that is one way of handling an expenditure, actually recording, getting down to the debits and credits.

Another approach is just capitalizing the new cost. You include the cost of the improvement as a debit to the related asset, without removing the original cost and accumulated depreciation of the original component. Of course, that is acceptable only if the book value of the original component has been reduced to some immaterial amount through prior depreciation.

Then, a third approach you can use is to reduce accumulated depreciation. So, you are, essentially, increasing the asset's book value but you leave the asset account alone, but decrease the related accumulated depreciation. The argument for using that method is that a lot of improvements extend the useful life of an asset and are equivalent to a partial recovery of previously recorded depreciation. So, this approach would produce the same book value as the capitalization of the cost as part of the asset account, but the cost and accumulated depreciation amounts will differ under those two methods.

Again, mechanically, when it gets down to debits and credits, any one of those three methods is acceptable because they all, essentially, accomplish the same thing—capitalizing the costs that, again, have met that threshold of providing additional service potential to the asset.

Ms. Grove Casey

Well, what about capitalization thresholds? Does U.S. GAAP address that issue? Because that is usually the question: what is the dollar amount below which we are going to expense it and over [what amount] we are going to capitalize it? Some of that is policy choice, I guess, particularly, with the cost of, say, tech equipment because in the Internet terms, a computer, really, it could have a year—I mean, a life less than a year in terms of a useful life—depending on what it is you are doing with it. So, maybe we expense it, maybe we capitalize it. What does GAAP say?

Mr. Madray

Well, the short answer to that question, which is a very good question by the way, because it comes up quite a lot, is U.S. GAAP doesn't contain any provisions related to a capitalization threshold. With that said, just for ease of recordkeeping, most entities do establish a threshold to specify the minimum amount of cost that would be incurred before the cost would be capitalized. The assumption in using or applying a threshold like that is that whether the

entity capitalizes and depreciates, or simply expenses the amount, such amounts would not have a material impact on the entity's financial statements. So, the decision to expense costs below an established threshold is just an administrative convenience. Again, there is no GAAP or conceptual basis for it.

A key, though, is that in establishing such a threshold, obviously it needs to be a threshold that would not be material to the financial statements. In doing this, management would look at and consider the amounts and types of costs that are expected to be incurred in evaluating the amount of the threshold to establish. Again, keep in mind that materiality here needs to be assessed on both a quantitative and a qualitative basis with regard to establishing some type of capitalization threshold. Now, key here, this is not an accounting policy. This is not something that would be disclosed as some type of accounting policy because it is not as if GAAP provides choices or alternatives here. Then, taking that further, changing the threshold would simply not be considered a change in accounting policy because it is not an accounting policy to begin with. So again, it is just a subjective evaluation where we are looking at, what do we think quantitatively and qualitatively would not be material to our financial statements?

Speaking of changes, because these thresholds do change from time to time, again, [they are] not a change in accounting policy and, if we do make the change, we would want to do that prospectively. In other words, assets that were capitalized under a previous threshold would not be adjusted because that would just get really messy, and difficult, and unnecessary in that case.

So, the bottom line capitalization thresholds: there is no real basis for that in GAAP, but it is common because of administrative convenience. The key there is just being careful and evaluating what is the proper threshold for the entity, based on both quantitative and qualitative materiality considerations.

SUPPLEMENTAL MATERIALS

Property, Plant, and Equipment: Disclosures and Capitalization Issues

by J. Russell Madray, CPA, CGFM, CFM

Overview

The information provided by the recognized amounts and related descriptions in the financial statements is fundamental to a user's decision making; but the information that can be provided in that form is inherently limited. Consequently, notes to financial statements provide relevant information that is not provided on the face of the financial statements. Notes provide information that explains specific line items on the face of the financial statements. Additionally, notes provide information about past events and current circumstances and conditions that have not been recognized but will, or may, affect an entity's future cash flows. Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 360, *Property, Plant, and Equipment*, provides guidance for presentation and disclosure of long-lived assets.

General Disclosures

FASB ASC 360-10-50-1 provides the general disclosure requirements for property, plant, and equipment (PP&E). According to that guidance, because of the significant effects on financial position and results of operations of the depreciation method or methods used, a reporting entity must provide disclosures in the notes to the financial statements, as follows:

- The amount of depreciation recognized as an expense during the accounting period
- The balances of major classes of depreciable assets at the balance sheet date, categorized by nature or function
- The amount of accumulated depreciation, either by major classes of depreciable assets or in total at the balance sheet date
- A description of the depreciation methods for each major class of depreciable assets.

The following is an example of these disclosure requirements from American Outdoor Brands Corporation.

Note 3—Significant Accounting Policies

Property, Plant and Equipment—We record property, plant, and equipment, consisting of land, building, improvements, machinery, equipment, software, hardware, furniture, and fixtures, at cost and depreciate them using the straight-line method over their estimated useful lives. We charge expenditures for maintenance and repairs to earnings as incurred, and we capitalize additions, renewals, and betterments. Upon the retirement or other disposition of property and equipment, we remove the related cost and accumulated depreciation from the respective accounts and include any gain or loss in operations. A summary of the estimated useful lives is as follows:

Description	Useful Life
Building and improvements	10 to 40 years
Software and hardware	2 to 7 years
Machinery and equipment	2 to 10 years

We include tooling, dies, and fixtures as part of machinery and equipment and depreciate them over a period generally not exceeding ten years.

Note 8—Property, Plant, and Equipment

The following table summarizes property, plant, and equipment as of April 30, 2018, and 2017 (in thousands):

	April 30, 2018	April 30, 2017
Machinery and equipment	\$251,706	\$242,479
Software and hardware	43,097	39,526
Building and improvements	29,908	28,110
Land and improvements	3,845	3,573
	328,556	313,688
Less: Accumulated depreciation and amortization	(198,545)	(170,538)
	130,011	143,150
Construction in progress	29,114	6,535
Total property, plant, and equipment, net	\$159,125	\$149,685

Depreciation of tangible assets and amortization of software expense amounted to \$30.0 million, \$29.2 million, and \$27.8 million for the fiscal years ended April 30, 2018, 2017, and 2016, respectively. The large increase in construction in progress is due to the costs incurred for the purchase of land and costs related to the design and construction of our national logistics facility.

The following table summarizes depreciation and amortization expense, which includes amortization of intangibles and debt financing costs, by line item for the fiscal years ended April 30, 2018, 2017, and 2016 (in thousands):

	For the Year Ended April 30,		
	2018	2017	2016
Cost of sales	\$24,582	\$24,744	\$22,332
Research and development	557	428	1,136
Selling and marketing	619	424	221
General and administrative	23,699	23,699	14,869
Interest expense	1,105	918	2,679
Total depreciation and amortization	\$52,075	\$50,213	\$41,237

Impairment of Long-Lived Assets Held and Used

According to FASB ASC 360-10-50-2, if a reporting entity recognizes an impairment loss on a long-lived asset or asset group classified as held and used, the notes to the financial statements must provide the following:

- A description of the asset or asset group and the circumstances of the impairment
- The amount of the impairment (unless presented on the face of the income statement) and where it is presented on the income statement
- The method used to determine fair value, such as:
 - Quoted market prices
 - Comparable prices of similar assets
 - Another valuation technique or model
- The segment to which the asset or asset group belongs, if applicable

The following is an example of these disclosure requirements from Supervalu Inc.

Note 18—Goodwill and Long-Lived Asset Impairment Charges

In fiscal 2018, two retail asset groups, which consisted of two separate retail banners, indicated a decline in their results of operations and the cash flow projections of these two retail asset groups declined compared to prior projections. As a result, the two retail asset groups were selected for an undiscounted cash flow review. Both of these retail asset groups failed the long-lived asset recoverability test. Accordingly, a fair value assessment using the income approach was performed over each retail group's long-lived assets. The carrying value of both asset groups exceeded the estimated fair value and was reduced to the lower of the carrying value or fair value, resulting in an impairment charge of \$47, within selling and administrative expenses of discontinued operations.

In fiscal 2017, one retail asset group indicated a decline in their results of operations and the cash flow projections declined compared to prior projections. As a result, the retail asset group was selected for an undiscounted cash flow review. The retail asset group failed the long-lived asset recoverability test. Accordingly, a fair value assessment using the income approach was performed over the retail asset group's long-lived assets. The carrying value of the assets within this asset group exceeded the estimated fair value and was reduced until all long-lived assets were recorded at the lower of their carrying value or fair value, resulting in an impairment charge of \$41 within selling and administrative expenses of discontinued operations.

Long-Lived Assets Held for Sale

During an accounting period, a reporting entity may dispose of long-lived assets or classify long-lived assets as held for sale. If so, FASB ASC 360-10-50-3 requires the reporting entity to provide the following disclosures:

- A description of the facts and circumstances that resulted in the disposal or anticipated disposal
- The timing and means of carrying out the disposal or anticipated disposal
- The amount of the reporting entity's gain or loss on disposal in accordance with the following guidelines:
 - The line item on the income statement or the statement of activities of a not-for-profit (NFP) entity in which the entity reports the gain or loss on disposal, unless the entity presents such gain or loss separately on the face of the income statement

- The major classes of assets and liabilities that are part of a disposal group and classified as held for sale, unless the entity separately presents such amounts on the face of its statement of financial condition. Moreover, an entity must recognize a loss on a disposal group classified as held for sale, if any; if an entity recognizes a loss in accordance with these provisions, the entity cannot allocate the loss among the major classes of assets and liabilities in the disposal group
- The segment within which the reporting entity previously reported the long-lived asset or disposal group

The following is an example of these disclosure requirements from Investors Real Estate Trust.

During fiscal year 2017, we incurred a loss of \$57.0 million due to impairment of 16 apartment communities and two parcels of unimproved land. We recognized impairments of \$40.9 million, \$5.8 million, \$4.7 million, and \$2.8 million, respectively, on three apartment communities and one parcel of unimproved land in Williston, North Dakota, due to deterioration of this energy-impacted market, which resulted in poor leasing activity and declining rental rates during the three months ended July 31, 2016, which should generally be a strong leasing period. These properties were written down to estimated fair value based on an independent appraisal in the case of one property, and management cash flow estimates and market data in the case of the remaining assets. The properties impaired for \$40.9 million, \$4.7 million, and \$2.8 million are owned by joint venture entities in which, at the time of impairment, we had an approximately 70%, 60%, and 70% interest, respectively, but which are consolidated in our consolidated financial statements. We recognized impairments of \$2.9 million on 13 properties and one parcel of land in Minot, North Dakota. These properties were written down to estimated fair value based on management cash flow estimates and market data and, in the case of the 13 properties, our intent to dispose of the properties.

During fiscal year 2016, we incurred a loss of \$6.0 million due to impairment of one office property, one healthcare property, two parcels of land, and eight apartment communities of which approximately \$440,000 is reflected in discontinued operations. See Note 10 for additional information on discontinued operations. We recognized impairments of approximately \$440,000 on an office property in Eden Prairie, Minnesota; \$1.9 million on a healthcare property in Sartell, Minnesota; \$1.6 million on a parcel of land in Grand Chute, Wisconsin; \$1.9 million on eight apartment communities in St. Cloud, Minnesota; and \$162,000 on a parcel of land in River Falls, Wisconsin. These properties were written down to estimated fair value during fiscal year 2016 based on receipt of individual market offers to purchase and our intent to dispose of the properties or, in the case of the Grand Chute, Wisconsin, parcel, the sale listing price and our intent to dispose of the property. The Sartell, Minnesota, property was classified as held for sale at April 30, 2016.

Disposition of an Individually Significant Disposal Component

There may be circumstances in which a long-lived asset (disposal group) includes an individually significant component of a reporting entity that either has been disposed of or is classified as held for sale but does not meet the criteria for presentation as a discontinued operation in accordance with FASB ASC 205-20, *Presentation of Financial Statements—Discontinued Operations*. In such circumstances, in addition to the disclosures above related to long-lived assets held for sale, additional disclosures are required in accordance with FASB ASC 360-10-50-3A. The required disclosures depend on the type of organization, as follows:

If the reporting entity is a public business entity or an NFP conduit bond obligor, it must provide both of the following disclosures:

- The business entity's pretax profit or loss (or the NFP entity's change in net assets) from the individually significant component of the entity, for the following accounting periods:
 - For the period in which the entity has disposed of or classified the disposal group as held for sale
 - For each prior period presented in the income statement or the statement of activities

- The business entity's pretax profit or loss (or the NFP entity's change in net assets) attributable to the parent entity, if the individually significant component of the entity includes a noncontrolling interest, for the following accounting periods:
 - For the period in which the entity has disposed of or classified the component of the entity as held for sale
 - For each prior period presented in the income statement or the statement of activities

All other entities must provide both of the following disclosures:

- The business entity's pretax profit or loss (or the NFP entity's change in net assets) from the individually significant component of the entity (the entity must disclose the amount for the period that it disposes of the assets or component of the entity or classifies them as held for sale)
- The business entity's pretax profit or loss (or the NFP entity's change in net assets) attributable to the parent entity, if the individually significant component of the entity includes a noncontrolling interest (the entity must disclose the amount for the period that it disposes of the interest or classifies it as held for sale)

Disposal Gain or Loss

The guidance for presentation of a gain or loss recognized on the sale of a long-lived asset (disposal group) is set forth in FASB ASC 360-10-45-5. According to this guidance, a reporting entity must present a recognized gain or loss on the sale of a long-lived asset or disposal group as provided in FASB ASC 610-20, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets*, on its income statement as part of continuing operations before income taxes unless the sale represents discontinued operations. If the reporting entity also presents a subtotal for income from operations, the entity must also show the pre-tax gain or loss on the sale as part of this subtotal. As discussed in FASB ASC 360-10-S99-1, such amounts also should not be included as an adjustment to depreciation expense.

Capitalization

U.S. generally accepted accounting principles (U.S. GAAP) require the capitalization of costs when a future benefit for the expenditure exists. For example, if a company purchases a building, the benefits of the building are expected to extend into the future. Therefore, the company would record an asset and depreciate the building over time. In some cases, such as the purchase of equipment, the decision to capitalize is straightforward. However, there are situations in which that decision is not as clear.

Repairs and Maintenance

The general guideline for accounting for PP&E expenditures made after acquisition is that, if the expenditures provide additional service potential beyond the initial estimated useful life, they should be capitalized; if they do not provide additional service potential, they should be expensed as incurred. Expenditures related to assets can increase future benefits in the following ways:

- An extension of the useful life of the asset
- An increase in the operating efficiency of the asset resulting in either an increase in the quantity of goods or services produced or a decrease in future operating costs
- An increase in the quality of the goods or services produced by the asset

Expenditures that cause any of these results should be capitalized initially and, then, expensed in future periods through depreciation, depletion, or amortization. Of course, materiality is an important factor in the practical application of this approach.

There are three methods used to record the cost of improvements:

- **Substitution.** The improvement can be recorded as both (1) a disposition of the old component and (2) the acquisition of the new component. This approach is conceptually appealing, but it is practical only if the original cost and accumulated depreciation of the old component can be separately identified.
- **Capitalization of new cost.** Another way to record an improvement is to include the cost of the improvement (net of any consideration received from the disposition of the old component) as a debit to the related asset account, without removing the original cost and accumulated depreciation of the original component. This approach is acceptable only if the book value of the original component has been reduced to an immaterial amount through prior depreciation.
- **Reduction of accumulated depreciation.** Another way to increase an asset's book value is to leave the asset account unaltered but decrease its related accumulated depreciation. The argument for this method is that many improvements extend the useful life of an asset and are equivalent to a partial recovery of previously recorded depreciation. This approach produces the same book value as the capitalization of cost to the asset account. However, cost and accumulated depreciation amounts will differ under the two methods.

Capitalization Thresholds

U.S. GAAP does not contain provisions that permit the establishment of a capitalization threshold. However, for ease of recordkeeping, many entities establish a capitalization threshold to specify the minimum amount of costs that must be incurred before such costs can be capitalized. The assumption in applying such a threshold is that, whether the entity capitalizes and depreciates or expenses, such amounts immediately would not have a material impact on the entity's financial statements. The decision to expense costs below an established threshold is simply for administrative convenience.

It is important that use of such a threshold is not material to the financial statements. Management should consider the amount and types of costs expected to be incurred to evaluate the amount of the threshold. Importantly, materiality should be assessed on both a qualitative and quantitative basis.

Further, use of a threshold is not an accounting policy. As such, a change to the capitalization threshold is not considered a change in accounting policy. Accordingly, before increasing a threshold, management should ensure it would not result in a material effect on the financial statements.

Observation: Changes to the capitalization threshold should be applied prospectively. Assets capitalized under a previous threshold should not be adjusted.

GROUP STUDY MATERIALS

A. Discussion Problems

1. Discuss the disclosures required if a reporting entity recognizes an impairment loss on a long-lived asset or asset group classified as held and used.
2. Describe the required disclosures when a reporting entity disposes of long-lived assets or classifies long-lived assets as held for sale during a period.
3. Explain how a gain or loss recognized on the sale of a long-lived asset is presented on the income statement.

B. Suggested Answers to Discussion Problems

1. According to FASB ASC 360-10-50-2, if a reporting entity recognizes an impairment loss on a long-lived asset or asset group classified as held and used, the notes to the financial statements must provide the following:
 - A description of the asset or asset group and the circumstances of the impairment
 - The amount of the impairment (unless presented on the face of the income statement) and where it is presented on the income statement
 - The method used to determine fair value, such as:
 - Quoted market prices
 - Comparable prices of similar assets
 - Another valuation technique or model
 - The segment to which the asset or asset group belongs, if applicable
2. FASB ASC 360-10-50-3 requires the following disclosures when a reporting entity disposes of long-lived assets or classifies long-lived assets as held for sale:
 - A description of the facts and circumstances that resulted in the disposal or anticipated disposal
 - The timing and means of carrying out the disposal or anticipated disposal
 - The amount of the reporting entity's gain or loss on disposal in accordance with the following guidelines:
 - The line item on the income statement or the statement of activities of a not-for-profit (NFP) entity in which the entity reports the gain or loss on disposal, unless the entity presents such gain or loss separately on the face of the income statement
 - The major classes of assets and liabilities that are part of a disposal group and classified as held for sale, unless the entity separately presents such amounts on the face of its statement of financial condition. Moreover, an entity must recognize a loss on a disposal group classified as held for sale, if any; if an entity recognizes a loss in accordance with these provisions, the entity cannot allocate the loss among the major classes of assets and liabilities in the disposal group
 - The segment within which the reporting entity previously reported the long-lived asset or disposal group
3. The guidance for presentation of a gain or loss recognized on the sale of a long-lived asset (disposal group) is set forth in FASB ASC 360-10-45-5. According to this guidance, a reporting entity must present a recognized gain or loss on the sale of a long-lived asset or disposal group as provided in FASB ASC 610-20, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets*, on its income statement as part of continuing operations before income taxes unless the sale represents discontinued operations. If the reporting entity also presents a subtotal for income from operations, the entity must also show the pre-tax gain or loss on the sale as part of this subtotal. As discussed in FASB ASC 360-10-S99-1, such amounts also should not be included as an adjustment to depreciation expense.

