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CPE NETWORK
ACCOUNTING & AUDITING REPORT

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Topics for future editions may include:

- NFP Reporting
- Preparing for Quality Management Standards

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EXECUTIVE SUMMARY

PART 1. ACCOUNTING

A. IFRS Sustainability Standards........................3

Jennifer Louis, CPA reviews two recent standards issued by the ISSB on sustainability. [*Running time: 29:40*]

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

- Identify the overall goal of the ISSB
- Determine if the IFRS S1 and IFRS S2 are authoritative
- Define the value chain principle
- Define upstream and downstream activities
- Identify Scope 1, 2, and 3 GHG emissions

B. SEC Cybersecurity Disclosures.....................10

Jennifer Louis, CPA considers recent disclosures required by the SEC as related to cybersecurity incidents. *[Running time: 28:17]*

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

- Define cybersecurity threats and incidents
- Identify where a material cybersecurity incident would be disclosed
- Identify when registrants must file Form 8-K related to a cybersecurity incident
- Identify the disclosures needed related to a cybersecurity incident

PART 2. AUDITING

Compilation Reporting...36

Kurt Oestriecher, CPA, discusses compilation engagements and the reporting on them. He considers the required elements of the standard report as well as common reporting issues. *[Running time: 35:06]*

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

- Determine what guidance to follow in performing compilation engagements
- Identify the appropriate dates and language of a compilation report
- Identify how a lack of independence should be reported in a compilation engagement
- Determine how a compilation report is impacted by the use of a special purpose framework

ABOUT THE SPEAKERS

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 Oestriecher, CPA, is a CPA and partner with the accounting firm of Oestriecher 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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EXPERT ANALYSIS AND COMMENTARY

PART 1. ACCOUNTING

A. IFRS Sustainability Disclosures

The International Sustainability Standards Board was established by the International Financial Reporting Standards Foundation. The Board was created to develop and issue baseline global sustainability reporting standards to bring some cohesiveness to the current fragmented situation that adds to the cost, complexity, and risk to entities and investors that results from multiple sets of standards and requirements. The Board issued its first two standards on the general requirements and climate-related disclosures.

For more on sustainability disclosures, 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 a couple of International Financial Reporting Standards, and those are related to sustainability and climate-related disclosures. To begin with, why did the IFRS decide to undertake this initiative?

Ms. Louis

Well, the IFRS, the International Financial Reporting Standards Foundation, established the International Sustainability Standards Board. If we talk about ISSB, it's the Sustainability Standards Board itself. The goal was to look at some standards or requirements to see where it is that we can try to mandate (hopefully, in some cases, voluntarily) to have some sort of comprehensive, global baseline for doing your sustainability reporting. The goal is to have it be more consistent, comparable, and of higher quality, and it's all around designing it to meet the needs of investors and other resource providers, as well.

Ms. Grove Casey

What's the general objective of each of the two IFRS standards?

Ms. Louis

They created IFRS S1 and IFRS S2, with the first one being more general requirements as we look at sustainability-related financial information. It's the core that they're going to be building from as they look at material information around risks and opportunities associated with sustainability across the entity's value chain. Then, the other one is more focused as a theme on climate-related matters, looking at climate-related risks and opportunities as a subset of this bigger goal of sustainability.

Ms. Grove Casey

What was the primary basis from which these standards were created?

Ms. Louis

They looked at some pre-existing standards within the Task Force on Climate-Related Financial Disclosures. (If you see "TCFD," it's that particular framework.) They created within that framework some pillars that they functioned around, one of them being governance, another one being strategy, a third pillar being risk management, and the fourth pillar being metrics and targets. This framework for TCFD is something that already either was required or voluntarily used in some regions across the world, and they felt that this is something that people would be more familiar with if they started with [a framework] that was pre-existing, and then, built out from it.

Ms. Grove Casey

Are these standards automatically deemed to be authoritative?