PART 2. AUDITING

Recent ISSB Activity

The International Financial Reporting Standards Foundation established the International Sustainability Standards Board in November 2021 following strong demand by the markets for its creation. Both climate-related risk and other sustainability measures are of interest to investors and creditors. The ISSB is developing standards to provide a baseline of sustainability disclosures that meet the needs of investors and the financial markets. The Board currently has two different exposure drafts under deliberation.

For more on recent activity from the ISSB, let's join Jennifer F. Louis, a CPA with Emergent Solutions Group, LLC, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

Today, we want to talk about sustainability standards and, in particular, those tied to the International Sustainability Standards Board. To begin with, why has climate change become such an area of high interest for accounting and financial reporting regulatory and oversight bodies?

Ms. Louis

Definitely, an entity's relationship with the environment has grown in importance as it relates to significant risks for organizations in their activities, as well as their economic sectors, that they might operate within. It also is an opportunity for clients to be more focused on mitigating the impact of climate change and adapting to the circumstances.

It really is twofold [because] there are entities that are exposed to risks and opportunities that, directly or indirectly, are tied to the sense of climate change, particularly, as we are looking sustainability being an area where there is a growing interest in trying to measure and manage proactively.

Ms. Grove Casey

How did this become a global movement?

Ms. Louis

Throughout the world, there has been interest—from the European Union to Japan to New Zealand. It really can be tied most directly to, in recent times, the Task Force on Climate-Related Financial Disclosures—if you see TCFD, that is the group. They had participation by creating some voluntary guidelines that about 2,600 companies worldwide decided to endorse back in 2021.

Also, you had a lot of circumstances where investors were citing climate risk as one of their leading issues as they were looking at making decisions. This led to an interest by the International Financial Reporting Standards Foundation (IFRS), and to them creating this International Sustainability Standards Board (ISSB).

That Board is now going to be involved in creating these standards that could be the guidelines that provide this additional information related most directly to these climate-related disclosure. But more broadly, [they are] thinking about the information needs of investors related to other types of sustainability-related risk and opportunities, as well. So, there really are two elements to what the ISSB is doing: climate-related disclosures and general sustainability-related disclosures, as well.

Ms. Grove Casey

Let's talk about the climate-related disclosures first. What are the general objectives of these disclosures?

Ms. Louis

When they had released the exposure draft, as they thought about trying to gather feedback on what would be needed in this circumstance, it was to provide material information about significant climate-related risks and opportunities—there is a sense of materiality and significance that applies in these circumstances.

Also, proposing to require a company to disclose information that would help investors assess the effect of these climate-related risks and opportunities on the value of the enterprise. It was focused on enterprise value and centering disclosures on consideration of a variety of factors that could affect enterprise value—which could include governance, strategy, and risk management of the organization itself. Also, to consider the metrics and the targets that this reporting entity uses to measure, monitor, and manage these significant climate-related risks and opportunities.

Ms. Grove Casey

Are there any industry-specific, climate-related disclosures required?

Ms. Louis

When you look at what has been proposed, what the ISSB did is they built upon the recommendations of the Task Force on Climate-Related financial disclosures (the TCFD) that I had previously mentioned. They did look to try and incorporate certain industry-based disclosure requirements, as well, in putting together these new sustainability standards.

The proposal that they put together does look at input that they [received] from a variety of leaders, and the proposals did set out to try to have more information versus less, as we look at the material information. That means that there could be some industry-specific things that evolve from the result of creating these standards.

Ms. Grove Casey

Before we go any further, I know that disclosures address Scope 1, 2, and 3 emissions. Let's talk about what the fundamental difference is between those three types of emissions.

Ms. Louis

At a very high level, the difference is that when you look at Scope 1, it is going to be [emissions] from things that I own and control in my operations. Scope 2 is going to be from things that I purchase—purchasing electricity, and steam, and heat, and cooling. What I own versus what I purchase.

Then, Scope 3 would be what results from your upstream and downstream activities indirectly to the organization. How my products and services are used, for example, would be a part of my Scope 3 emissions measures.

Ms. Grove Casey

What are some of the most recent significant ISSB decisions tentatively made related to the greenhouse gas disclosures?

Ms. Louis

Yes, obviously this is an ongoing project and things evolve and change over the course of time, based on feedback they are getting from all the various interested parties. One of the things that recently has been made a decision is that they have tentatively decided to remove a proposed requirement for an entity to disclose its greenhouse gas emissions intensity, so we are talking about the intensity of it.

There also was [a decision] that there should not be any explicit requirement for an entity to disaggregate its disclosures of greenhouse gas emissions by the constituent gases. So, as you think about breaking it down, they

ultimately [reached a] consensus that some of this information—the relative cost-benefit of trying to aggregate this information—really would not be worth it [to include in] what should be the minimum [disclosures]. There may be things that an organization decides to voluntarily disclose as it relates to climate-related risk, but they are trying to come up with some standards around what the minimum gold standard should be.

They did introduce a requirement (from the original draft) for an entity to disclose information that would enable users of these general purpose financial reports to understand how and why an entity has used specific inputs, assumptions, or estimation techniques in measuring its greenhouse gas emissions. Also, to disclose information about the estimation techniques and changes in assumptions that [the entity] might be making within a given reporting period.

So, there are some things that they, ultimately, will end up removing from the original proposal. Then, there are things that, based on feedback and comments, they might end up adding to the original proposal.

Ms. Grove Casey

Were there any key decisions made specifically relevant to Scope 3 greenhouse gas disclosures?

Ms. Louis

The Scope 3 area is probably one of the more controversial areas, compared to Scope 1 and Scope 2, because I have to figure out my upstream and downstream effect of things. They are looking at introducing some reliefs to an organization that is disclosing these Scope 3 greenhouse gas emissions. For example, what if we give everybody extra time to come up with these Scope 3 emissions? We might have an effective date for these new requirements for Scope 1 and Scope 2 and, then, give a one-year delay for the Scope 3 piece of it.

Also, [they are] looking at allowing an entity to measure its Scope 3 emissions using information from entities in its value chain with reporting cycles that are not necessarily aligned to mine. We have different reporting periods, but I can still go to other entities that are part of my value chain to pull that information into my own disclosures. This is going to assume that: we are using the most recent data available without undue cost or effort to estimate and disclose Scope 3 emissions; the length of the reporting periods that I am reporting on are going to be the same from period to period; and I disclose any significant events, or changes, or circumstances between the reporting dates of the entities in my value chain and the date of my entity's general purpose financials. As we look at trying to gather the data, that was one of the biggest hurdles in Scope 3 is, how do I get all this information from these other organizations that are out there that are part of my upstream or downstream value chain? That becomes an issue.

The other thing that they are doing with Scope 3 is to try to figure out what is a framework that we can use for measuring these Scope 3 emissions that would ensure that there is consistency in what these organizations are applying? Also, the disclosures that they would have as they are thinking about how much estimation is put into the Scope 3 issues—where I have things that would be considered to be primary data that exists, and things that I am just thinking about doing—as we manage our greenhouse gas emissions from a practical point of view.

Ms. Grove Casey

What tentative decisions has the ISSB made related to industry-based disclosure requirements?

Ms. Louis

As we mentioned, they are looking to add in some industry-based specific things, and this is being done through an appendix; there is an Appendix B that would provide these industry-based disclosure requirements. What they are trying to do, first of all, is to figure out how authoritative do we make Appendix B? Then also, to figure out how do we make sure that there are no inconsistencies between this separate appendix, and what would be in the actual [Sustainability Accounting Standards Board] SASB standards, themselves? Then also, how do we make sure that there are not inconsistencies in what is in Appendix B and similar metrics that are used in different industry-based requirements that are out there that already apply? We are trying to not make this an overly complicated, burdensome process for organizations to comply with.

Ms. Grove Casey

What are some of the more significant tentative decisions the ISSB has made related to financed and facilitated emissions disclosures?

Ms. Louis

They have looked at confirming that they do believe there should be some disclosures related to financed and facilitated emissions. That does come from, say, commercial banks, insurance companies, and asset management organizations. The question becomes, is this something that is in Appendix B for these particular types of industries, or [does it] become a part of the actual application guidance that exists associated with the actual standard?

They also understand that there does need to be clarity on what we mean by these terms, and when would they apply that? As they are looking at the actual proposals, that does need to be something that is better focused on as they are looking at those items. Then also, to look at how it is that they might have to think about, for example, if I was a commercial bank and I am thinking about disclosing loans that I have committed to making but that the other party has not yet drawn on, do I need to think about disclosing the exposures related to these undrawn loan commitments or not? That would be a question that needs to be answered in trying to figure out how these particular industries, through financed and facilitated arrangements, are actually contributing to climate risks and opportunities.

Ms. Grove Casey

Let's move on to discuss some of the general sustainability-related disclosures that are being proposed by the ISSB. What are the core objectives of this area of disclosure?

Ms. Louis

For this area, we are looking at where primary users of general purpose financial statements are asking for some consistent, complete, comparable, and verifiable information related to sustainability, as a broader perspective, to help them assess an entity's enterprise value. So, they decided that there did need to be a more complete set of sustainability-related financial disclosures in providing the information about all of the significant sustainability-related risks and opportunities that would be material information, and [still within] the context of the general purpose financial statements. That is really the key of what they decided to do.

Ms. Grove Casey

Let's talk about what is *enterprise value*?

Ms. Louis

When they talk about having all of these disclosures to assess enterprise value, it is the total value of an entity's equity and net debt, and it reflects the expectations around the amount, timing, and uncertainty of your future cash flows. Those future cash flows can either be on a short-, medium-, or long-term basis, but they are looking at the value that is going to be attributed to those actual cash flows. As we think about the cost of my capital and other things, the amount, timing, and uncertainty of what is going to relate to inflows and outflows of cash on a short-, medium-, and long-term basis.

Ms. Grove Casey

Is sustainability-related financial information the same as information reported in the financial statements.

Ms. Louis

The sustainability-related financial information is meant to be broader than information that might be reported in the financial statements. Thinking about disclosure information about a company's governance of sustainability-related risks and opportunities, that is beyond what you normally would see in your financial statements.

So, the proposals would disclose information about an entity's impacts and dependencies on people and the planet; to think about the company's performance as it relates to the effect on these things, and the actions that it takes on—once again—that entity's enterprise value. Ensuring that, in the end, there is a complete set of financial information that may be beyond what might have a direct effect on the financial statements.

Ms. Grove Casey

What are some of the more significant, recent tentative decisions made by the ISSB about these general sustainability-related disclosures?

Ms. Louis

Part of it was to [further] clarify the objective of having these standards, and describing how the value that an entity creates will either preserve or erode its reputation from the viewpoint of investors and creditors. That, in the end, we are focused on the value that an entity creates for its stakeholders, and also to society and the natural environment—focusing on reputation and enterprise-wide value.

It [includes] thinking about the relationships that it is creating, thinking about the use of its resources in creating value for itself as an organization and, also, the value it is creating for its creditors and investors. To make sure that we are focused on both positive and negative effects that a resource or relationship can have on these sustainability risks and opportunities that are out there. It is not always that you are going to be disclosing negative consequences; there could be positive effects that can be reaffirmed through these disclosures.

Ms. Grove Casey

Besides better describing the objective of these standards, what are some other examples of clarifications or expansions they have decided to make?

Ms. Louis

One of the keys was to provide additional guidance to help an entity identify what is required information to provide—such as a general description of your sustainability-related risks and opportunities; a description of the factors that should be considered in thinking about an entity's sustainability risks and opportunities; and then, to also give a process [of] application for the entity to follow as they are trying to figure out what, really, is the minimum thing that should be put into these financial statements?

Then, to also have a process to help them identify what might be material in the context of these specific disclosures. What are the things that are going to affect decisions that the primary users of this information are going to make? What are the judgments and what are the factors they are going to take into account? As we talk about having material disclosures of significant things, as we said, some of these things could be outside of the context of the financial statements, so I need to have some guidelines of driving me to determine what is it that you are really looking to see in these disclosures from a principles-based approach?

Ms. Grove Casey

In general, how do the ISSB proposed standards compare to the ongoing SEC project?

Ms. Louis

Certainly, the SEC is looking to what the ISSB is doing but, yet, they are also going down their own path. The IFRS standards that are being created through the ISSB, their standards are broader than the SEC's in two particular ways. One of them is that the Scope 3 emissions—the Scope 1, 2, and 3 emissions, they were required to be disclosed, whether they were material or not. It also originally required a lot of forward-looking analysis under different scenarios for decarbonization plans that an organization had. So, they were originally having broader points of view. Then also, focusing more on governance and thinking about the role that the Board plays in the oversight.

In thinking about these matters, one of the things was that the SEC's breadth is also a little narrower as it related to some of these matters. So, if we step back for a moment, in principle, if we think about IFRS as an accounting standard-setting body, it is more principles based; whereas U.S. GAAP does have principles, but there are also more rules that get interjected—more illustrations and guardrails that are put into place. In the approach of thinking about these climate-related sustainability disclosures, you are going to have that same perspective difference that is going to continue in those standards, as well.

Ms. Grove Casey

What are the general SEC disclosure requirements related to climate change?

Ms. Louis

The SEC, obviously, is proposing some rules, as well, that would focus on climate-related risks, focusing on those emissions and, also, focusing on the transition plans that organizations have to get to net-zero emissions. They have adopted some guidelines that are really meant to help in providing more detail about each of those different areas.

Ms. Grove Casey

Talk to me a little bit more about the material climate-impact disclosures.

Ms. Louis

When we think about the company's disclosure about risks from physical climate-related hazards (a fire, a flood), as we think about exposure of our assets, it is looking at where there could be a material effect on those things, and it also asks for disclosures about transition risks and some of those risks of transitioning to, say, the net-zero gas emissions. There could be effective things from a regulatory point of view, a technological point of view, and a reputational risk that would be a part of what they are disclosing, from a broad-based point of view.

Ms. Grove Casey

What would be the general disclosure requirements related to greenhouse gas emissions?

Ms. Louis

From the SEC, they are looking at reporting of the Scope 1 and Scope 2 emissions that are generated by the company's own operations and through entity purchases. Then, there is a materiality threshold that would be applied for Scope 3 emissions; they are only going to be required if they are material, or if the filer has actually set out a target where they are saying, "This is something that we are going to try and do." Well, if you have set a target, then you should be able to measure and manage that target, and there should be disclosure information that you could provide in those particular situations.

We are trying to figure out, in terms of intensity, how it is that these emissions are a factor on what it is that an organization does. So, per dollar in sales, per unit of product, maybe emissions per car manufactured. As they are thinking about disclosing these items that exist, that following along with what the ISSB is doing, you may see some backing out of some of these details once the SEC gets into their final determinations about these matters.

Ms. Grove Casey

What general disclosures would be required related to an entity's climate-change targets and transition plans?

Ms. Louis

They are going to be looking at targets around emissions reduction, energy use, conservation efforts, or looking at the revenues that they are going to be generating from low-carbon-type products. Thinking about transitioning to

these broader-based goals, what specific information would be needed, including things like the use of offsets or renewable energy credits? That might be a factor that would be useful to understand what is happening at these organizations.

Ms. Grove Casey

Would the SEC require any specific disclosures in the footnotes related to the financial statements?

Ms. Louis

Certainly, as we think about financial-statement effect, there are things that you would put in the financials even now underneath today's rules. It does not necessarily have to be a specific SEC rule related to, for example, disclosing any impairment of assets because of a severe-weather effect, or to think about the effect of changes in useful lives or salvage values. It may come from climate change and these other factors, but there are already things that you would disclose as a risk and uncertainty that might be material to an organization in their near term.

Ms. Grove Casey

What are some examples of the specific types of disclosures that would fall under the broad categories you just mentioned?

Ms. Louis

Yes, I gave a few through the example, but other ones might be to think about the changes in your revenues or your cost because there was a disruption in the supply chain that came from a climate-related event, which could be severe weather—if you have flood, or hurricane, or fire. It also could be things related to environmental remediation reserves that could have a loss contingency or disclosure that might exist. Those are also things that could come from being disclosed in the financial statements and have a financial statement effect.

Ms. Grove Casey

Does an entity need to discuss the negative impacts of climate-related events and transition activities?

Ms. Louis

They do, obviously, need to talk about all the positive effects that they are doing—all the good things that I am doing—but all of the negative things, as well, would have to be separately disclosed as we think about the climate-related events. Then also, separate [from that], your transition activities that exist as you are trying to manage and deal with the effect of climate change. So, these would [include] the financial statement line items that are affected by these aspects of things, and to have some sort of threshold where, if there could be a material effect, then let's talk about those issues. Maybe, there is a sense around, could it have more than a one-percent effect on a related line item? There might be some sort of bright-line threshold that is created to allow some consistency in the practice of what organizations do disclose as they are focused on these metrics that might be important in the filings of these registered companies.

SUPPLEMENTAL MATERIALS

ISSB Sustainability Standards—Progress to Date

by Jennifer F. Louis, CPA

Background

An entity's relationship with the environment has become increasingly important. Climate change presents significant risks for all entities, their activities, and their economic sectors. It also creates opportunities for entities focused on climate-change mitigation and adaptation. Entities may be exposed to these risks and opportunities directly, or through third parties such as suppliers and customers beyond their direct operations, because of interconnected global value chains.

Climate change affects all economic sectors. However, the degree and type of exposure, and the current and anticipated effects of climate-related risks and opportunities on the assessment of enterprise value, are likely to vary by sector, industry, geography, and entity. Increasingly, users of general-purpose financial reporting are seeking consistent, comparable information to help them better understand how entities are managing climate-related risks and opportunities, how they intend to achieve their climate-related performance targets, what progress they have made against those targets, and how resilient their business models and strategies are in the face of a global transition towards a lower-carbon economy.

There is growing global momentum toward climate action and standardized disclosure of climate-related risks. The United Kingdom, New Zealand, Japan, Hong Kong, and the EU are all moving ahead with similar measures. The Task Force on Climate-related Financial Disclosures (TCFD) issued voluntary guidelines that 2,600 companies around the world endorsed in 2021. The vast majority of institutional investors are citing climate risk as a leading issue driving their engagement with companies, and the International Financial Reporting Standards (IFRS) Foundation created the International Sustainability Standards Board (ISSB) that will release guidelines.

As a result of this urgent need for better information about climate-related risks and opportunities, a component of the strategic direction provided by the Trustees of the IFRS Foundation to the ISSB was to focus its efforts initially on climate-related disclosures, while also working towards meeting the information needs of investors on other sustainability-related risks and opportunities.