Ms. Louis

It's interesting because they aren't authoritative in and of themselves. We have this standard-setting board that says, "Here's what we're recommending." It can't be something that we can enforce on others, though. What needs to happen to become what you would call "authoritative" is that these standards would need to be adopted by local exchanges or regulators in order to be mandatory in a given region. Now, there are several organizations that have already announced that they intend to make these authoritative, but in the meantime it's something that can be voluntarily applied even if an entity doesn't apply IFRS (International Financial Reporting Standards). While it's related to the IFRS Foundation that helped create the Sustainability Standards Board, you don't have to be using IFRS as your applicable financial reporting framework in order to apply these sustainability standards. So, it would be something that over the course of time somebody from a law or regulatory point of view might say, "Hey, we're going to mandate that you use these standards." In other cases, it's just there as an option to have some suitable objective criteria to use as guidelines as you're doing things on your own.

Ms. Grove Casey

So, let's talk about the effective date. When is it effective?

Ms. Louis

Both IFRS S1 and S2 are effective for annual reporting periods that would be beginning on or after January 1, 2024, with early adoption also permitted. Entities are permitted to just report the requirements of IFRS S1, only to the extent that they relate to the disclosure of climate-related information in the first year of adoption. In essence, there is information that's required by IFRS S2 that you may not have accessibility to some of the details yet. What they're trying to do is to allow entities time to build the capacity necessary in order to have complete, comparable, and verifiable sustainability financial disclosures. So, some limitations [apply] in what you would disclose about climate-related information in the first year of adoption.

Ms. Grove Casey

I know we're seeing other regulators who are also taking a closer look at sustainability disclosures and what they would like the entities that are on those exchanges to report. So, let's dig a little deeper into IFRS S1 and talk about what some of the core principles are that underlie this standard.

Ms. Louis

I think it's really important to keep in mind that there is a sense of thinking about both risks, as well as opportunities, that relate to sustainability. It's also focused on giving useful information to the primary users of general purpose financial reporting. What would help people make better decisions related to providing resources to the entity? We're talking about investors, potential investors, lenders, and creditors as your audience. Who are the primary users of your general purpose financial reporting, and what would be useful to them in making decisions?

So, it is important for those providers to understand the resources that an organization relies on, and the relationships that exist along its value chain. They are trying to figure out how it affects operations and whether it has a direct or indirect effect on an entity's ability to generate cash flow in different time periods. They talk about short, medium, and long term as the analyses that an entity is trying to provide.

Ms. Grove Casey

Let's talk a little bit more about this *value chain* principle. What does that mean?

Ms. Louis

They're looking at close relationships between an entity's ability to create value for itself, and also, how it creates or preserves (or sometimes erodes) value for other parties. An example that they give related to that is associated with the pesticides used to protect an entity's crops. How that affects, ultimately, their ability to generate the crops, but also, how it could negatively affect the surrounding bee populations that are responsible for pollinating the crops. So, as we think about my ability to sell my crops, they would say there is a linkage to the health of the bee population. If pesticides that you're using inadvertently kill the bee population, your crops won't be pollinated and, therefore, the use of pesticides today might affect an entity's ability to sell the crops in the future. You need to consider, in your value chain, how you're helping to preserve the health of the bee population, as well.

IFRS S1 is focusing on, really, two steps as we think about these matters. It's trying to say, what could affect our ability to assess the risks that we face, and the opportunities we can leverage, in the short, medium, and long term? What are those risks and opportunities? Then, decide what disclosures would be useful to provide related to those risks and opportunities. So, it's not that you have to disclose all of your risks and opportunities, but we do need to figure out what would be considered material, and what would be important, useful information to those primary users of the general purpose financial statements.

Ms. Grove Casey

I've heard about the Sustainability Accounting Standards Board, the SASB, and that it had created standards. How do those relate to these IFRS standards?

Ms. Louis

Well, the Sustainability Accounting Standards Board is also focused on creating guidelines, benchmarks, and metrics that are more industry-based. If I'm in commercial banking, or I'm in oil and gas, there may be things that are appropriate for an industry to disclose in conformance with these SASB standards. There might be something that's also relevant to disclose in accordance with these IFRS sustainability standards.

When you look at the IFRS S1, it says that an entity "shall…." With "shall," there's a presumption that you would refer to and consider the disclosure topics in these SASB standards when you are trying to identify what are the sustainability-related risks and opportunities that we potentially need to discuss. You may decide that some of the disclosure topics that are included in these SASB standards are not applicable to my circumstances, or you may decide that they are. But what they're doing is saying you can't just simply disregard these standards. You should clearly document how it is that you took these standards into consideration as you are complying with this broader, general principle of identifying sustainability-related risks and opportunities.

Ms. Grove Casey

Are there any other standards that the entity may find itself referring to besides the ones we've already talked about?

Ms. Louis

There may be. As we think about these matters, ultimately, you need to apply judgment in identifying information that you feel faithfully represents a specific risk or opportunity that's relevant to your decision makers. In making this judgment, you need to look to see if there are other standards that do not conflict with what the IFRS Sustainability Disclosure Standards say to do. There are standards out there, like the European Sustainability Reporting Standards or the Global Reporting Initiative Standards. These things might assist an entity in meeting its objectives with IFRS S1.

They are not getting into naming specific frameworks or standards because we are looking at applying this principle on a global basis. You need to look within your own region. What are the pronouncements, the requirements, or the regulations that exist in your geographic region? Also, what's out there for your given industry that can be used as a tool?

Ms. Grove Casey

How would an entity determine what is considered to be reasonable and supportable information? Because we get asked to do that quite a bit.

Ms. Louis

Right, and as they're trying to say what disclosures are reasonable and what's supportable, they want there to be a fair presentation, a fair reflection, of these circumstances. You're not required to do an exhaustive search to identify your sustainability-related risks and opportunities, but you do need to do something that's considered to be fair. What's reasonable and supportable information, looking at the general conditions of your environment and the entity-specific facts?

So, you would need to make sure that you're considering internal sources of information and external sources of information as you look at your own entity's risk management process, industry, and peer group. Also, there would be external ratings report statistics in your environment that you would look for to say what's useful. Where [should I apply], cost-benefit wise, the effort that I'm expected to expend in obtaining this information in order to support my disclosures?

Ms. Grove Casey

How is materiality assessed as it relates to these disclosures?

Ms. Louis

Well, in looking at materiality, we have to consider, would it reasonably be expected to affect an entity's prospects? I need to think about, in the end, as we focus on materiality, that the materiality concept is consistent with what's in the definition of materiality for International Financial Reporting Standards. Information is material if omitting it, misstating it, or obscuring it could reasonably be expected to influence the decisions that primary users are making based on that information. As with all IFRS reporting standards, I'm not required to disclose things that are deemed to be immaterial, even if it's something that's a required disclosure. If it's not material, I still don't have to disclose it. There's always the sense of materiality that would apply to any set of principles that you're looking to comply with.

Ms. Grove Casey

You mentioned fair presentation a little while ago. Is fair presentation a concept that's relevant to these disclosures?

Ms. Louis

It is, in the fact that they want the information to be complete, they want it to be neutral, and they want it to be accurate as you're depicting these risks and opportunities that you are trying to provide information about. There may be additional information that you need to put in place because what is required by the standards really is not sufficient to help primary users make decisions.

Fair presentation is always that you're looking at what's required, but also, looking at what would be useful. What would be complete, accurate, and neutral information that I need to consider putting into these disclosures that sometimes requires me to go above and beyond the minimum? So, the key is, disclosures that sometimes are required might not be material and I can omit them, and sometimes, there's information that I need to add above what is required in order to have fair presentation.

Ms. Grove Casey

How is the reporting entity defined for these disclosures? We talked about the value chain principle.

Ms. Louis

In essence, you look to see what are the same reporting boundaries that I use for my financial reporting purposes. So, if I have a situation where an entity is a parent of a group of companies and I'm required to prepare consolidated financial statements in accordance with IFRS, then the consolidated financial statements now become what I would provide my sustainability-related financial disclosures on. I think about the same basis.