In March 2022, the ISSB launched a consultation on its first two proposed standards—one on climate-related disclosures and one on general sustainability-related disclosures. The proposed standards, when finalized, would form a comprehensive global baseline of sustainability-related disclosures designed to meet the information needs of investors in assessing enterprise value.

Climate-Related Disclosures

The Climate Exposure Draft first published by the ISSB on March 31, 2022, was an important step in the ISSB's realization of the strategic direction provided to it by the IFRS Foundation Trustees.

A company applying the proposals in the Climate Exposure Draft would be required to provide material information about its significant climate-related risks and opportunities. The Climate Exposure Draft proposes requiring a company to disclose information that would enable an investor to assess the effect of climate-related risks and opportunities on its enterprise value.

The Climate Exposure Draft would require a company to center its disclosures on the consideration of the governance, strategy, and risk management of a business, and the metrics and targets it uses to measure, monitor, and manage its significant climate-related risks and opportunities. The Exposure Draft includes a requirement for companies to disclose information about climate-related physical and transition risks, and climate-related opportunities.

The proposed requirements in the Exposure Draft IFRS S2 *Climate-related Disclosures* (Climate Exposure Draft) build upon the recommendations of the TCFD and incorporate industry-based disclosure requirements derived from standards issued by the SASB.

The proposals have been developed in response to requests from G20 leaders, the International Organization of Securities Commissions (IOSCO), and others, for enhanced information from companies on sustainability-related risks and opportunities. The proposals set out requirements for the disclosure of material information about a company's significant sustainability-related risks and opportunities that is necessary for investors to assess a company's enterprise value.

It is important to understand the difference between Scope 1, 2, and 3 emissions:

- Scope 1 and Scope 2 greenhouse gas (GHG) emissions (i.e., from an entity's owned or controlled operations, and purchased or acquired electricity, steam, heat, or cooling, respectively).
- Scope 3 GHG emissions (i.e., from indirect upstream and downstream activities).

Climate-related Disclosures: ISSB Update December 2022

The ISSB met on December 14–15, 2022, to redeliberate proposals in its Exposure Draft IFRS S2 *Climate-related Disclosures* (draft S2) relating to:

- Requirements for an entity to disclose its GHG emissions;
- Industry-based materials in Appendix B; and
- Requirements for an entity to disclose its financed and facilitated emissions.

Related to required GHG disclosures, the ISSB tentatively decided:

- a. To remove the proposed requirement in paragraph 21(a)(ii) of draft S2 for an entity to disclose its GHG emissions intensity. Nine of fourteen ISSB members agreed with this decision.
- b. To confirm that the draft S2 included no explicit requirement for an entity to disaggregate its disclosure of GHG emissions by constituent gases. Twelve of fourteen ISSB members agreed with this decision.
- c. To introduce a requirement for an entity to use the global warming potential values in the latest assessment by the Intergovernmental Panel on Climate Change, based on a 100-year time horizon. All ISSB members agreed with this decision.
- d. To introduce a requirement for an entity to disclose information that would enable users of general-purpose financial reporting to understand how and why the entity has used specific inputs, assumptions, and estimation techniques to measure its GHG emissions. As part of this requirement, an entity would disclose information about changes in the estimation techniques it uses, and changes in significant assumptions it makes during the reporting period. All ISSB members agreed with this decision.
- e. To amend the requirement in paragraph 21(a)(i)(2) of the draft S2 so that in disclosing its Scope 2 GHG emissions, an entity would be required to use the location-based method (reflecting the average emissions intensity of its local grid) along with relevant information about contractual instruments related to managing energy it has purchased. Thirteen of fourteen ISSB members agreed with this decision.

Related to Scope 3 greenhouse gas emissions disclosures, the ISSB tentatively decided:

- a. To introduce reliefs for an entity disclosing its Scope 3 GHG emissions, specifically:
 - i. A temporary exemption from the requirement for the entity to disclose its Scope 3 GHG emissions for a minimum of one year after the effective date of IFRS S2. Thirteen of fourteen ISSB members agreed with this decision.
 - ii. A relief allowing the entity to measure its Scope 3 GHG emissions using information from entities in its value chain with reporting cycles that are not aligned with the entity's reporting period, on condition that:
 - 1. The entity uses the most recent data available without undue cost or effort to estimate and disclose its Scope 3 GHG emissions;
 - 2. The length of the reporting periods is the same from period to period; and
 - 3. The entity discloses the effects of significant events and changes in circumstances that occur between the reporting dates of the entities in its value chain and the date of the entity's general purpose financial reporting.

All ISSB members agreed with these decisions.

- b. To introduce a framework for measuring Scope 3 GHG emissions. All ISSB members agreed with this decision.
- c. To introduce requirements, along with the framework for measuring Scope 3 GHG emissions, for an entity to disclose information that would enable users of general purpose financial reporting to understand how the entity measures its Scope 3 GHG emissions. Those requirements would specify that an entity disclose:
 - i. To what extent (for example, as a percentage of total Scope 3 GHG emissions) the Scope 3 GHG emissions disclosure is estimated using inputs from specific activities in the entity's value chain ('primary data'). All ISSB members agreed with this decision.
 - ii. To what extent (for example, as a percentage of total Scope 3 GHG emissions) the Scope 3 GHG emissions disclosure is estimated using inputs that are verified. All ISSB members agreed with this decision.
 - iii. How the entity is managing (how it is 'thinking about') its Scope 3 GHG emissions if the entity determines it is impracticable to estimate its Scope 3 GHG emissions. Twelve of fourteen ISSB members agreed with this decision.
- d. To introduce relief for an entity making disclosures about its value chain, namely:
 - i. Implementation guidance to help the entity assess which sustainability-related risks and opportunities in its value chain are relevant to users of general purpose financial reporting, using Scope 3 GHG emissions as an example; and
 - ii. A requirement for the entity to reassess the scope of its sustainability-related risks and opportunities only if a significant event or a significant change of circumstances occurs.

All ISSB members agreed with these decisions.

- e. To confirm that all entities would be required to include information about which of the fifteen Scope 3 GHG emissions categories—described in the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard—are included in the entity's measurement of its Scope 3 emissions, irrespective of whether its measurement was in accordance with the GHG Protocol Corporate Standard. All ISSB members agreed with this decision.

The ISSB also tentatively decided the following related to Appendix B, which provides industry-based disclosure requirements:

- a. To amend the draft S2 so that the industry-based requirements in Appendix B become part of the illustrative guidance;
- b. To enhance Appendix B:
 - i. By responding to stakeholder feedback on the international applicability of some disclosure topics and metrics;
 - ii. By resolving inconsistencies between Appendix B and the SASB Standards; and
 - iii. By resolving inconsistencies between how some of the same or similar metrics are used in different industry-based requirements in Appendix B; and
- c. To amend Appendix B to correct errors in its scope introduced by the inclusion or omission of some metrics.

All ISSB members agreed with these decisions.

Related to financed and facilitated emissions disclosures, the ISSB tentatively decided:

- a. To confirm the proposed disclosure requirements for financed emissions for three industries—Asset Management & Custody Activities, Commercial Banks, and Insurance—and to move these requirements from Appendix B to become part of the draft S2 application guidance. Therefore, an entity would be required to disclose its financed emissions as part of its Scope 3 GHG emissions disclosures. Twelve of fourteen ISSB members agreed with this decision.
- b. To confirm, for financed emissions disclosures, proposals on:
 - i. The use of the term ‘financed emissions’ in the industries listed in a. Thirteen of the fourteen ISSB members agreed with this decision.
 - ii. The requirement for an entity in the Asset Management & Custody Activities industry to aggregate its disclosures at the level of total assets under management but that that aggregation cannot obscure material information. All ISSB members agreed with this decision.
 - iii. The requirement for an entity to describe its methodology for calculating its financed emissions in the industries listed in a. All ISSB members agreed with this decision.
 - iv. The use of the Global Industry Classification System for the industry-based disclosure of financed emissions. All ISSB members agreed with this decision.
- c. To remove the proposed requirement that an entity disclose the GHG emissions intensity of its financed emissions per unit of physical or economic activity. Thirteen of fourteen ISSB members agreed with this decision.
- d. To remove the proposed requirements for an entity in the Investment Banking & Brokerage industry to disclose its facilitated emissions—that is, these proposed disclosure requirements would be excluded from any part of S2. Twelve of fourteen ISSB members agreed with this decision.
- e. To confirm and clarify the proposed requirements for an entity in the Commercial Banks industry or Insurance industry to disclose its undrawn loan commitments—that is, an entity would be required to disclose both its financial exposures and its emissions related to undrawn loan commitments. Thirteen of fourteen ISSB members agreed with this decision, one member was absent.

- f. To confirm and clarify the proposed requirement for an entity in the Commercial Banks industry to provide disclosures on a gross basis—that is, without considering risk mitigation. Thirteen of fourteen ISSB members agreed with this decision, one member was absent.
- g. To amend Appendix B to remove all references to, and requirements for an entity to disaggregate its disclosures by, ‘carbon-related industries.’ Thirteen of fourteen ISSB members agreed with this decision, one member was absent.
- h. To amend Appendix B to remove the proposed requirement for an entity to include derivatives when calculating its financed emissions. Thirteen of fourteen ISSB members agreed with this decision, one member was absent.

General Sustainability-Related Disclosures

The General Requirements Exposure Draft, originally published by the ISSB on March 31, 2022, was developed in response to calls from primary users of general-purpose financial reporting for more consistent, complete, comparable, and verifiable sustainability-related financial information to enable them to assess an entity’s enterprise value.

The General Requirements Exposure Draft sets out the core content for a complete set of sustainability-related financial disclosures, establishing a comprehensive baseline of sustainability-related financial information.

To comply with the proposed requirements, a company would disclose material information about all significant sustainability-related risks and opportunities to which it is exposed. The materiality judgement is made in the context of the sustainability-related information necessary for users of general-purpose financial reporting (investors) to assess enterprise value.

Enterprise value is the total value of an entity’s equity and net debt and reflects expectations of the amount, timing, and uncertainty of future cash flows over the short, medium, and long term and the value attributed to those cash flows (reflecting the cost of capital).

Sustainability-related financial information is broader than information reported in the financial statements. The proposals include requirements to disclose information about a company’s governance of sustainability-related risks and opportunities and its strategy for addressing them. The company’s reputation, performance, and prospects are affected by the actions it takes. The proposals would require disclosure of information about an entity’s impacts and dependencies on people, the planet, and the economy when relevant to the assessment of the entity’s enterprise value.

The Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (General Requirements Exposure Draft) proposes overall requirements for an entity to disclose sustainability-related financial information about its significant sustainability-related risks and opportunities. The General Requirements Exposure Draft also proposes that an entity provide the market with a complete set of sustainability-related financial disclosures.

The proposals have been developed in response to requests from G20 leaders, the IOSCO, and others, for enhanced information from companies on sustainability-related risks and opportunities. The proposals set out requirements for the disclosure of material information about a company’s significant sustainability-related risks and opportunities that is necessary for investors to assess a company’s enterprise value.

General Sustainability-Related Disclosures: ISSB Update December 2022

The ISSB met on December 13, 2022, to redeliberate some of the proposals in its Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (draft S1).

The ISSB tentatively decided to clarify the objective of draft S1 by describing:

- a. How the value that an entity creates, preserves, or erodes for itself and for its investors and creditors is inextricably linked to the value the entity creates for other stakeholders, society, and the natural environment;
- b. How an entity uses its resources and relationships in creating value for itself and for its investors and creditors;
- c. How an entity's reliance on its resources and relationships and the entity's negative or positive effects on its resources and relationships can give rise to sustainability-related risks and opportunities for the entity; and
- d. How sustainability-related risks and opportunities can affect an entity's performance, prospects, business model, strategy, and the value the entity creates for itself and for its investors and creditors over the short, medium, and long term.

All ISSB members agreed with these decisions.

The ISSB also tentatively decided to expand and clarify aspects of the draft S1 Illustrative Guidance:

- a. To clarify the distinction and connection between:
 - i. Identifying sustainability-related risks and opportunities; and
 - ii. Identifying material information about those risks and opportunities.
- b. To provide additional guidance to help an entity identify the sustainability-related risks and opportunities about which it is required to provide information. Such guidance might include:
 - i. A general description of sustainability-related risks and opportunities;
 - ii. A description of factors the entity could consider in identifying sustainability-related risks and opportunities; and
 - iii. A description of the process the entity might follow in identifying sustainability-related risks and opportunities.
- c. To provide additional guidance to help an entity identify material information in the context of sustainability-related financial disclosures. Such guidance might discuss:
 - i. Primary users of an entity's sustainability-related financial disclosures and the decisions they make;
 - ii. How to make materiality judgements that take into account an entity's specific circumstances; and
 - iii. How to make materiality judgements in conditions of uncertainty.
- d. To illustrate how an entity with a complex business model, such as one that spans multiple industries, might approach identifying sustainability-related risks and opportunities and identifying material information about those risks and opportunities using the SASB Standards.

The additional illustrative guidance described in a.– c. would draw on available market resources, including IFRS Practice Statement 2 *Making Materiality Judgements*, and the International Accounting Standards Board's Exposure Draft *Management Commentary*.

All ISSB members agreed with these decisions.

Comparison to the U.S. Securities and Exchange Commission (SEC)

Generally, the climate disclosure standards in the UK and the EU, as well as the IFRS's early drafts of the ISSB standards, are very similar. However, the IFRS standards are broader than the SEC's in two ways. First, the original draft of IFRS required Scope 1 and Scope 2 emissions as well as Scope 3 emissions whether they are material or not. It also originally required a forward-looking analysis under different scenarios for decarbonization.

Across the board, regimes all put a strong focus on governance, including board oversight. The rules all had a single parent, which is the TCFD, and that parent defined many of the principles around governance, strategy, risk management, targets, and metrics. The key difference between the SEC and other disclosure regimes is that the SEC's breadth is a little narrower and its prescription a little greater. That is akin to the differences between the U.S. generally accepted accounting principles (GAAP) and the IFRS standards.

One further distinction is that the IFRS draws on the SASB, which has a disclosure standard rooted in sector-specific guidance. SASB focuses on reporting relative to the sector so investors can compare company performance to its peers, whereas the SEC goes deeper on prescriptions around financial metrics.

The SEC has proposed a new rule that, if adopted, would require public companies to provide detailed reporting of their climate-related risks, emissions, and net-zero transition plans.

Three Categories of SEC Disclosures

Proposed rules would require three categories of disclosure: material climate impacts, greenhouse-gas emissions, and any targets or transition plans.

On material risks and strategic implications, the rule as written would require companies to disclose risks from physical climate-related hazards such as fires or floods by location and by share of assets exposed. It also asks for disclosure of transition risks, which could be regulatory, technological, market, or reputational risks, over the short term, medium term, and long term. Filers would need to disclose strategic impacts, financial impacts, and operational impacts, as well as their governance and risk management processes to manage these risks.

The second category is GHG emissions. The proposed rule would require reporting of audited Scope 1 and Scope 2 emissions, which are emissions generated by a company's own operations and through the energy it purchases. The rule would also require Scope 3 disclosures if they are material or if the filer has a target. Scope 3 are upstream and downstream emissions along the company's entire value chain.

The emissions reporting would need to be in absolute terms and in terms of intensity, both per unit of revenue, that is, greenhouse gases per dollar in sales and per unit of product, such as emissions per car manufactured. Filers would need to disclose how they arrived at those estimates and what greenhouse gases the estimates cover—such as methane, nitrous oxide, or carbon dioxide—and the type of source.

GHG emission disclosures would include the following:

- Scope 1 and Scope 2 GHG emissions (i.e., from a registrant's owned or controlled operations and purchased or acquired electricity, steam, heat, or cooling, respectively), which would need to be separately disclosed on a disaggregated (by each GHG) and aggregated basis. This disclosure would be required on a gross basis (before consideration of any offsets) and relative to intensity (e.g., tons of carbon dioxide per dollar of revenue).
- Scope 3 GHG emissions (i.e., from indirect upstream and downstream activities) in gross terms (before consideration of any offsets) and relative to intensity, if the registrant has set a GHG emissions target or goal that includes Scope 3 emissions or if Scope 3 emissions are material. Scope 3 GHG emission disclosures would be subject to securities law safe harbor provisions.

The last category is targets and transition plans. Under the current text of the rule, companies would need to disclose any existing targets around emission reductions, energy use, nature conservation, or revenues from low-carbon products. The SEC would want disclosure of the transition plans to achieve those targets, including specific information on the use of offsets or renewable-energy credits. If a company uses an internal carbon price, that price, as well as how it is set and what it covers, would need to be disclosed.

Focus on Financial Statement Note Disclosures by the SEC

The following financial statement note disclosures would be required:

- The impact on financial statement line items related to severe weather events and other natural conditions (e.g., impairment charges, increased loss reserves) and transition activities (e.g., changes in salvage values or useful lives of assets) if such amounts exceed one percent of the related line item.
- The expenditures related to mitigating the risk of severe weather events and other natural conditions and transition activities.
- How severe weather events and other natural conditions and transition activities affected estimates and assumptions reflected in the financial statements.

The proposed rule provides examples of the types of disclosures registrants would provide to reflect the impact of climate-related events and transition activities.

These include the following for climate-related events:

- “Changes to revenue or costs from disruptions to business operations or supply chains”
- “Impairment charges . . . of assets (such as inventory, intangibles, and property, plant and equipment)”
- “Changes to loss contingencies or reserves (such as environmental reserves or loan loss allowances)”
- “Changes to total expected insured losses due to flooding or wildfire patterns”

These include the following for transition activities:

- “Changes to revenue or cost due to new emissions pricing or regulations resulting in the loss of a sales contract”
- “Changes to . . . cash flow[s] from changes in upstream costs, such as transportation of raw materials”
- “Changes to the carrying amount of assets . . . due to a reduction of the asset’s useful life or a change in the asset’s salvage value”
- “Changes to interest expense driven by financing instruments such as climate-linked bonds issued”

Registrants would be required to separately disclose all negative and all positive impacts of climate-related events, as well as separately disclose all negative and all positive impacts of transition activities. These disclosures would be required for each affected financial statement line item if, on an aggregated basis, the absolute value of all such impacts (i.e., the absolute value of both negative impacts and positive impacts for both climate-related events and transition activities) exceeds one percent of the related line item.

When disclosing financial impact metrics and expenditure metrics, registrants would use a “bright line” one-percent threshold for disclosure purposes. Accordingly, registrants would need to have appropriate processes, procedures, and internal controls in place for tracking this information and developing the disclosures when preparing financial statements.

GROUP STUDY MATERIALS

A. Discussion Problems

1. Discuss what would be required of an entity applying the proposals in the ISSB's Climate Exposure Draft, and in what areas the entity would be required to focus its disclosures.
2. Discuss the development and purpose of the General Requirements Exposure Draft.
3. Discuss how the SEC's disclosure standards compare to those of IFRS.

B. Suggested Answers to Discussion Problems

1. A company applying the proposals in the Climate Exposure Draft would be required to provide material information about its significant climate-related risks and opportunities. The Climate Exposure Draft proposes requiring a company to disclose information that would enable an investor to assess the effect of climate-related risks and opportunities on its enterprise value.

The Climate Exposure Draft would require a company to center its disclosures on the consideration of the governance, strategy, and risk management of a business, and the metrics and targets it uses to measure, monitor, and manage its significant climate-related risks and opportunities. The Exposure Draft includes a requirement for companies to disclose information about climate-related physical and transition risks, and climate-related opportunities.

2. The General Requirements Exposure Draft, originally published by the ISSB on March 31, 2022, was developed in response to calls from primary users of general-purpose financial reporting for more consistent, complete, comparable, and verifiable sustainability-related financial information to enable them to assess an entity's enterprise value.

It sets out the core content for a complete set of sustainability related financial disclosures, establishing a comprehensive baseline of sustainability-related financial information.

3. Generally, the climate disclosure standards in the UK and the EU, as well as the IFRS's early drafts of the ISSB standards, are very similar. However, the IFRS standards are broader than the SEC's in two ways. First, the original draft of IFRS required Scope 1 and Scope 2 emissions as well as Scope 3 emissions whether they are material or not. It also originally required a forward-looking analysis under different scenarios for decarbonization.

Across the board, regimes all put a strong focus on governance, including board oversight. The rules all had a single parent, which is the TCFD, and that parent defined many of the principles around governance, strategy, risk management, targets, and metrics. The key difference between the SEC and other disclosure regimes is that the SEC's breadth is a little narrower and its prescription a little greater. That is akin to the differences between the U.S. generally accepted accounting principles (GAAP) and the IFRS standards.

One further distinction is that the IFRS draws on the SASB, which has a disclosure standard rooted in sector-specific guidance. SASB focuses on reporting relative to the sector so investors can compare company performance to its peers, whereas the SEC goes deeper on prescriptions around financial metrics.

PART 3. SMALL BUSINESS

Prospective and Pro Forma Financial Information Engagements

The Statements on Standards for Accounting and Review Services, better known as the SSARS were initially issued for use in engagement related to historical financial statements that weren't audited. It wasn't until the issuance of SSARS thirteen and fourteen that something other than historical financial information was addressed. And, it wasn't until SSARS twenty-three that prospective financial information was brought from the attestation standards into the accounting and review standards.

For more on the types of engagements that fall under the SSARS, let's join Kurt Oestrieher, CPA and a partner with Oestrieher and Company in Alexandria, Louisiana, and C-P-E Network's Debi Grove Casey.

Ms. Grove Casey

Today we want to talk a little bit about pro forma and prospective engagements under the SSARS. To begin with, maybe you want to talk a little bit about what *pro forma information* is.

Mr. Oestrieher

People often confuse the terms *pro forma* and *prospective*, but they actually mean two completely different things in the accounting terminology. Everything we are going to talk about today is under the SSARS, the Statements on Standards for Accounting and Review Services, but pro forma information—and notice how we do not call it financial statement; that is important. We always use the term *financial statement* to refer to anything that is historical and in the past. Pro forma financial information is taking that historical information that has either been compiled, reviewed, or audited, and it has to have a level of service provided; you cannot just take management financial statements.

So, you take financial statements that have been subjected to AICPA services in the past (audited, reviewed, or compiled) and, then, you restate those financial statements as if a certain event or transaction had happened after the balance sheet date occurred, not as of or not before, that date. So, if you have a June 30th financial statement and you are saying, "What would those statements have looked like had something that happened on August 31st or September 31st had happened on June 30th? What would those financial statements look like?" So, that is what pro forma financial information is: take historical and adjust it for a future event.

Ms. Grove Casey

Let's talk about the requirements under SSARS for pro forma engagements. What are those?

Mr. Oestrieher

When you look at pro forma engagements, first of all, it has its own special section, AR-C 120, but before you get there, you have to look at everything—what we call the umbrella standards—which is section AR-C 60, and that applies to all engagements under SSARS. So, you have to go through engagement acceptance procedures, but there are some very unique issues related to pro forma financial information when you are looking at engagement acceptance procedures because you want to know, what is this going to be used for? In other words, this is an out-of-the-ordinary thing.

Everyone knows why you look at historical financial information. You are either management trying to determine, did we meet budget, or a financial institution deciding, are we going to get credit? But when someone says, "Take that information and tell me what it would look like had the hurricane not hit," or "had the acquisition not taken place," or—maybe in today's world—"had interest rates not risen 3½–4 percent, and my variable interest loan went out of this world," or something like that. Who needs that and why? You would like to have that understanding because, when we talk about the report later on, which we will, there are some limitations in that report.

You want to make sure that the pro forma engagement is appropriate for the users, in addition to all the other things that we look at in engagement acceptance, such as, will the client be willing and able to answer all the questions? Do we have familiarity with the entity and the industry in which they work? For example, I would not want to do pro forma financial information on any entity in the oil and gas business, or financial institutions, simply because I do not have sufficient understanding of that industry. Now, I could go obtain it but, quite frankly, for the very (typically) low fee that you would get for compiling pro forma financial information, [it is] probably not worth my time to do that.

So, you do all of those things and, then, once you are satisfied that engagement acceptance can be met, and you have appropriate knowledge of the entity and the industry in which they work, then you would get an engagement letter in accordance with the requirements of AR-C 120. So, AR-C 60 says get the engagement letter and, then, when you get into AR-C 120, that is when we have the specific requirements that are applicable only to pro forma financial information.

Ms. Grove Casey

What kind of things do we need to do under AR-C 120? Or do you want to wait to talk about that a little?

Mr. Oestricher

Well, believe it or not, one of the first things you have to do is actually read the pro forma financial information. We have that [requirement] in SSARS; you would read them. When you read them, you are looking for, first of all, does it appear as though the event or transaction that happens subsequent to the balance sheet date is properly presented in the pro forma financial information? Especially if it is a business combination and you are purporting that it is reflected in the pro forma financial information using the acquisition method of accounting, then you use your knowledge of the acquisition method of accounting to say, “Does this appear reasonable?”

The first thing that pops into my head is, you would expect that there would be goodwill in the books afterwards. So, if there is not goodwill, the only reasonable explanation for that is that the assumed purchase price was at a bargain purchase, in which case then you would have, believe it or not, a gain from acquisition. A lot of people still do not understand that that has happened, but it happened over 20 years ago that the standards allowed that. Those are the type of clues that you would look for to say, “Is the whatever it is (transaction or event) properly reflected?”

Not only are you looking at the potential for departures in the transaction or event that is reflected, you are also looking at it from an overall perspective in the financial statements—in other words, the transactions that were already there. Now, if your firm has previously compiled the financial statements, you have already done that when you had the compilation, or the audit, or the review. But [you would need to look at it] if you are coming behind another CPA who has compiled the financial statements, or if you took management financial statements and performed a compilation of those financial statements before you performed the compilation on the pro forma—doing it all at the same time because you had that obligation when you compiled them as part of the multi-step process that you needed in order to get to the compiled pro forma financial information. So, it is not just that the transaction or event is reflected, it is an overall analysis.

Now, when you are doing this and you become aware of a departure, just like we have in a compilation of financial statements, you discuss that departure with management and you say, “Here is the problem. GAAP requires X, but you have Y, so do we want to adjust Y so that it equals X?” Or, because this is a compilation of pro forma financial information, if management says, “No, I do not want them to reflect the new lease standard because we did not adopt it,” or whatever the reason might be, that is fine.

You need to consider the reasons for management’s unwillingness, if you will, to correct that departure. If it is a cost-saving measure and the information truly would influence a user’s conclusion—and by the way, that is what is going to happen about 97 percent of the time—then, the accountant should feel comfortable in saying, “Okay, they are not trying to mislead anyone, but I will just disclose this departure from our framework in my report,” because you will

issue a report on pro forma financial information. If the accountant believes that the reason that management does not want to post the adjustment is to create misleading pro forma financial information, then you withdraw from the engagement.

Again, I think it would be a very rare circumstance that you would conclude that they are trying to mislead, especially with the level of clients that I am working with and the reason that they are [not posting the adjustment]. It is not like it is a team of CPAs at Enron that are looking at how can we cook the books to make sure that we are getting our desired outcome? Usually, my clients, working in a smaller firm like mine, they are more than happy to make whatever adjustments we deem necessary. In fact, we are the ones that may often say, “Look, here is the departure, here is what it is going to take to get everything in accordance with GAAP. We can just have a disclosure in our compilation report and we think that is going to be the most efficient,” and they are fine with that.

Ms. Grove Casey

Did you want to talk about the type of report, because you mentioned that one is required for pro forma financial information?

Mr. Oestriecher

Right. The guidance is in AR-C 120 and there are also examples of the report in the Guide itself, which is the Preparation, Compilation, and Review [Engagements] Guide. There is not a specific guide for pro forma financial information, but the AICPA does publish their Guide, which has sample reports.

Just like the compilation report, it starts with the word *management*. Now, I am not going to go through every little part of the report but, remember, you are going to be describing financial information as opposed to financial statements. And within that report, if there are departures, you will describe the departure; if you are not independent with respect to the client, then you disclose the lack of independence. In other words, all the things that we normally see in a compilation report are going to be in the pro forma financial information report. It is just going to be a little bit quirky because of the fact that it is pro forma financial information.

Another unique part of the report is you will refer to the compilation, audit, or review report of the previously issued historical financial information, and you let the reader know that those historical financial statements should be read in conjunction with the pro forma financial information. Because if you think about it, the whole purpose of the pro forma is to say, this was reality, this is what reality would have been, and comparing the two. That is what provides information to the user to see the effect or the impact of that change.

In fact, I have seen an example, and I think it is the best way to show this information, where there is a three-column format. Column one is the compiled historical financial information. In the middle, you have your adjustments; just as you might normally see eliminating entries but, instead, you have adjustments. Then, the last column is the pro forma financial information. That way, it is just one sheet of paper and everything is there. If you present it that way, remember to have both reports—the compilation report and the pro forma financial information report. That is a very, I think, unique and effective way of presenting the pro forma financial information.

Ms. Grove Casey

A lot of times when we hear about pro forma information, we also hear about prospective financial information. They are, generally, two very different things. So, why don't you talk a little bit about what *prospective financial information* is?

Mr. Oestriecher

Well, I guess I can take the humorous route and put it in a broad sense from our client's perspective. The prospective information is when you take an Excel spreadsheet and you start with the base year, and you assume revenues are going to go [up] 28 percent a year, but expenses only 2 percent a year. So, at the end of 10 years, everyone is going

to be a gajillionaire. That is what these always purport. Think of that as a starting point to say, that is what *prospective* is. It is not just an element, and your starting point is not even historical financial information. In fact, a lot of times, your prospective information is for an entity that either has not even opened up a bank account, or they put in a hundred bucks for their initial capital contribution and, now, they are going around and they are trying to get investors or bankers, saying, “This is what we think we can do.”

So, the prospective financial information—and, again, I have used [the term, but] I have never heard a very clear and logical delineation between what is a *forecast* and what is a *projection*; those terms are used almost interchangeably. But generally, what I have heard is that projections are where you have, really, no base year to start and you are just projecting everything. Whereas a forecast is, I have a base year that is a historical year and, then, I am saying, “We are going to have an increase over there.” But neither one of those terms are defined that way; I think that is just the way people use them, and it makes sense. But again, at the same time, when you look at the standards, they are really the same.

So, where there is a budget, another way to look at it is, a budget is generally something that is one year in nature but is prospective information. So, you can compile or review if you want to, but generally people do not—excuse me, compile or prepare; you cannot review them, [only] compile or prepare. A budget, in my mind, is usually a one-year item that has a fairly high expectation of a level of precision. In other words, when I am comparing budget versus actual, I expect the numbers to be pretty close.

Whereas projections are typically three to five years. I have seen people go out to 10 years. If we have learned anything from the pandemic and current economic events, any projection that goes beyond five years has a level of uncertainty that any reasonable person should say, “This is not really useful information,” with one exception. Let’s say you are a lessor and you have a 15-year lease, and it is a very creditworthy lessee, now you can project. Now, you are just looking at, possibly, insurance costs or property taxes, or something like that. But if you are a retail store, or you are a production or manufacturer, and you are trying to say, “Five years from now, we think demand is going to be this.” It is very, very hard to predict that. So most banks and, of course, the SBA, wants these along with your SBA loans. They say, “What does it look like?” You are looking at about a five-year window.

So, to sum it up: typically your one-year window, your budget, has a higher level of precision. Anywhere from one to five years, those types of things, that is considered more of a projection, if you will.

Ms. Grove Casey

Let’s talk a little bit about what levels of service can be applied to prospective financial information. I know when I work on budgets, typically, like you said, they are a single year and we base it on what we have paid in the past, as far as expenses go. Then, revenue is similar, but a little more hopeful—or optimistic, let’s say.

Mr. Oestrieher

Well, the good news is, first of all, you don’t have to apply any set of standards if you [don’t] want to. Remember, our standards on historical [information]—and this is much different than pro forma where you have to follow AR-C 120—if someone were to walk into my office and say, “Kurt, can you come up with an Excel spreadsheet that gives us this information that I just described?” I can do that, and I do not have to do it under SSARS. In other words, it can be a consulting engagement. It does not have to be under any particular set of standards.

That being said, I highly recommend you go to the warm blanket of SSARS. Again, that means you have to get an engagement letter and you are going to have to follow SSARS, but it provides you a level of protection because you want a report, you want an engagement letter with a client that specifically talks about what you are going to do and the limitations of it so that there is no misuse of it. So, my recommendation is to go under SSARS.

Now, when you look at SSARS, you cannot perform a review because you are providing limited assurance, and there is no way we can provide any assurance on the outcome of future events—not even if you have an Ouija board. It is just simply not allowed, and our standards will never allow that.

That leads to preparation and the compilation. Now, rather than having a separate [...] within the AR-C standards on projections or forecasts or prospective financial information, when the entire set of standards was reorganized with SSARS 21, the applicability of both the preparation engagement and the compilation engagement were redefined so that you can apply those standards to both historical and prospective information. So, the good news is, if you know how to do a preparation or you know how to do a compilation, then you know how to do a preparation or a compilation of prospective financial information.

Now, I'll tell you this is Kurt's recommendation. I understand from the AICPA's perspective both of these are equally as good; they are non-assurance engagements, and just pick and choose whichever one fits your needs best. That is the AICPA's stance, and I appreciate it. If I were the spokesperson for the standard setter, I think that is the stance I would take, also, but I am not the spokesperson for the AICPA, I am Kurt Oestrieher, CPA. Looking at the risks that my firm faces and the risks that many the viewers here would face, I much prefer the compilation and the reason is very simple. You attach a report to a compilation. In the preparation engagement there is no report; there is no indication that a CPA is involved in it whatsoever; there is no discussion of the limitation of it. It just simply says, "No assurance provided."

So, I like that compilation report, especially on these, simply because the users I think, by default, accept and acknowledge—and most of my peers that I have talked to understand—that these are going to be used for more high-risk purposes than compiled historical financial information. Almost always, you are giving these to a third party. Most of the time, it is a lender or a potential investor and, therefore, risk is involved and I just think the compilation report helps mitigate our risk a little bit. So, that is why the compilation is my preference. But again, I want to make sure it is clear: you can do a preparation or a compilation, you just cannot do a review

Ms. Grove Casey

Did you want to talk a little bit about the necessary engagement performance requirements?

Mr. Oestrieher

Yes. Once you are in a preparation or compilation, much like we discussed in the pro forma financial information, you have to follow section AR-C 60 which, by the way, entails engagement-level quality control, engagement acceptance—all the things that we talked about in our pro forma, all the things that are near and dear to a compilation or a preparation engagement—compliance with relevant ethical standards, and things like that.

So, you get into not only the independence, but integrity and objectivity, meaning that if the projections are so outlandish that they are unreasonable, that would be, in my interpretation of the rules—we already used the word *misleading*—misleading information. A CPA cannot communicate false or misleading information. Just because a client comes in and says, "I have this farm out here and it is 80 acres, and I think my revenues are going to go [up] 22 percent a year." Well, you only have 80 acres. You think the price of soybeans, or whatever you are growing, is going to go up? Those are the type things that are [misleading].

The capacity to produce revenues on whatever you are projecting would need a corresponding range of assets or production capability, and those costs are not included. In other words, they are still keeping their costs at a production capacity of so many cubic yards [or units], or whatever it is you are producing, and those costs are not going up. When you look at your projection five years from now, you know that you would have to triple capacity and you would have to, maybe, double payroll, but none of that is contained. Those are the things that would be misleading. So, understand that even though it is a compilation and that you are providing no assurance, [we have] ethical obligations and AR-C 60 directs us to be aware of our ethical obligations. I can assure you that our ethical obligations will not allow us to be associated with information that is misleading.

It is just a whole different can of worms when you are looking at prospective information, because historical [information], it happened. I might have been surprised that it happened, but it happened. It is a different case, so I want to make sure that we do not just sign off and say, "Yes, we have complied with all relevant ethical requirements."

That is what limits us, and that is why, in my opinion, a compilation or even a preparation—anything coming from a CPA—will, typically, be valued more by a third-party user than something that just comes from Joe’s Bookkeeping Services or internally from management because those third-party users understand that there is a minimum level.

So, for AR-C 60, first, get an engagement letter and, again, this is where you can use the [AICPA] Guide or you can use Thomson Reuters PPC. It is not going to be in their Compilation and Review Guide. I believe there is a whole separate module that is sold by Thomson Reuters through Thomson Reuters PPC for these types of engagements because there are so many nuances. So, prepare the information. I guess there are some circumstances where a client may come in and bring us everything that is done and want us to attach a report but, in most cases, we are the ones that are going to go through and do the math and do it on an Excel spreadsheet, and we are going to make it all pretty. That is where it is great to [take] the newest staff you have and let them pretty it up because they learn all sorts of great things in college about Excel and how to use the various fonts, and all that. That is something I am not terribly good with. I am getting better, but I am also colorblind, so that is never good for me to say, “Let’s put the client’s color scheme on here to kind of make it pop,” and [my staff said] “Kurt, that is not green, that is blue.” I said, “Oh, I did not know that.”