If I'm required to separately provide information as it relates to risks and opportunities, though, we also think about the whole value chain. There is the reporting entity, but that reporting entity needs to think about the entire value chain [when considering] the full range of activities, resources, and relationships that they rely on to create products and services from beginning to end. This includes upstream and downstream activities that affect my business model and that affect my value chain.

Ms. Grove Casey

How do they define *upstream* or *downstream activities*?

Ms. Louis

Well, the IFRS Sustainability Disclosure Standards [consider] upstream activities generally to include the activities of those other than the entity. It relates to the initial stages of the production of my goods and services. It's sourcing my supplies and my materials, so it is related to my vendors and my suppliers—the things that are coming into my organization from somewhere else.

Downstream activities are going to be the things *after* my inputs, as we look at selling my products and the use of those products. It's also thinking about how others might process my products sold, as I may be a material supplier [and my products are] not necessarily a finished good. So, those [activities] relate to things that happen after I do my major function of my organization. Upstream and downstream activities can affect my entire value chain.

Ms. Grove Casey

How are the disclosures related to the financial statements?

Ms. Louis

When we think about the financial statements, I need to make sure that the data and assumptions that I'm using for my sustainability-reporting purposes is also data and assumptions that would affect the preparation and fair presentation of my financial statements. There may be cases and scenarios where things should match. If I'm making some assumptions about the number of units of a product that I'm expected to produce (as I think about scenario analysis for sustainability reporting), and I'm also looking at financial reporting and impairment (say, of long-lived assets that I'm holding and using in operations), the same projected number of units that I'm expected to produce to make that impairment assessment should match. There should be consistency in that.

In other cases, it may be prudent or reasonable that I might have different assumptions because there may be limitations in GAAP and what I'm allowed to consider when I talk about IFRS or GAAP-basis financials, compared to what I can consider for my sustainability. For example, expected future improvements in an asset might be something that I could consider for sustainability reporting, but future enhancements or improvements to an asset may be precluded from being considered in my financial reporting.

Ms. Grove Casey

You mentioned that there are four pillars on which the IFRS standards are built. Let's talk a little bit more about the governance pillar.

Ms. Louis

When we think about the governance perspective, it is focusing on understanding the governance processes, controls, and procedures that relate to the governing body, but also, individuals that are responsible for oversight of these sustainability risks and opportunities. So, it's not just governance, it's anybody else that's responsible for oversight, and the role that they have in those processes.

Ms. Grove Casey

Let's talk a little bit more about the nature of the strategy pillar.

Ms. Louis

The strategy pillar is going to include disclosures such as qualitative and quantitative information about our current and anticipated financial effects of these sustainability-related risks and opportunities. It's going to be things related to our strategy and decision-making. It's also going to make that direct linkage on how these things would affect my financial position, my financial performance, and my cash flows. It's trying to tie those things together as we're looking at what is going to help enable our primary users to make better decisions.

Ms. Grove Casey

These next two, I think, are near and dear to most accountants' hearts. Let's talk about the first one, which is risk management.

Ms. Louis

Risk management disclosures are going to be how we identify, assess, prioritize, and monitor these risks and opportunities. What are the specific processes that are integrated into our overall enterprise-wide risk management process? Are we using scenario analysis? How do I use scenario analysis? What's the nature, the likelihood, and the magnitude of these related risks? We need to make sure that we have this specific process, and also, how this process might evolve and change from reporting period to reporting period is important to know.

Ms. Grove Casey

The final pillar that we want to talk about relates to metrics and targets which, like I said, is close to every accountant's heart. It's the numbers.

Ms. Louis

Keep in mind that it is going to be things that we've identified and assessed as being material, and that is going to be [relevant] as we focus on specific metrics and targets. How can we show that we're achieving our goals? How can we show that we've achieved interim targets or milestones? How can we show trends or changes in our performance as we're trying to communicate our actual outcomes?

Ms. Grove Casey

Is there anything else that we should know about how these disclosures relate to the general purpose financial statements?

Ms. Louis

Well, it is important [to know] that they want your disclosures to align with when you're reporting your financial information. So, when we look at the reporting period, it needs to be the same reporting period as what you're using for your financial reporting purposes.

Ms. Grove Casey

Are there any affirmative statements that must be made by the reporting entity related to compliance with these standards?

Ms. Louis

There are, and just like with IFRS where you make this explicit, unreserved statement, "I've complied with IFRS," you would have a same explicit, unreserved statement that "I've complied with the requirements of the IFRS Sustainability Disclosure Standards," and you can only make that statement if you have. Now, there are going to be some exceptions to the rule (when you've got limitations with laws and regulations that could be a factor) that are discussed within these disclosure standards. But, generally, it's the goal that we can all meet that explicit, unreserved ability to make that compliance statement.

Ms. Grove Casey

Let's talk a little bit more about IFRS S2 disclosures.

Ms. Louis

As we mentioned, those are very specific to your climate-related disclosures. You're going to follow a lot of the same principles that you have in consistency with IFRS S1, but it is focusing on physical risks that result from climate change, like weather-related events, shifts in climate patterns, sea levels, and temperature. Also, there are other risks that relate to policy, technology, reputation, and there are climate-related transition risks as we transition to, say, a lower-carbon economy, that would be within the scope of these particular types of disclosures.

Ms. Grove Casey

Does IFRS S2 require the same four pillars that are required with IFRS S1?

Ms. Louis

They would. So, if we talk about governance, strategy, risk management, and metrics and targets, you're going to use the same four pillars, but you're going to adapt them and align them to be specific—to be focused on climate and climate-related scenarios, specifically.

Ms. Grove Casey

Let's talk about some examples of cross-industry metric categories included in IFRS S2.

Ms. Louis

Well, there are, in essence, seven cross-industry metric categories that IFRS S2 did discuss. Things like greenhouse gas (GHG) emissions where you're looking at measuring those emissions in accordance with the GHG Protocol Corporate Standard (unless there is a jurisdictional authority that uses a different method). So, they are putting forth that there are certain things that they believe would cross industries. Not just industry-specific things, but across industries, you should talk about your climate-related physical risk, your climate-related transition risk, your GHG emissions, and other things, as well. Those would be broad-based categories that you should focus on.

Ms. Grove Casey

I think the GHG emission disclosures are probably some of the most controversial. What's the nature of these disclosures?

Ms. Louis

They are the most controversial because of the fact that there are scope 1, scope 2, and scope 3 emissions that we are required to provide. Now, there is some transition relief that is provided in these areas, but as we have this information available we need to provide information about: [scope 1 emissions] that we can directly control (because we own it or we control it), like the furnaces in our factories; [scope 2 emissions] that occur from the generation of purchased resources that we have, like purchasing electricity, heat, and steam; then, [scope 3 emissions] that occur in the upstream and downstream activities in our value chain, like our employees commuting to work.

Ultimately, in scope 3, the upstream and downstream [emissions], there are 15 categories that they've created. Related to these categories, how could they apply to my entity? What are some illustrative examples related to scope 3? These different types of disclosures are, hopefully, going to be enhanced and become more useful over the course of time.

B. SEC Cybersecurity Disclosures

The Securities and Exchange Commission is adopting new rules to enhance and standardize disclosures regarding cybersecurity risk management, strategy, governance, and incidents by public companies. Specifically, they are adopting amendments to require disclosure about material cybersecurity incidents. They are also adopting rules requiring periodic disclosures about a registrant's processes to assess, identify, and manage material cybersecurity risks, management's role in assessing and managing material cybersecurity risks, and the board of directors' oversight of cybersecurity risks.

For more on new SEC cybersecurity disclosures, 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 a little bit about the SEC's cybersecurity disclosure rules [*Cybersecurity, Risk Management, Strategy, Governance, and Incident Disclosure*]. They are relatively new rules, so, to begin with, let's talk a little bit about what the purpose of those new rules are.

Ms. Louis

In looking at these rules, they're meant to enhance but also standardize the disclosures that an organization might make related to their cybersecurity risk management, their strategy, their governance, but also any incidents that you might have had.