You need to look at the significant [assumptions]. A key element of these are your significant assumptions, and you cannot just say, “I am going to omit disclosures,” and then not put the summary of significant assumptions. That is something that is very clear when it comes to prospective financial information. It is so key to the user’s understanding, you have to disclose this. You can do this in the form of footnotes—again, actually, management is doing this. As the compiler or the preparer, you need to make sure that is included as part of the projection.

Really, if you are only talking about seven or eight key assumptions, then usually, you are listing those at the top of [the information]. Just to get into the nuance, usually these things are printed landscape instead of portrait, and you have multiple columns. You have room at the top and you just put “Revenue Growth,” “Interest Rate on Loan,” whatever the key assumptions are about. So you do, in fact, have to provide that information or management has to provide it; we need to make sure it is included.

If, after you do all this, you say, “Wait a second, I know that [other assumptions should be listed]”—because this actually happened one time. A client was going to start a new LLC and wanted projections. Great, but one of the things I noticed that they had not discussed was pension cost and health insurance cost, which they had to include because it was going to be an affiliated organization. You could not put employees over here and say, “You are not subject to the pension cost,” or “You cannot be part of our health insurance plan.” So, that was a significant cost that was left out and, quite frankly, the client [said], “We did not even think about that.” That is where sometimes this is a good exercise with the client. Have they truly considered potentially all the costs? So, those are examples of where you would get revised information, if necessary.

Then, of course, you disclose the limitations of the engagement to the client, and you will eventually do so in the report. The biggest limitation is that we do not provide any assurance that the fake numbers that are there will actually be achieved. In fact, it is only the real estate projections, like on a triple net lease, that I have ever seen that what actually happened four or five years from now was even close to the originally projected amount.

And that works both ways. Usually they miss, but I have seen someone greatly underestimate the desire of people in central Louisiana to eat at a buffet, for example. When a local franchise came here one time, they did not realize the people [would say], “We will bring the grandkids and we will bring grandma, grandpa, and we are just going to sit here and chow down at this buffet for a while.” We have just absolutely killed the projection. So, it goes both ways but, more often than not, unfortunately, they fall a little bit short. That is why we want to make sure that management understands those limitations.

Ms. Grove Casey

We already talked a little bit about there being a report. Did you want to talk about that a little bit more, and when they are required?

Mr. Oestricher

Yes. First of all, for a preparation, you are not required to have a report at all. Just make sure that each page says, “No assurance provided.” But on the compilation, you do, in fact, have to have the report. Just like we talked about in the pro forma financial information, the report starts out with, “Management is responsible for the accompanying projected financial statements of XYZ Company for the years ended 2022 through 20XX” (whatever it might be), so that is where it is going to be a little bit different.

Then, after that, because you are under AR-C 80, everything else is going to be the typical things that you see that are prescribed for a compilation report, which means if the underlying basis of accounting is the income tax basis (which sometimes it is; remember, often these are not projected on GAAP, there is not an underlying assumption that it is going to be on GAAP), so if people say income tax basis, you have to disclose that in your report. If independence is impaired, you need to disclose that. As we mentioned on the pro forma, if there are departures from your framework, those need to be disclosed.

Now, I think it would be extraordinarily rare that you would ever have supplementary information in the pro forma, but in the rare instance that you would (maybe there is some underlying data; maybe it is a radio station that you are acquiring, so you want to include data related to ratings for the past two years), then you can, but if stuff like that is included, or supplementary information, then you have the supplementary information requirements to the reporting. So, follow along with the compilation reporting where you just change the titles. Then, again, you have to have that special paragraph that I mentioned that is in the engagement letter with management, where you say that you have no responsibility to update these numbers. So, let’s say two years from now you believe that things have changed, you do not have any responsibility.

SUPPLEMENTAL MATERIALS

SSARS—Engagements Other Than Historical Financial Statements

by Kurt Oestrieher, CPA

Introduction

Statements on Standards for Accounting and Review Services (SSARS) were originally used to provide guidance when CPAs issued historical financial statements that were not audited. Other financial information, including pro forma financial information and prospective financial information, were not covered under SSARS until the issuance of SSARS 13 and SSARS 14. SSARS 13 provided guidance for specified items, elements, and accounts of financial statements, and SSARS 14 provided guidance for pro forma financial information.

Guidance for prospective financial information was provided by the Statements for Standards on Attestation Engagements (SSAEs). SSARS 22 was issued to update the original SSARS 14 with the clarity format, and SSARS 23 was issued to bring the guidance on prospective financial information from the SSAEs into the SSARS.

Pro Forma Financial Information

Overview

SSARS 22 was issued in September 2016, and this standard updated and clarified the guidance on pro forma financial information. Pro forma financial information was first introduced in the SSARS with the issuance of SSARS 14.

Definition

Pro forma financial information is defined as a presentation that shows what the significant effects on historical financial statements might have been, had a consummated or proposed transaction or event occurred at an earlier date.

The application and other explanatory material provides further guidance for this definition as follows:

- Pro forma financial information is developed by applying pro forma adjustments to historical financial information
- Appropriate pro forma adjustments:
 - Are based on management's assumptions
 - Give effect to all significant effects directly attributable to the transaction or event
 - Are stated on a basis consistent with the applicable financial reporting framework of the entity

The types of transactions commonly used for pro forma adjustments are as follows:

- Business combination
- Change in capitalization
- Disposition of part of the business
- Change in form of the business organization
- Proposed sale of securities and application of the proceeds

Engagement Acceptance and Continuance

An entity must first comply with AR-C 60, which states that an accountant shall not accept an engagement when any of the following exist:

- The accountant has reason to believe that relevant ethical requirements will not be satisfied.
- The accountant's preliminary understanding of the engagement circumstances indicates that information needed to perform the engagement is likely to be unavailable or unreliable.
- The accountant has cause to doubt management's integrity such that it is likely to affect the performance of the engagement.

As a condition for accepting an engagement, the accountant should:

- Determine whether preliminary knowledge of the engagement circumstances indicate that ethical requirements regarding professional competence will be satisfied
- Determine whether the financial reporting framework selected by management to be applied in the preparation of the financial statements is acceptable
- Obtain an engagement letter

After determining that all of the requirements of AR-C 60 are met, the following conditions apply to an engagement for compiling pro forma financial information:

- The accountant should obtain the agreement of management that it acknowledges and understands its responsibility for the following: (AR-C 120.7)
 - The preparation and fair presentation of pro forma financial information in accordance with the applicable financial reporting framework
 - To include the following in any document that contains the pro forma financial information:
 - The complete financial statements of the entity for the most recent year (or for the preceding year if financial statements for the most recent year are not available) or that such financial statements are readily available
 - If pro forma financial information is presented for an interim period, either historical interim financial information for that period (which may be in condensed form) or that such interim information is readily available
 - In the case of a business combination, the relevant historical financial information for the significant constituent parts of the combined entity
 - To ensure that the financial statements of the entity on which the pro forma financial information is based have been subject to a compilation, review, or audit engagement
 - To include the accountant's compilation or review report or the auditor's report on the financial statements in any document containing the pro forma financial information
 - To present a summary of significant assumptions with the pro forma financial information
 - To obtain the accountant's permission prior to including the accountant's compilation report in any document containing the pro forma financial information that indicates that the entity's accountant has performed a compilation engagement on such pro forma financial information

Engagement Letter

The engagement letter must have all of the following required elements:

- Objectives of the engagement
- Responsibilities of management set forth in AR-C 60
- Responsibilities of the accountant
- Limitations of the compilation engagement
- Identification of the applicable financial reporting framework for the preparation of the pro forma financial information
- Expected form and content of the accountant's compilation report and a statement that there may be circumstances in which the report may differ from the expected form and content
- It must be signed by the accountant
- It must be signed by management or those charged with governance

Knowledge and Understanding of the Entity's Financial Reporting Framework

When performing a compilation of pro forma financial information, the accountant should obtain an understanding of the following:

- Applicable financial reporting framework of the entity
- Significant accounting policies intended to be used in the pro forma presentation
- In the case of a combined entity, the accounting policies of each constituent entity

Compilation Procedures

The procedures that must be followed in a compilation of pro forma financial information are not only stated in AR-C 120, but also incorporate some of the guidance in performing a compilation of historical financial statements (AR-C 80) as follows:

- The accountant should read the financial statements.
- If the accountant becomes aware of any departures from the applicable reporting framework, the accountant should request revised or additional information.
- The accountant should propose any revisions or adjustments to management in order for the pro forma financial information to be in accordance with the applicable financial reporting framework.
- The accountant should withdraw from the engagement if additional or revised information is not provided, or if management does not disclose such departures and the accountant determines to not disclose such departures in the accountant's compilation report.

Additional procedures required by AR-C 120 include:

- Obtaining an understanding of the underlying transaction or event

- Ascertaining that management has included the following in the document:
 - The complete financial statements of the entity for the most recent year (or for the preceding year if financial statements for the most recent year are not available) or that such financial statements are readily available
 - If pro forma financial information is presented for an interim period, either historical interim financial information for that period (which may be in condensed form) or that such interim information is readily available
 - In the case of a business combination, the relevant historical financial information for the significant constituent parts of the combined entity
- Ascertaining that management has fulfilled its responsibility to ensure that the financial statements of the entity on which the pro forma financial information is based have been subject to compilation, review, or audit
- Ascertaining that management has fulfilled its obligation to include the compilation, review, or audit report on the historical financial statements

Reporting on Pro Forma Financial Information

The accountant should include a report with the pro forma financial information, and such report should include the following required elements:

- A statement that management is responsible for the pro forma financial information
- Identify the pro forma financial information that is compiled
- Identify the entity whose pro forma financial information has been compiled
- Specify the date or period covered by the pro forma financial information
- Include a statement that the accountant compiled the pro forma financial information in accordance with SSARS promulgated by the Accounting and Review Services Committee of the AICPA
- Include a statement that the accountant did not review or audit the pro forma financial information, nor was the accountant required to perform any procedures to verify the accuracy or completeness of the pro forma financial information and, accordingly, does not express an opinion or any other form of assurance on the pro forma financial information
- Include a reference to the financial statements from which the historical financial information is derived and a statement as to whether such financial statements were subjected to a compilation, review, or audit
- A reference to any modification of the compilation, review, or audit report on the historical financial statements
- A description of the nature and limitations of pro forma financial information
- Include the signature of the accountant
- Include the city and state where the accountant practices
- Include the date that the accountant has completed the compilation procedures

Documentation

The amount of documentation on compiled pro forma compilation engagements will be driven largely by the quality control standards of the firm. However, the minimum documentation required is as follows:

- The engagement letter or other suitable form of written documentation of the understanding with management
- The results of the compilation procedures described above
- A copy of the pro forma financial information
- A copy of the compilation report

Prospective Financial Information

Introduction

The AR and AR-C Sections of AICPA Professional Standards have been applicable to historical financial statements, historical specified items, elements, or accounts, or pro forma financial statements. Compilation of prospective financial information has been performed under the Statements for Standards for Attestation Engagements. However, a combined effort of the Auditing Standards Board and the Accounting and Review Services Committee of the AICPA has resulted in compilation of prospective financial information now being covered by the compilation and review standards as a result of SSARS 23.

Definition

Prospective financial information is defined as “Any financial information about the future. The information may be presented as complete financial statements or limited to one or more elements, items, or accounts.”

An accountant typically is engaged to compile prospective income statements and/or balance sheets. However, under the definition adopted by SSARS 23, an accountant may also compile cash flow analysis, amortization schedules, or any other item that meets the above definition. It is important to note that SSARS 23 *does not require* an accountant to compile any prospective information requested by the client. Compilations are now engagement driven; therefore, the accountant and client must both agree to have the engagement conducted under SSARS. However, the accountant should strongly consider the advantages of using the compilation standards for such an engagement, as the compilation report clearly explains the limitations of the engagement to any user.

Applicability

An accountant may now prepare (AR-C 70) or compile (AR-C 80) prospective financial information under SSARS. An accountant may not review prospective financial information under SSARS.

Preparation of Prospective Financial Information

The accountant must comply with all of the requirements of AR-C 70 when preparing prospective financial information, but must modify those requirements as applicable to the prospective financial information. The standard requirements are as follows:

- Using professional judgment, determine if you have been engaged to prepare prospective financial information. Because of the nature of prospective financial information, it is the opinion of the author that an accountant will, at a minimum, prepare prospective financial information under AR-C 70 when such information is produced by the accountant or the accountant’s firm

- Obtain an engagement letter
- Prepare the prospective financial information
- Include the statement “No Assurance Provided” on each page of the prospective financial information
- If the prospective financial information is prepared using a special purpose framework, include a description of the special purpose framework on the face of the prospective financial information
- Discuss significant judgments made during the course of the engagement with management to the extent that management understands and accepts responsibility for the significant judgments reflected in the pro forma financial information
- Obtain revised or corrected information if the information supplied appears to be incorrect or incomplete
- Disclose any departures from the applicable accounting framework on the face of the prospective financial information or in the notes to the financial information
- Disclose the Summary of Significant Assumptions
- Disclose the limitation of the usefulness of the presentation

Compilation of Prospective Financial Information

The accountant must comply with all of the requirements of AR-C 80 when compiling prospective financial information, but must modify those requirements as applicable to the prospective financial information. The standard requirements are as follows:

- Obtain an engagement letter
- Compile the prospective financial information
- Obtain revised or corrected information if the information supplied appears to be incorrect or incomplete
- Issue a report on the compiled prospective financial information, which will include the following elements in addition to the standard compilation report:
 - A description of the limitation on the usefulness of the presentation
 - A statement that the forecasted or projected results may not be achieved
 - A statement that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report
- Disclose the Summary of Significant Assumptions

GROUP STUDY MATERIALS

A. Discussion Problems

1. Describe the areas in which the accountant should obtain an understanding when performing a compilation of pro forma financial information.
2. Describe the documentation requirements in a pro forma compilation engagement.
3. Discuss how prospective financial information is defined and the types of information that the accountant may be engaged to compile.

B. Suggested Answers to Discussion Problems

1. When performing a compilation of pro forma financial information, the accountant should obtain an understanding of the following: the applicable financial reporting framework of the entity; the significant accounting policies intended to be used in the pro forma presentation; and, in the case of a combined entity, the accounting policies of each constituent entity.
2. The amount of documentation on compiled pro forma compilation engagements will be driven largely by the quality control standards of the firm. However, the minimum documentation required is as follows: the engagement letter or other suitable form of written documentation of the understanding with management, the results of the compilation procedures, a copy of the pro forma financial information, and a copy of the compilation report.
3. Prospective financial information is defined as “Any financial information about the future. The information may be presented as complete financial statements or limited to one or more elements, items, or accounts.”

An accountant typically is engaged to compile prospective income statements and/or balance sheets. However, under the definition adopted by SSARS 23, an accountant may also compile cash flow analysis, amortization schedules, or any other item that meets the above definition. It is important to note that SSARS 23 *does not require* an accountant to compile any prospective information requested by the client. Compilations are now engagement driven; therefore, the accountant and client must both agree to have the engagement conducted under SSARS. However, the accountant should strongly consider the advantages of using the compilation standards for such an engagement, as the compilation report clearly explains the limitations of the engagement to any user.

GLOSSARY OF KEY TERMS

Amortization—spreading the cost of an intangible asset over its useful life

Depreciation—allocating the cost of a tangible or physical asset over its useful life

ESG—Environmental, Social, Governance

Impairment—permanent reduction in the value of a fixed or intangible asset

ISSB—International Sustainability Standards Board

Long-Lived Assets—assets, tangible or intangible, that a business anticipates retaining for at least one year

Pro Forma Financial Information—a presentation that shows what the significant effects on historical financial statements might have been, had a consummated or proposed transaction or event occurred at an earlier date.

Prospective Financial Information— Any financial information about the future. The information may be presented as complete financial statements or limited to one or more elements, items, or accounts

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Property, Plant, and Equipment	May-5	Unemployment Insurance Fraud	Jan-22
Prospective Financial Statements	Feb-24	Valuation Allowance	Feb-4
Quality Management Systems	Feb-21		

BY CITATION

Citation	Month–Page	Citation	Month–Page
Accounting Standards Codification (ASC) 350	Mar-3	ASC 958	Mar-42
AR-C 60	May-38, 41	ASC Topic 805	Mar-4
AR-C 80	May-43	ASU 2021-07	Jan-5
AR-C 120	May-38	Topic 235	Mar-6
ASC 350-20-50-3A	Mar-5	Topic 360	May-5
ASC 360-10-45-5	May-7	Topic 480	Jan-4
ASC 712	Jan-3	Topic 710	Jan-3
ASC 715	Jan-3	Topic 805, <i>Business Combinations</i>	Mar-7
ASC 718	Jan-3	Topic 820	Mar-6
		Topic 830	Mar-7

BY SPEAKER

Speaker	Month	Speaker	Month
Jennifer Louis	Jan-May	Russ Madray.....	Jan- May
Kurt Oestrieher	Feb-May		

Choose the best response and record your answer in the space provided on the answer sheet.

1. According to Russ Madray, all of the following are general disclosures about property, plant, and equipment (PP&E) required by FASB Accounting Standards Codification (ASC) Topic 360 **except**:
 - A. A detailed breakdown of each piece of PP&E regardless of major classes.
 - B. The amount of depreciation recognized as expense during the financial statement period.
 - C. A summary of the estimated useful lives of items such as buildings or machinery.
 - D. The amount of accumulated depreciation, either totaled or by major class, at the balance sheet date.
2. According to Russ Madray, when should entities test long-lived assets that are held and used for impairment?
 - A. Such assets must be tested for impairment annually regardless of individual facts and circumstances.
 - B. Such assets must be tested for impairment regularly but on a rotating basis so not all are tested in the same year.
 - C. Testing such assets is trigger-based and only occurs if certain indicators of impairment exist during the tax year.
 - D. Because such assets are used in operations, they are not required to be tested for impairment until after they are retired or ready for disposal.
3. According to Russ Madray, which of the following occurs when a piece of PP&E is classified as held for sale on the balance sheet?
 - A. The entity can no longer depreciate or amortize that asset.
 - B. The entity will need to recognize an impairment loss for that asset.
 - C. No specific disclosures are required as the asset is no longer classified as held and used.
 - D. The required disclosures are the same for all types of entities.
4. According to Russ Madray, based on the guidance in Topic 360, how should entities present the gain or loss on the sale of a long-lived asset or disposal group in their financial statements, assuming the sale is part of discontinued operations?
 - A. Disclosed only in the notes to the financial statements.
 - B. On the income statement as part of continuing operations before income taxes.
 - C. A subtotal of income from operations with gain or loss from the sale of PP&E on a separate line.
 - D. As an estimate or range, but not as a specific numerical value.
5. According to Russ Madray, when an entity purchases PP&E as part of repairs or maintenance for a building it already owns, should those costs be capitalized?
 - A. Yes, such costs should always be capitalized because the cost of the building is capitalized.
 - B. No, such costs should never be capitalized because they were not part of the building's original purchase price.
 - C. Such costs should only be capitalized if they exceed the capitalization threshold provided in U.S. GAAP.
 - D. Such costs should only be capitalized if they are material and provide additional service potential beyond the building's useful life.