The goal is to focus on material incidents and to focus on the disclosures that registrants have to make as we think about letting people know about this useful information. It also [gives] some guidelines around how to present that information as we think about XBRL and the eXtensible business reporting language that you provide this information in.

Ms. Grove Casey

Weren't SEC registrants already providing some of this information?

Ms. Louis

Well, they were as we thought about typically where we might put things, like in my Form 10-K, but what the SEC staff found as they were reviewing these filings is that there were large variations in the specifics that were provided related to the cause, the scope, or the impact of cybersecurity incidents that might have been disclosed. They felt as if there needed to be more consistency for investors to know where to go locate information that they're looking for associated with these matters.

Ms. Grove Casey

What other factors impacted the need to create these disclosures? Because I think I've seen some enforcement action recently about this.

Ms. Louis

Yes, and definitely, just in general, when you have trends where our economic activities are increasingly more and more dependent on electronic systems, disruptions to those electronic systems can have severe consequences on an organization. Certainly, large-scale attacks or systemic attacks could be something that we need to be aware of as we are looking at the effect that these things may have. And if there's a greater prevalence of having these cybersecurity incidents, then we do need to think about what we communicate with our strategies, our risk management, and our responses when we are trying to deal with these real-life actual occurrences that organizations are subject to.

Ms. Grove Casey

Who are these disclosures relevant to?

Ms. Louis

They are focused on public companies—like registrants, as we think about those that are issuers, that are companies that are defined within the Investment Company Act of 1940. In the end, it's not including investment companies registered under that Act, but in essence, for general purposes, what you typically would think about as far as public companies or registrants with the SEC.

Ms. Grove Casey

And when are the new disclosures effective?

Ms. Louis

They are going to be effective for reporting a material cybersecurity incident—which is going to be in Form 8-K or Form 6-K, depending on the nature of the entity—on December 18, 2023. Smaller reporting companies will have longer—until June 15, 2024. So, that's when I have an incident.
As far as putting things in my annual disclosure requirements, it's going to begin with my annual reports for fiscal years ending on or after December 15, 2023.

Ms. Grove Casey

You've mentioned *cybersecurity incident* a couple of times now. How do they define *cybersecurity incident* for the purposes of these disclosures? Because I have to report those, I think, like you said, on the 8-K and the 6-K.

Ms. Louis

Right, so there's going to be a more timely communication of those. I don't wait until my annual report to tell people that I had a material cyber incident.

Ms. Grove Casey

Right.

Ms. Louis

It's going to be an unauthorized occurrence. Now, it also could be a series of unauthorized occurrences, but in essence, it's conducted through the registrants' information systems, and it's jeopardizing the confidentiality, the integrity, or the availability of information on that system, or it's compromising the integrity of the overall system. So, it could be the information on the system; it could be the system.

It is important that, as we think about these things, we're thinking about an incident that ultimately could cause harm. And it's something that, for cases, as we're looking at the fence [deciding to report or not], that sometimes something like theft of intellectual property might not immediately cause harm, but I could foresee harm that might evolve over the course of time as that information might be sold to other parties. So, it is important that we think about things like reputational harm as we think about breaches and incidents that might occur.

Ms. Grove Casey

How are *cybersecurity threats* defined?

Ms. Louis

A *cybersecurity threat* is the potential for an unauthorized thing to occur. You [can] have an actual incident that I need to disclose if it's material, but then I have threats that also would be relevant as we think about my annual disclosures [and] as I think about my strategy and my risk management that's occurring. There [are] things that actually happened, and then there [are] threats of things to occur as well that also merit some conversation in one of my filings that I'm ultimately going to make.

Ms. Grove Casey

Let's talk about the definition of *information systems* because it sounds like it just got broader.

Ms. Louis

Well, it is electronic information resources. What's important about these disclosures is that it doesn't matter whether those resources are owned by the registrant or just used by the registrant as we think about the fact that we have third parties that we might be functioning with and how something could happen at one of these third parties that actually affects my systems that I'm using or the information that resides on those systems that I'm using. So, that's an important part as we think about the resources; and think about the systems; and the data that we're collecting, and processing, and maintaining, and using, and sharing as we're supporting our specific operations.