Continued on next page

6. According to Jennifer Louis, what entity created voluntary climate change guidelines that were endorsed by 2,600 companies worldwide in 2021?
 - A. The International Financial Reporting Standards Foundation (IFRS).
 - B. The International Sustainability Standards Board (ISSB).
 - C. The U.S. Securities and Exchange Commission (SEC).
 - D. The Task Force on Climate-Related Financial Disclosures (TCFD).
7. According to Jennifer Louis, Scope 2 emissions come from what source?
 - A. Upstream or downstream activities that are indirectly related to an entity.
 - B. Things that an entity owns and controls during its operations.
 - C. Things that an entity purchases, such as electricity, heat, and cooling.
 - D. Things that are specific to and evolved from an entity's industry.
8. According to Jennifer Louis, disclosures related to which of the following areas are most controversial and, therefore, might require some relief when companies implement the ISSB's sustainability standards (e.g., a delayed effective date)?
 - A. Scope 1 emissions.
 - B. Scope 2 emissions.
 - C. Scope 3 emissions.
 - D. All greenhouse gas emissions.
9. According to Jennifer Louis, which of the following statements best describes the sustainability-related financial information required by the ISSB's sustainability standards?
 - A. Sustainability-related financial information is narrower in scope than what is typically included in an entity's general-purpose financial statements.
 - B. Sustainability-related financial information is broader in scope than what is typically included in an entity's general-purpose financial statements.
 - C. Sustainability-related financial information only needs to be disclosed if it will have a direct effect on the other financial information in an entity's general-purpose financial statements.
 - D. Sustainability-related financial information can be considered complete even if it does not address an entity's enterprise value.
10. According to Jennifer Louis, what is one of the SEC's disclosure requirements related to climate change?
 - A. The SEC wants entities to report their Scope 1 and Scope 2 emissions and creates a materiality threshold for Scope 3 emissions.
 - B. The SEC's focus is on opportunities to improve or reduce climate change rather than on climate-related risks.
 - C. Because reaching net-zero emissions is too costly, the SEC's goal is to create transition plans that will help entities reduce their emissions by 50%.
 - D. The SEC's climate-change requirements are separate from other financial statement requirements, so specific disclosures are not needed in the financial statement notes.

Continued on next page

11. According to Kurt Oestrieher, what is *pro forma financial information*?
- A. Prospective financial information that is used to create forecasts or projections.
 - B. Management financial statements restated based on possible future events.
 - C. Audited, reviewed, or compiled financial statements restated as if a specific event or transaction occurred after the balance sheet date.
 - D. Audited, reviewed, or compiled financial statements restated to correct an error that was discovered after the financial statement date.
12. According to Kurt Oestrieher, what type of report is required for pro forma financial information?
- A. An audit report.
 - B. A review report.
 - C. A compilation report.
 - D. No specific report is required, but sample reports are provided by the AICPA.
13. According to Kurt Oestrieher, what is one characteristic of a *forecast*?
- A. The prospective financial information is projected from scratch based on hypothetical information.
 - B. The prospective financial information is based on a historical year of an entity's operations.
 - C. The prospective financial information covers one subsequent year with a high level of precision.
 - D. The prospective financial information is based on a single event or transaction that might occur after the balance sheet date.
14. According to Kurt Oestrieher, what standards apply to prospective financial information engagements?
- A. No standards apply, so CPAs must perform engagements on prospective financial information as consultation engagements.
 - B. CPAs are required to follow the SSARS when performing engagements on prospective financial information.
 - C. CPAs are required to follow GAAS when performing engagements on prospective financial information.
 - D. No specific standards are required, but performing these engagements under SSARS gives CPAs a level of protection.
15. According to Kurt Oestrieher, which of the following is an ethical concern that applies to engagements performed on prospective financial information?
- A. CPAs must provide assurance that the entity will achieve the prospective revenues.
 - B. CPAs cannot be associated with prospective financial information that is misleading.
 - C. CPAs are exempt from independence, integrity, and objectivity concerns for these engagements.
 - D. CPAs must use correct formatting so that the prospective financial information pops.

Subscriber Survey Evaluation Form

Please take a few minutes to complete this survey related to **CPE Network® A&A Report** and return with your quizzer or group attendance sheet to 2395 Midway Road, Carrollton, Texas 75006. All responses will be kept confidential. Comments in addition to the answers to these questions are also welcome. Please send comments to CPLgrading@thomsonreuters.com.

How would you rate the topics covered in the May 2023 **CPE Network® A&A Report**? Rate each topic on a scale of 1–5 (5=highest):

	Topic Relevance	Topic Content/ Coverage	Topic Timeliness	Video Quality	Audio Quality	Written Material
PPE Presentation and Disclosures	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Recent ISSB Activity	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Prospective and Pro forma Financial Information Engagements	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Which segments of the May 2023 issue of **CPE Network® A&A Report** did you like the most, and why?

Which segments of the May 2023 issue of **CPE Network® A&A Report** did you like the least, and why?

What would you like to see included or changed in future issues of **CPE Network® A&A Report**?

How would you rate the effectiveness of the speakers in the May 2023 **CPE Network® A&A Report**? Rate each speaker on a scale of 1–5 (5 highest):

	Overall	Knowledge of Topic	Presentation Skills
Russ Madray	_____	_____	_____
Jennifer Louis	_____	_____	_____
Kurt Oestrieher	_____	_____	_____

Which of the following methods would you use for viewing CPE Network® A&A Report? DVD ☐ Streaming ☐ Both ☐

Are you using **CPE Network® A&A Report** for: CPE Credit ☐ Information ☐ Both ☐

Were the stated learning objectives met? Yes ☐ No ☐ _____

If applicable, were prerequisite requirements appropriate? Yes ☐ No ☐ _____

Were program materials accurate? Yes ☐ No ☐ _____

Were program materials relevant and contribute to the achievement of the learning objectives? Yes ☐ No ☐ _____

Were the time allocations for the program appropriate? Yes ☐ No ☐ _____

Were the supplemental reading materials satisfactory? Yes ☐ No ☐ _____

Were the discussion questions and answers satisfactory? Yes ☐ No ☐ _____

Specific Comments: _____

Name/Company _____

Address _____

City/State/Zip _____

Email _____

Once Again, Thank You...

Your Input Can Have a Direct Influence on Future Issues!

CPE Network[®]

Firm/Company Name: _____

Account #:

Location:

Program Title: _____

Date: _____

[illegible]

I certify that the above individuals viewed and were participants in the group discussion with this issue/segment of the CPE Network® newsletter, and earned the number of hours shown.

Instructor Name: _____

Date: _____

E-mail address:

License State and Number:

CPE Network/Webinar Delivery Tracking Report

Course Title	
Course Date:	
Start Time:	
End Time:	
Moderator Name, Credentials, and Signature Attestation of Attendance:	
Delivery Method:	Group Internet Based
Total CPE Credit:	3.0
Instructions:	During the webinar, the moderator must verify student presence a minimum of <u>3 times per CPE hour</u> . This is achieved via polling questions. Sponsors must have a report which documents the responses from each student. The timing of the polling questions should be random and not made known to students prior to delivery of the course. Record the polling question responses below. Refer to the CPL Network User Guide for more instructions. Partial credit will not be issued for students who do not respond to at least 3 polling questions per CPE hour.
Brief Description of Method of Polling	Example: Zoom: During this webinar, moderator asked students to raise their hands 3 times per CPE hour. The instructor then noted the hands that were raised in the columns below.

[illegible]

CHECKPOINT LEARNING NETWORK

CPE NETWORK®

USER GUIDE

REVISED May 1, 2023

Welcome to CPE Network!

CPE Network programs enable you to deliver training programs to those in your firm in a manageable way. You can choose how you want to deliver the training in a way that suits your firm's needs: in the classroom, virtual, or self-study. You must review and understand the requirements of each of these delivery methods before conducting your training to ensure you meet (and document) all the requirements.

This User Guide has the following sections:

- **“Group Live” Format:** The instructor and all the participants are gathered into a common area, such as a conference room or training room at a location of your choice.
- **“Group Internet Based” Format:** Deliver your training over the internet via Zoom, Teams, Webex, or other application that allows the instructor to present materials that all the participants can view at the same time.
- **“Self-Study” Format:** Each participant can take the self-study version of the CPE Network program on their own computers at a time and place of their convenience. No instructor is required for self-study.
- **Transitioning From DVDs:** For groups playing the video from the online platform, we suggest downloading the video from the Checkpoint Learning player to the desktop before projecting.
- **What Does It Mean to Be a CPE Sponsor?:** Should you decide to vary from any of the requirements in the 3 methods noted above (for example, provide less than 3 full CPE credits, alter subject areas, offer hybrid or variations to the methods described above), Checkpoint Learning Network will not be the sponsor and will not issue certificates. In this scenario, your firm will become the sponsor and must issue its own certificates of completion. This section outlines the sponsor's responsibilities that you must adhere to if you choose not to follow the requirements for the delivery methods.
- **Getting Help:** Refer to this section to get your questions answered.

IMPORTANT: This User Guide outlines in detail what is required for each of the 3 formats above. Additionally, because you will be delivering the training within your firm, you should review the Sponsor Responsibilities section as well. To get certificates of completion for your participants following your training, you must submit all the required documentation. (This is noted at the end of each section.) Checkpoint Learning Network will review your training documentation for completeness and adherence to all requirements. If all your materials are received and complete, certificates of completion will be issued for the participants attending your training. Failure to submit the required completed documentation will result in delays and/or denial of certificates.

IMPORTANT: If you vary from the instructions noted above, your firm will become the sponsor of the training event and you will have to create your own certificates of completions for your participants. In this case, you do not need to submit any documentation back to Thomson Reuters.

If you have any questions on this documentation or requirements, refer to the “Getting Help” section at the end of this User Guide **BEFORE** you conduct your training.

**We are happy that you chose CPE Network for your training solutions.
Thank you for your business and HAPPY LEARNING!**

Copyrighted Materials

CPE Network program materials are copyrighted and may not be reproduced in another document or manuscript in any form without the permission of the publisher. As a subscriber of the **CPE Network Series**, you may reproduce the necessary number of participant manuals needed to conduct your group study session.

“Group Live” Format

CPE Credit

All CPE Network products are developed and intended to be delivered as 3 CPE credits. You should allocate sufficient time in your delivery so that there is no less than 2.5 clock hours:

50 minutes per CPE credit TIMES 3 credits = 150 minutes = 2.5 clock hours

If you wish to have a break during your training session, you should increase the length of the training beyond 2.5 hours as necessary. For example, you may wish to schedule your training from 9 AM to 12 PM and provide a ½ hour break from 10:15 to 10:45.

***Effective November 1, 2018:** Checkpoint Learning CPE Network products ‘group live’ sessions must be delivered as 3 CPE credits and accredited to the field(s) of study as designated by Checkpoint Learning Network. Checkpoint Learning Network will not issue certificates for “group live” deliveries of less than 3 CPE credits (unless the course was delivered as 3 credits and there are partial credit exceptions (such as late arrivals and early departures). Therefore, if you decide to deliver the “group live” session with less than 3 CPE credits, your firm will be the sponsor as Checkpoint Learning Network will not issue certificates to your participants.

Advertising / Promotional Page

Create a promotion page (use the template after the executive summary of the transcript). You should circulate (e.g., email) to potential participants prior to training day. You will need to submit a copy of this page when you request certificates.

Monitoring Attendance

You must monitor individual participant attendance at “group live” programs to assign the correct number of CPE credits. A participant’s self-certification of attendance alone is not sufficient.

Use the **attendance sheet**. This lists the instructor(s) name and credentials, as well as the first and last name of each participant attending the seminar. The participant is expected to initial the sheet for their morning attendance and provide their signature for their afternoon attendance. If a participant arrives late, leaves early, or is a “no show,” the actual hours they attended should be documented on the sign-in sheet and will be reflected on the participant’s CPE certificate.

Real Time Instructor During Program Presentation

“Group live” programs must have a **qualified, real time instructor while the program is being presented**. Program participants must be able to interact with the instructor while the course is in progress (including the opportunity to ask questions and receive answers during the presentation).

Elements of Engagement

A “group live” program must include at least one element of engagement related to course content during each credit of CPE (for example, group discussion, polling questions, instructor-posed question with time for participant reflection, or use of a case study with different engagement elements throughout the program).

Make-Up Sessions

Individuals who are unable to attend the group study session may use the program materials for self-study either in print or online.

- If the print materials are used, the user should read the materials, watch the video, and answer the quizzer questions on the CPE Quizzer Answer Sheet. Send the answer sheet and course evaluation to the address listed on the answer sheet and the CPE certificate will be mailed or emailed to the user. Detailed instructions are provided on Network Program Self-Study Options.
- If the online materials are used, the user should log on to her/his individual Checkpoint Learning account to read the materials, watch the interviews, and answer the quizzer questions. The user will be able to print her/his/their CPE certificate upon completion of the quizzer. (If you need help setting up individual user accounts, please contact your firm administrator or customer service.)

Awarding CPE Certificates

The CPE certificate is the participant's record of attendance and is awarded by Checkpoint Learning Network after the "group live" documentation is received (and providing the course is delivered as 3 CPE credits). The certificate of completion will reflect the credit hours earned by the individual, with special calculation of credits for those who arrived late or left early.

Subscriber Survey Evaluation Forms

Use the evaluation form. You must include a means for evaluating quality. At the conclusion of the "group live" session, evaluations should be distributed and any that are completed are collected from participants. Those evaluations that are completed by participants should be returned to Checkpoint Learning Network along with the other course materials. While it is required that you circulate the evaluation form to all participants, it is NOT required that the participants fill it out. A preprinted evaluation form is included in the transcript each month for your convenience.

Retention of Records

Regardless of whether Checkpoint Learning Network is the sponsor for the "group live" session, it is required that the firm hosting the "group live" session retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (Group Study Attendance sheets; indicating any late arrivals and/or early departures)
- Copy of the program materials
- Timed agenda with topics covered and elements of engagement used
- Date and location of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name and credentials
- Results of program evaluations.

Finding the Transcript

Note: DVDs no longer ship with this product effective 3/1/2023.

When the DVD is inserted into a DVD drive, the video will immediately begin to play and the menu screen will pop up, taking the entire screen. Hitting the Esc key should minimize it to a smaller window. To locate the pdf file of the transcript either to save or email to others, go to the start button on the computer. In My Computer, open the drive with the DVD. The Adobe Acrobat files are the transcript files. If you do not currently have Adobe Acrobat Reader (Mac versions of the reader are also available), a free version of the reader may be downloaded at:

- <https://get.adobe.com/reader/>

The entire transcript is also available as a pdf in the Checkpoint Learning player in the resource toolbox at the top of the screen, or via the link in the email sent to administrators.

Requesting Participant CPE Certificates

When delivered as 3 CPE credits, documentation of your “group live” session should be sent to Checkpoint Learning Network by one of the following means:

Mail: Thomson Reuters
PO Box 115008
Carrollton, TX 75011-5008

Email: CPLgrading@tr.com

Fax: 888.286.9070

When sending your package to Thomson Reuters, you must include ALL of the following items:

Form Name	Included?	Notes
Advertising / Promotional Page		Complete this form and circulate to your audience before the training event.
Attendance Sheet		Use this form to track attendance during your training session.
Subscriber Survey Evaluation Form		Circulate the evaluation form at the end of your training session so that participants can review and comment on the training. Return to Thomson Reuters any evaluations that were completed. You do not have to return an evaluation for every participant.

Incomplete submissions will be returned to you.

“Group Internet Based” Format

CPE Credit

All CPE Network products are developed and intended to be delivered as 3 CPE credits. You should allocate sufficient time in your delivery so that there is no less than 2.5 clock hours:

50 minutes per CPE credit TIMES 3 credits = 150 minutes = 2.5 clock hours

If you wish to have a break during your training session, you should increase the length of the training beyond 2.5 hours as necessary. For example, you may wish to schedule your training from 9 AM to 12 PM and provide a ½ hour break from 10:15 to 10:45.

***Effective November 1, 2018:** Checkpoint Learning CPE Network products ‘group live’ sessions must be delivered as 3 CPE credits and accredited to the field(s) of study as designated by Checkpoint Learning Network. Checkpoint Learning Network will not issue certificates for “group live” deliveries of less than 3 CPE credits (unless the course was delivered as 3 credits and there are partial credit exceptions (such as late arrivals and early departures). Therefore, if you decide to deliver the “group live” session with less than 3 CPE credits, your firm will be the sponsor as Checkpoint Learning Network will not issue certificates to your participants.

Advertising / Promotional Page

Create a promotion page (use the template following the executive summary in the transcript). You should circulate (e.g., email) to potential participants prior to training day. You will need to submit a copy of this page when you request certificates.

Monitoring Attendance in a Webinar

You must monitor individual participant attendance at “group internet based” programs to assign the correct number of CPE credits. A participant’s self-certification of attendance alone is not sufficient.

Use the **Webinar Delivery Tracking Report**. This form lists the moderator(s) name and credentials, as well as the first and last name of each participant attending the seminar. During a webinar you must set up a monitoring mechanism (or polling mechanism) to periodically check the participants’ engagement throughout the delivery of the program.

In order for CPE credit to be granted, you must confirm the presence of each participant **3 times per CPE hour and the participant must reply to the polling question**. Participants that respond to less than 3 polling questions in a CPE hour will not be granted CPE credit. For example, if a participant only replies to 2 of the 3 polling questions in the first CPE hour, credit for the first CPE hour will not be granted. (Refer to the Webinar Delivery Tracking Report for examples.)

Examples of polling questions:

1. You are using **Zoom** for your webinar. The moderator pauses approximately every 15 minutes and ask that participants confirm their attendance by using the “raise hands” feature. Once the participants raise their hands, the moderator records the participants who have their hands up in the **webinar delivery tracking report** by putting a YES in the webinar delivery tracking report. After documenting in the spreadsheet, the instructor (or moderator) drops everyone’s hands and continues the training.
2. You are using **Teams** for your webinar. The moderator will pause approximately every 15 minutes and ask that participants confirm their attendance by typing “Present” into the Teams chat box. The moderator records the participants who have entered “Present” into the chat box into the **webinar delivery tracking report**. After documenting in the spreadsheet, the instructor (or moderator) continues the training.
3. If you are using an application that has a way to automatically send out polling questions to the participants, you can use that application/mechanism. However, following the event, you should create a **webinar delivery tracking report** from your app’s report.