Ms. Grove Casey

What needs to be disclosed related to an entity's risk management strategy?

Ms. Louis

So, there's going to be related in your Regulation S-K, that I provide more consistent information related to my risk management strategies in my annual report to inform investors about these strategies. What you want to be careful about is that we're not making these disclosures with the goal of influencing whether or how a company manages their cyber risks, but I am trying to inform investors to let them know what processes we [are] doing to assess, identify, and manage material risks that I have from my cyber threats. If I have risks from cyber threats that have affected or reasonably could affect my strategy, my operations, [or] my financial condition, then I need to think about what I [am] telling them as it relates to how I'm managing those specific concerns.

Ms. Grove Casey

Talk to me a little bit more about the specific elements that a registrant should address.

Ms. Louis

They are going to talk about, first of all, whether and how the described cybersecurity processes have been integrated into my overall risk management system or processes. How does this fit into my broader-based enterprise-wide risk management? [You are] also going to be talking about whether or not you are engaging consultants, auditors, or other third parties in connection with these processes. Also, what are you doing as you are specifically thinking about your use of a third-party service provider?

These elements ultimately aren't meant to be an exclusive list as [the regulations] provide some suggestions. It may be that additional information is deemed necessary in the facts and circumstances, but they try to give some examples of elements that they would look to have related to that risk management strategy.

Ms. Grove Casey

What other required disclosures related to risk management should an entity disclose?

Ms. Louis

To reinforce, the SEC believes that it's important for resource providers, investors, [and] potential investors to know the level of in-house resources you have related to your outsourced resources. I'm not required to specifically name third parties that I'm using to help manage my risk. As we think about using them in my risk management strategy, I don't have to name the third parties, but it is important as we think about the balance of what you're able to do on your own and what is it that you're doing as you're engaging others—consultants, auditors, third parties—in conjunction with this risk management.

Ms. Grove Casey

The one that comes to mind for me is payroll. Lots of people outsource their payroll.

Ms. Louis

Yes.

Ms. Grove Casey

Let's talk about what a registrant must disclose related to governance.

Ms. Louis

All right. In your Regulation S-K, there is going to be a discussion about the governing boards, oversight of risks from cyber threats, and management's role in assessing and managing material cyber threats. You're going to discuss both governance as well as others. Who is it that's involved in this oversight role and function of the organization?

Ms. Grove Casey

How does materiality apply to governance disclosures?

Ms. Louis

[The regulation] does make clear that you're talking about the role in assessing and managing what a registrant's material risks for cyber threats would be. It directs the registrants to consider thinking about who is involved with that, what management positions or committees are responsible for managing these risks, and what relevant expertise these parties have. [They should] think about not just who's skilled and able to do this governance, but also the processes in which these governing bodies are informed about information that would be helpful for them to prevent, or detect, or mitigate, or remediate these cyber threats. And [they should] make sure that these elements are looking at what it is that they actually need to do with their governing or monitoring role.

Ms. Grove Casey

Tell me more about what a registrant must disclose related to material cybersecurity incidents because it sounds like it would be an attack on their internal control systems, maybe even over financial reporting.

Ms. Louis

Yes, and these are now going to be in that Form 8-K, as we mentioned. It's different than your annual disclosures that you have related to your threats. Now, I had an actual incident, so I need to think about telling people what's the nature, the scope, the timing, [and] the impact or reasonably likely impact that could evolve as I'm making these disclosures. And this Form 8-K has to be filed within four business days of determining an incident was material.

We do need to make sure that, as we're focusing on this, that we provide—like once we know it's material, I have to disclose the incident. If I don't have some of the information that typically would be required, then I do need to now have a mechanism where I do an amended filing once I do have all my information.

Ms. Grove Casey

How does materiality relate to these disclosures?