Additional Notes on Monitoring Mechanisms:

1. The monitoring mechanism does not have to be “content specific.” Rather, the intention is to ensure that the remote participants are present and paying attention to the training.
2. You should only give a minute or so for each participant to reply to the prompt. If, after a minute, a participant does not reply to the prompt, you should put a NO in the webinar delivery tracking report.
3. While this process may seem unwieldy at first, it is a required element that sponsors must adhere to. And after some practice, it should not cause any significant disruption to the training session.
4. **You must include the Webinar Delivery Tracking report with your course submission if you are requesting certificates of completion for a “group internet based” delivery format.**

Real Time Moderator During Program Presentation

“Group internet based” programs must have a **qualified, real time moderator while the program is being presented**. Program participants must be able to interact with the moderator while the course is in progress (including the opportunity to ask questions and receive answers

during the presentation). This can be achieved via the webinar chat box, and/or by unmuting participants and allowing them to speak directly to the moderator.

Make-Up Sessions

Individuals who are unable to attend the “group internet based” session may use the program materials for self-study either in print or online.

- If print materials are used, the user should read the materials, watch the video, and answer the quizzer questions on the CPE Quizzer Answer Sheet. Send the answer sheet and course evaluation to the address listed on the answer sheet and the CPE certificate will be mailed or emailed to the user. Detailed instructions are provided on Network Program Self-Study Options.
- If the online materials are used, the user should log on to her/his individual Checkpoint Learning account to read the materials, watch the interviews, and answer the quizzer questions. The user will be able to print her/his CPE certificate upon completion of the quizzer. (If you need help setting up individual user accounts, please contact your firm administrator or customer service.)

Awarding CPE Certificates

The CPE certificate is the participant’s record of attendance and is awarded by Checkpoint Learning Network after the “group internet based” documentation is received (and providing the course is delivered as 3 CPE credits). The certificate of completion will reflect the credit hours earned by the individual, with special calculation of credits for those who may not have answered the required amount of polling questions.

Subscriber Survey Evaluation Forms

Use the evaluation form. You must include a means for evaluating quality. At the conclusion of the “group live” session, evaluations should be distributed and any that are completed are collected from participants. Those evaluations that are completed by participants should be returned to Checkpoint Learning Network along with the other course materials. While it is required that you circulate the evaluation form to all participants, it is NOT required that the participants fill it out. A preprinted evaluation form is included in the transcript each month for your convenience.

Retention of Records

Regardless of whether Checkpoint Learning Network is the sponsor for the “group internet based” session, it is required that the firm hosting the session retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (Webinar Delivery Tracking Report)
- Copy of the program materials
- Timed agenda with topics covered
- Date and location (which would be “virtual”) of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name and credentials
- Results of program evaluations

Finding the Transcript

Note: DVDs are no longer shipped effective 3/1/2023

When the DVD is inserted into a DVD drive, the video will immediately begin to play and the menu screen will pop up, taking the entire screen. Hitting the Esc key should minimize it to a smaller window. To locate the pdf file of the transcript either to save or email to others, go to the start button on the computer. In My Computer, open the drive with the DVD. It should look something like the screenshot below. The Adobe Acrobat files are the transcript files. If you do not currently have Adobe Acrobat Reader (Mac versions of the reader are also available), a free version of the reader may be downloaded at:

- <https://get.adobe.com/reader/>

Alternatively, for those without a DVD drive, the email sent to administrators each month has a link to the pdf for the newsletter. The email may be forwarded to participants who may download the materials or print them as needed.

Requesting Participant CPE Certificates

When delivered as 3 CPE credits, documentation of your “group internet based” session should be sent to Checkpoint Learning Network by one of the following means:

Mail: Thomson Reuters
PO Box 115008
Carrollton, TX 75011-5008

Email: CPLgrading@tr.com

Fax: 888.286.9070

When sending your package to Thomson Reuters, you must include ALL the following items:

Form Name	Included?	Notes
Advertising / Promotional Page		Complete this form and circulate to your audience before the training event.
Webinar Delivery Tracking Report		Use this form to track the attendance (i.e., polling questions) during your training webinar.
Evaluation Form		Circulate the evaluation form at the end of your training session so that participants can review and comment on the training. Return to Thomson Reuters any evaluations that were completed. You do not have to return an evaluation for every participant.

Incomplete submissions will be returned to you.

“Self-Study” Format

If you are unable to attend the live group study session, we offer two options for you to complete your Network Report program.

Self-Study—Print

Follow these simple steps to use the printed transcript and DVD:

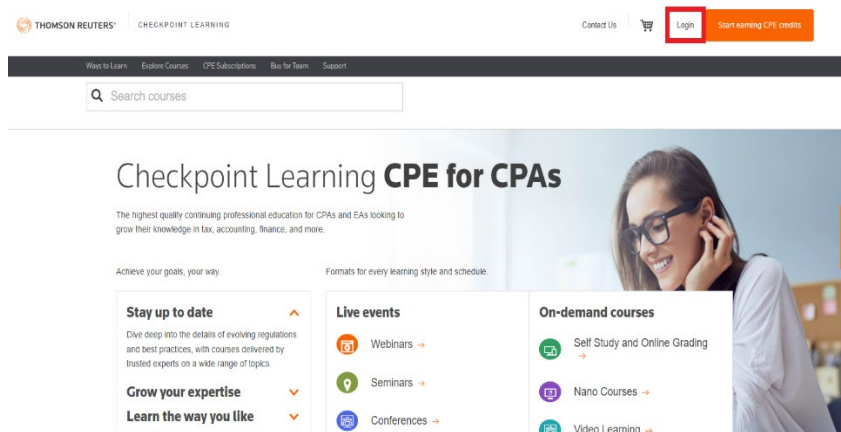
- Watch the DVD.
- Review the supplemental materials.
- Read the discussion problems and the suggested answers.
- Complete the quizzer by filling out the bubble sheet enclosed with the transcript package.
- Complete the survey. We welcome your feedback and suggestions for topics of interest to you.
- Mail your completed quizzer and survey to:

Thomson Reuters
PO Box 115008
Carrollton, TX 75011-5008

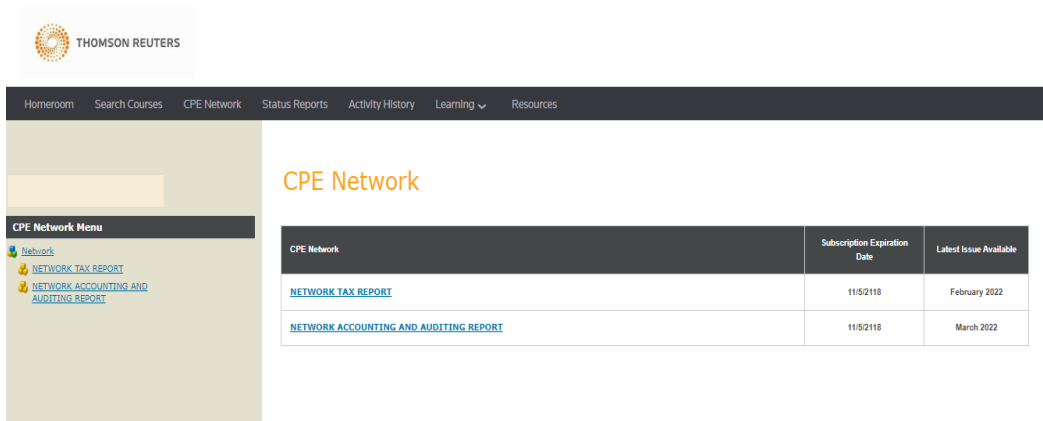
Self-Study—Online

Follow these simple steps to use the online program:

- Go to www.checkpointlearning.thomsonreuters.com.
- Log in using your username and password assigned by your firm’s administrator in the upper right-hand margin (“Login or Register”).

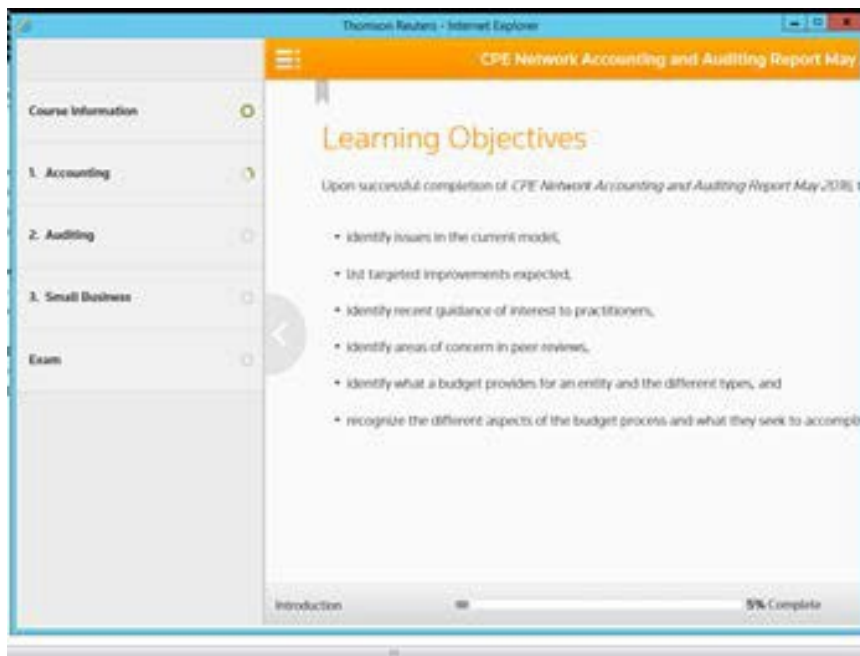


- In the **CPE Network** tab, select the desired Network Report and then the appropriate edition.



CPE Network	Subscription Expiration Date	Latest Issue Available
NETWORK TAX REPORT	11/5/2118	February 2022
NETWORK ACCOUNTING AND AUDITING REPORT	11/5/2118	March 2022

The Chapter Menu is in the gray bar at the left of your screen:



Thomson Reuters - Internet Explorer

CPE Network Accounting and Auditing Report May 2018

Learning Objectives

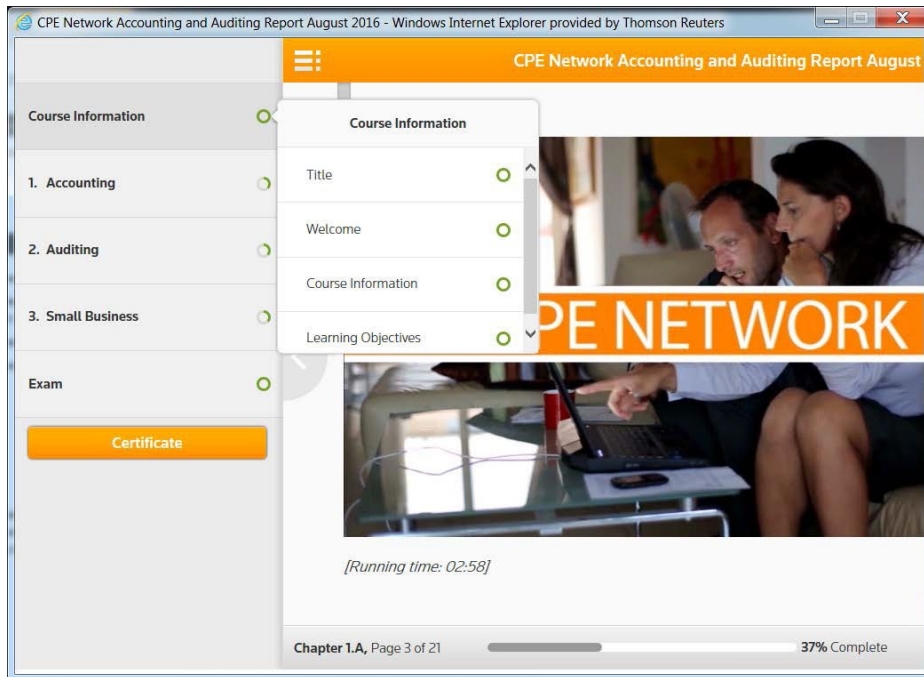
Upon successful completion of *CPE Network Accounting and Auditing Report May 2018*:

- identify issues in the current model;
- list targeted improvements expected;
- identify recent guidance of interest to practitioners;
- identify areas of concern in peer reviews;
- identify what a budget provides for an entity and the different types; and
- recognize the different aspects of the budget process and what they seek to accomplish

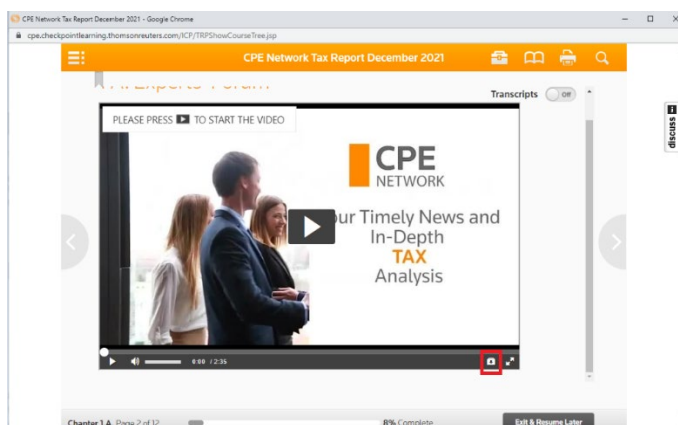
Introduction 5% Complete

Click down to access the dropdown menu and move between the program Chapters.

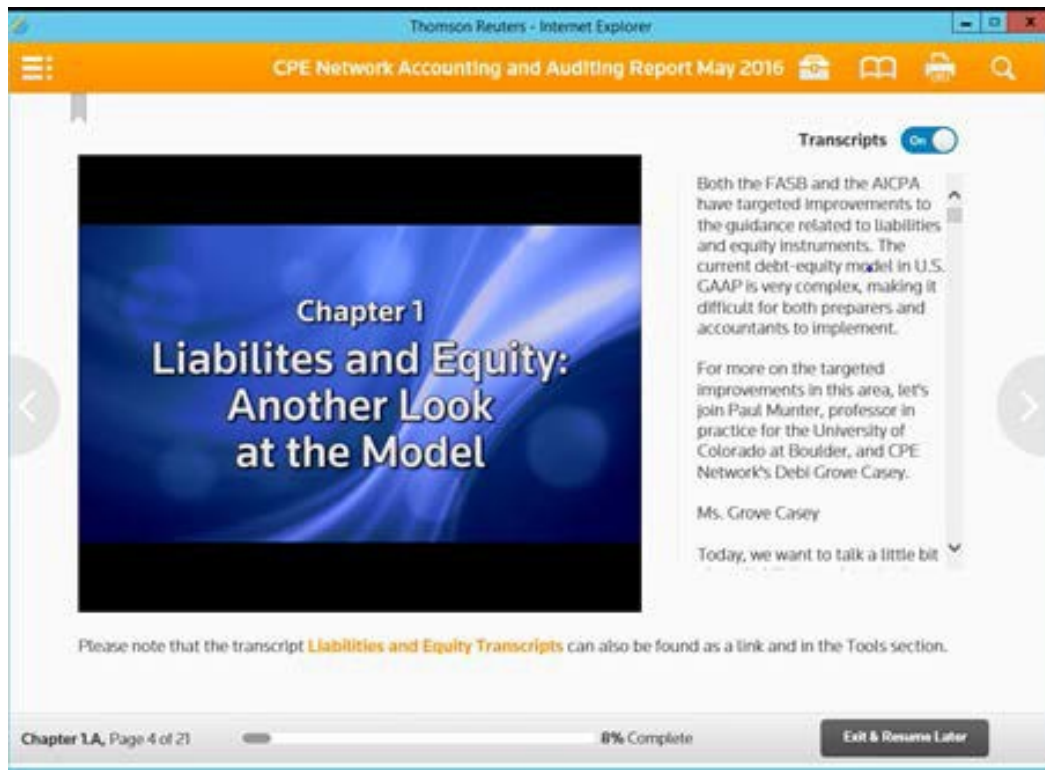
- **Course Information** is the course Overview, including information about the authors and the program learning objectives



- **Each Chapter is now self-contained.** Years ago, when on the CPEasy site, the interview segments were all together, then all the supplemental materials, etc. Today, each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the discussion questions. This more streamlined approach allows administrators and users to more easily access the related materials.



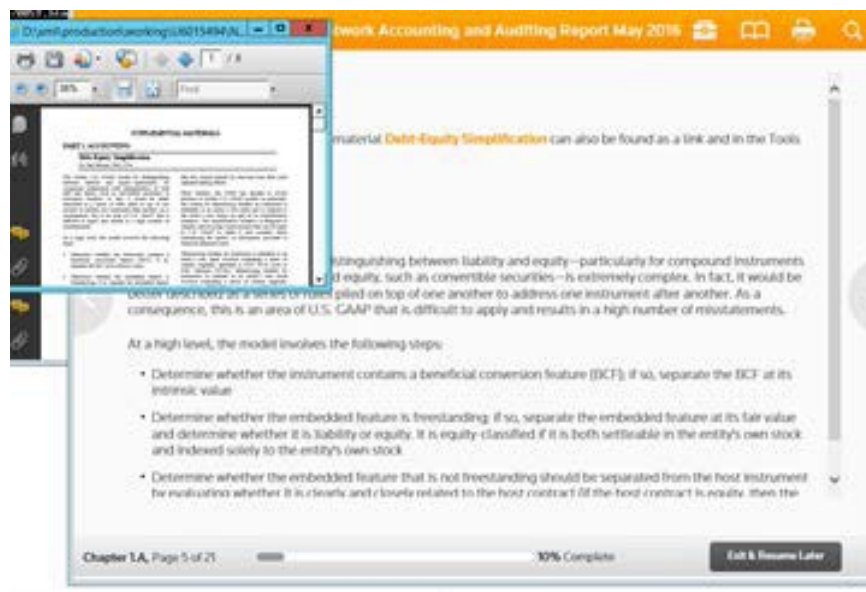
Video segments may be downloaded from the CPL player by clicking on the download button. Tip: you may need to scroll down to see the download button.



Transcripts for the interview segments can be viewed at the right side of the screen via a toggle button at the top labeled **Transcripts** or via the link to the pdf below the video (also available in the toolbox in the resources section). The pdf will appear in a separate pop-up window.



Click the arrow at the bottom of the video to play it, or click the arrow to the right side of the screen to advance to the supplemental material. As with the transcripts, the supplemental materials are also available via the toolbox and the link will pop up the pdf version in a separate window.



Continuing to click the arrow to the right side of the screen will bring the user to the Discussion problems related to the segment.

The Suggested Answers to the Discussion Problems follow the Discussion Problems.

The screenshot shows a web interface for the CPE Network Accounting and Auditing Report July 2016. The header is orange with a menu icon, title, and icons for a briefcase, book, printer, and search. The main content area is titled 'Suggested Answers to Discussion Problems'. It contains three numbered items: 1. ASC 320 requires that, at acquisition, an enterprise classify debt and marketable equity securities into one of three categories: Held-to-maturity, Trading, and Available-for-sale. An entity decides how to classify securities based on its intended holding period for each individual security, using the framework in ASC 320. In establishing its intent, an entity should consider relevant trends and experience, such as previous sales and transfers of securities. Classification decisions should be made at acquisition and, preferably, formally documented. It is not appropriate to use "hindsight" to classify securities transactions, perhaps by considering changes in value after acquisition. 2. The trading securities category includes securities that are bought and held principally for the purpose of selling them in the short term. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price. "Short-term," in this context, is intended to be measured in hours and days, rather than in months or years, according to ASC 320. However, an entity is not precluded from classifying as trading a security it plans to hold for a longer period, as long as that designation occurs at acquisition. 3. Impairment is recognized in earnings when a decline in value has occurred that is deemed to be other than temporary, and the current fair value becomes the new cost basis for the security. An investment is considered to be impaired if the fair value of the investment is less than its cost basis. Cost includes adjustments made for. The bottom of the screen shows 'Chapter 3.A, Page 20 of 20', a progress bar at 100% Complete, and an 'Exit & Resume Later' button.

Suggested Answers to Discussion Problems

1. ASC 320 requires that, at acquisition, an enterprise classify debt and marketable equity securities into one of three categories:
 - Held-to-maturity
 - Trading
 - Available-for-saleAn entity decides how to classify securities based on its intended holding period for each individual security, using the framework in ASC 320. In establishing its intent, an entity should consider relevant trends and experience, such as previous sales and transfers of securities. Classification decisions should be made at acquisition and, preferably, formally documented. It is not appropriate to use "hindsight" to classify securities transactions, perhaps by considering changes in value after acquisition.
2. The trading securities category includes securities that are bought and held principally for the purpose of selling them in the short term. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price. "Short-term," in this context, is intended to be measured in hours and days, rather than in months or years, according to ASC 320. However, an entity is not precluded from classifying as trading a security it plans to hold for a longer period, as long as that designation occurs at acquisition.
3. Impairment is recognized in earnings when a decline in value has occurred that is deemed to be other than temporary, and the current fair value becomes the new cost basis for the security. An investment is considered to be impaired if the fair value of the investment is less than its cost basis. Cost includes adjustments made for

Chapter 3.A, Page 20 of 20 100% Complete Exit & Resume Later

The **Exam** is accessed by clicking the last gray bar on the menu at the left of the screen or clicking through to it. Click the orange button to begin.

When you have completed the quizzer, click the button labeled **Grade** or the **Review** button.

The screenshot shows a web interface for the CPE Network Accounting and Auditing Report June 2016. The header is orange with a menu icon, title, and icons for a briefcase, book, printer, and search. The main content area is titled 'Course Exams Completed'. It contains the text: 'You have completed the exam for this course. Please choose your next course of action by selecting on one of the buttons below.' There are two orange buttons: 'Review My Answers' and 'Grade My Answers'. Below the 'Grade My Answers' button, it says: '"Grade My Answers" will result in providing you with a final score for this course.' The bottom of the screen shows 'Course, Completed', a progress bar at 100% Complete, and an 'Exit & Resume Later' button.

Course Exams Completed

You have completed the exam for this course.

Please choose your next course of action by selecting on one of the buttons below.

"Review My Answers" will take you back through exam, giving you the opportunity to make changes.

Review My Answers

"Grade My Answers" will result in providing you with a final score for this course.

Grade My Answers

Course, Completed 100% Complete Exit & Resume Later

- Click the button labeled **Certificate** to print your CPE certificate.
- The final quizzer grade is displayed and you may view the graded answers by clicking the button labeled **view graded answer**.

Additional Features Search

Checkpoint Learning offers powerful search options. Click the **magnifying glass** at the upper right of the screen to begin your search. Enter your choice in the **Search For:** box.

Search Results are displayed with the number of hits.

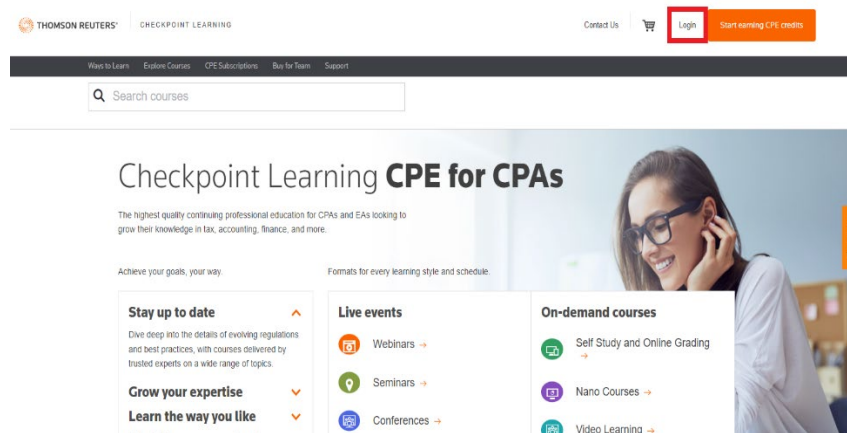
Print

To display the print menu, click the printer icon in the upper bar of your screen. You can print the entire course, the transcript, the glossary, all resources, or selected portions of the course. Click your choice and click the orange **Print**.

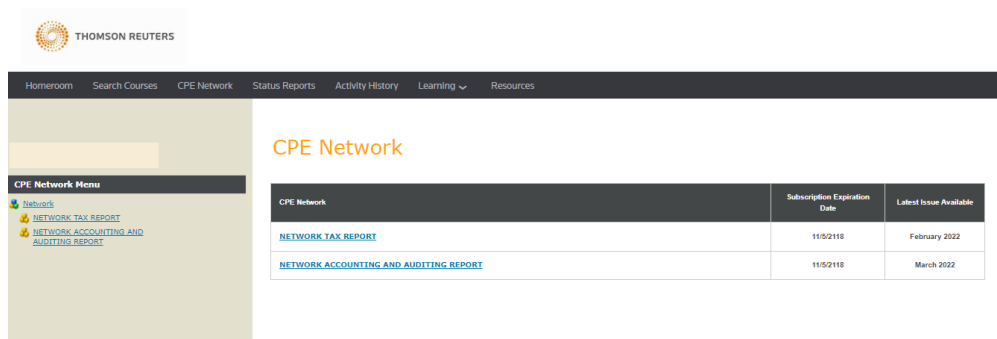
Transitioning From DVDs

Follow these simple steps to access the video and pdf for download from the online platform:

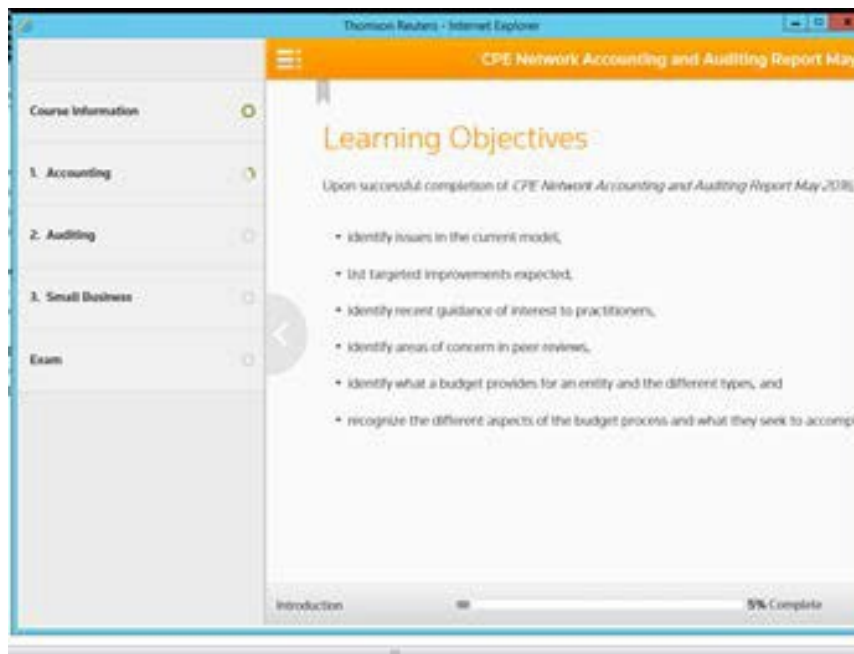
- Go to www.checkpointlearning.thomsonreuters.com .
- Log in using your username and password assigned by your firm’s administrator in the upper right-hand margin (“Login”).



- In the CPE **Network** tab, select the desired Network Report by clicking on the title, then select the appropriate edition.

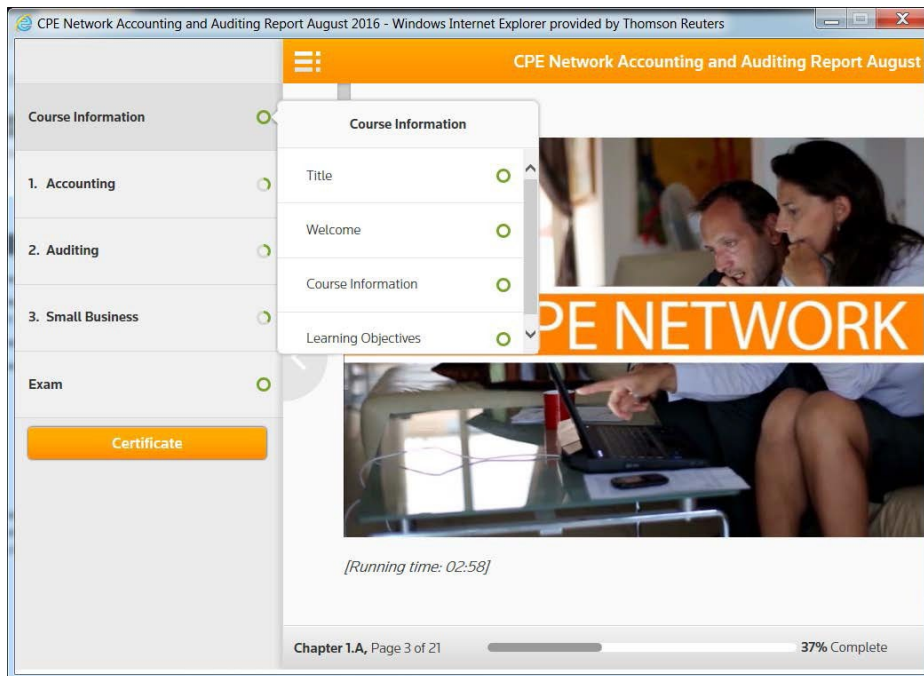


The Chapter Menu is in the gray bar at the left of your screen:

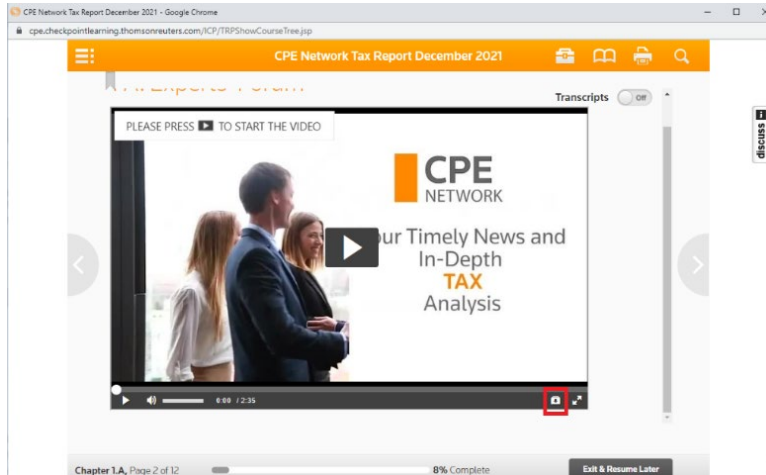


Click down to access the dropdown menu and move between the program Chapters.

- **Course Information** is the course Overview, including information about the authors and the program learning objectives



- Each Chapter is self-contained. Each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the discussion questions.



Video segments may be downloaded from the CPL player by clicking on the download button noted above. You may need to use the scroll bar to the right of the video to see the download button. **Tip: You may need to use the scroll bar to the right of the video to see the download button.**

PDFs may be downloaded from either the course toolbox in the upper right corner of the Checkpoint Learning screen or from the email sent by CPENetworkgroupstudy.

What Does It Mean to Be a CPE Sponsor?

If your organization chooses to vary from the instructions outlined in this User Guide, your firm will become the CPE Sponsor for this monthly series. The sponsor rules and requirements noted below are only highlights and reflect those of NASBA, the national body that sets guidance for development, presentation, and documentation for CPE programs. **For any specific questions about state sponsor requirements, please contact your state board. They are the final authority regarding CPE Sponsor requirements.** Generally, the following responsibilities are required of the sponsor:

- Arrange for a location for the presentation
- Advertise the course to your anticipated participants and disclose significant features of the program in advance
- Set the start time
- Establish participant sign-in procedures
- Coordinate audio-visual requirements with the facilitator
- Arrange appropriate breaks
- Have a real-time instructor during program presentation
- Ensure that the instructor delivers and documents elements of engagement
- Monitor participant attendance (make notations of late arrivals, early departures, and “no shows”)
- Solicit course evaluations from participants
- Award CPE credit and issue certificates of completion
- Retain records for five years

The following information includes instructions and generic forms to assist you in fulfilling your responsibilities as program sponsor.

CPE Sponsor Requirements

Determining CPE Credit Increments

Sponsored seminars are measured by program length, with one 50-minute period equal to one CPE credit. One-half CPE credit increments (equal to 25 minutes) are permitted after the first credit has been earned. Sponsors must monitor the program length and the participants' attendance in order to award the appropriate number of CPE credits.

Program Presentation

CPE program sponsors must provide descriptive materials that enable CPAs to assess the appropriateness of learning activities. CPE program sponsors must make the following information available in advance:

- Learning objectives.
- Instructional delivery methods.
- Recommended CPE credit and recommended field of study.
- Prerequisites.
- Program level.
- Advance preparation.
- Program description.
- Course registration and, where applicable, attendance requirements.
- Refund policy for courses sold for a fee/cancellation policy.
- Complaint resolution policy.
- Official NASBA sponsor statement, if an approved NASBA sponsor (explaining final authority of acceptance of CPE credits).

Disclose Significant Features of Program in Advance

For potential participants to effectively plan their CPE, the program sponsor must disclose the significant features of the program in advance (e.g., through the use of brochures, website, electronic notices, invitations, direct mail, or other announcements). When CPE programs are offered in conjunction with non-educational activities, or when several CPE programs are offered concurrently, participants must receive an appropriate schedule of events indicating those components that are recommended for CPE credit. The CPE program sponsor's registration and attendance policies and procedures must be formalized, published, and made available to participants and include refund/cancellation policies as well as complaint resolution policies.

Monitor Attendance

While it is the participant's responsibility to report the appropriate number of credits earned, CPE program sponsors must maintain a process to monitor individual attendance at group programs to assign the correct number of CPE credits. A participant's self-certification of attendance alone is not sufficient. The sign-in sheet should list the names of each instructor and her/his credentials, as well as the name of each participant attending the seminar. The participant is expected to initial the sheet for their morning attendance and provide their signature for their afternoon attendance. If a participant leaves early, the hours they attended should be documented on the sign-in sheet and on the participant's CPE certificate.

Real Time Instructor During Program Presentation

“Group live” programs must have a qualified, real time instructor while the program is being presented. Program participants must be able to interact with the real time instructor while the course is in progress (including the opportunity to ask questions and receive answers during the presentation).

Elements of Engagement

A “group live” program must include at least one element of engagement related to course content during each credit of CPE (for example, group discussion, polling questions, instructor-posed question with time for participant reflection, or use of a case study with different engagement elements throughout the program).

Awarding CPE Certificates

The CPE certificate is the participant’s record of attendance and is awarded at the conclusion of the seminar. It should reflect the credit hours earned by the individual, with special calculation of credits for those who arrived late or left early. Attached is a sample *Certificate of Attendance* you may use for your convenience.

CFP credit is available if the firm registers with the CFP board as a sponsor and meets the CFP board requirements. IRS credit is available only if the firm registers with the IRS as a sponsor and satisfies their requirements.

Seminar Quality Evaluations for Firm Sponsor

NASBA requires the seminar to include a means for evaluating quality. At the seminar conclusion, evaluations should be solicited from participants and retained by the sponsor for five years. The following statements are required on the evaluation and are used to determine whether:

1. Stated learning objectives were met.
2. Prerequisite requirements were appropriate.
3. Program materials were accurate.
4. Program materials were relevant and contributed to the achievement of the learning objectives.
5. Time allotted to the learning activity was appropriate.
6. Individual instructors were effective.
7. Facilities and/or technological equipment were appropriate.
8. Handout or advance preparation materials were satisfactory.
9. Audio and video materials were effective.

You may use the enclosed preprinted evaluation forms for your convenience.

Retention of Records

The seminar sponsor is required to retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (the original sign-in sheets, now in an editable, electronic signable format)
- Copy of the program materials
- Timed agenda with topics covered and elements of engagement used
- Date and location of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name(s) and credentials
- Results of program evaluations

Appendix: Forms

Here are the forms noted above and how to get access to them.

Delivery Method	Form Name	Location	Notes
"Group Live" / "Group Internet Based"	Advertising / Promotional Page	Transcript	Complete this form and circulate to your audience before the training event.
"Group Live"	Attendance Sheet	Transcript	Use this form to track attendance during your training session.
"Group Internet Based"	Webinar Delivery Tracking Report	Transcript	Use this form to track the 'polling questions' which are required to monitor attendance during your webinar.
"Group Live" / "Group Internet Based"	Evaluation Form	Transcript	Circulate the evaluation form at the end of your training session so that participants can review and comment on the training.
Self Study	CPE Quizzer Answer Sheet	Transcript	Use this form to record your answers to the quiz.

Getting Help

Should you need support or assistance with your account, please see below:

Support Group	Phone Number	Email Address	Typical Issues/Questions
Technical Support	800.431.9025 (follow option prompts)	checkpointlearning.techsupport@thomsonreuters.com	<ul style="list-style-type: none">• Browser-based• Certificate discrepancies• Accessing courses• Migration questions• Feed issues
Product Support	800.431.9025 (follow option prompts)	checkpointlearning.productsupport@thomsonreuters.com	<ul style="list-style-type: none">• Functionality (how to use, where to find)• Content questions• Login Assistance
Customer Support	800.431.9025 (follow option prompts)	checkpointlearning.cpecustomerservice@thomsonreuters.com	<ul style="list-style-type: none">• Billing• Existing orders• Cancellations• Webinars• Certificates