Ms. Louis

It is [related] when we think about things that are reasonably likely to materially affect the registrant—thinking about its financial condition, its results of operations. So, either it did do it at the time or it's reasonably likely to evolve into something that is material.

You do need to think about both quantitative and qualitative factors. I have to think about things like my relationships with my vendors or my customers, or the company's reputation. [These] may be things that could materially affect the company. It also could include litigation or regulatory investigations that might occur that could evolve from this incident. So, it is important that we think about the fact that we're considering this financial effect, but it is something that I have to think about from a quantitative and qualitative point of view. It may be that, on the same day as the incident, I may not know that something's material.

Ms. Grove Casey

With such a short timeframe in reporting, I think it's more likely that it would end up being material when they initially didn't think it was. What if an entity initially thinks that a disclosure is required, but later discovers that an event is not material? It's more contained than they thought.

Ms. Louis

When they're thinking about the balance in—why we're given this four-day limitation—they're thinking that the risk of reporting something that ends up not being material is much more inconsequential than not disclosing something that would be material. As we think about the negative effect of things that could [result] in an investor making an investment or voting decision without the benefit of knowing that there was potentially this incident, they would err on over-reporting versus under-reporting for those purposes.

Ms. Grove Casey

Are there any special considerations related to when an entity uses a third-party system? So, like the payroll, or sometimes it's a 401(k) or employee-benefit-plan-type things that they use third parties for.

Ms. Louis

Yes. It's important, and I think I mentioned this earlier. There is no exemption from providing disclosures related to incidents on the third-party systems that you use. There is no safe harbor related to that. Now, certainly, there can be concerns that I don't really have control over my third-party systems, but still those electronic systems that you use or the information that resides on them still is relevant to a reasonable investor as they want to understand breaches.

We can't assume that just because it is something that is on a third-party system, that it's not material, particularly as we have companies that are increasingly relying on third-party cloud systems and that you are putting [your information] in the control of a third party. You want to make sure that you're comfortable with who you're outsourcing to because if it's something that a reasonable investor would consider an incident that impacts you as a registrant, you do need to think about those disclosures.

Ms. Grove Casey

Would a series of cybersecurity events potentially lead to a disclosure?

Ms. Louis

It is, and they talk about [how] it could be a single incident or a series of incidents because what you might find is that several smaller attacks in a given timeframe may collectively end up being material. It can be that it's the same malicious actor, or it could be that it's coming from multiple bad actors. But it's the same vulnerability, and then, collectively it's impeding an organization's operations.

Ms. Grove Casey

Are there any national security or public safety considerations with these disclosures?

Ms. Louis

Certainly, as we're reporting incidents, it may be that there is a public safety or a national security concern that immediate disclosures would cause risk to. You can delay filings if you have a United States attorney general agree that this is a national security or public safety threat.

But, even as the SEC is looking to balance the needs of these concerns, they think at some point, we can't just indefinitely delay reporting these incidents because it could result in harm [or] in mispricing securities because I don't know that there was this major incident. There will be [cases] where you can disclose things for a given time period, and then usually there could be up to 30 days delay. Keeping it [delayed] beyond that, it would have to be like a real major deal [with] the SEC and the attorney generals working together on how much longer we [can] delay communicating this information because the SEC is focused on protecting our capital markets and providing useful information to investors and potential investors.

Ms. Grove Casey

Does the registrant have to disclose how an incident was remediated?

Ms. Louis

The SEC purposely did not add a requirement to say, "What's the remediation status of the incident?" Like, did we fix it? Is it still ongoing as far as the remediation? You don't have to disclose specific or technical information about your response or planned responses. We don't want to give enough detail that [it] would keep you from being able to close loopholes, and we also don't want to provide so much information that you're creating more vulnerabilities to bad actors that might be looking at your filings and trying to figure out how they can take advantage of that information.

Ms. Grove Casey

Is material impact required to be quantified for disclosure purposes?

Ms. Louis

The SEC also declined to give a quantifiable trigger because of the fact that they may be material, but they don't cross a particular financial threshold as we think about the qualitative harms that could exist. So, lack of quantifiable harm doesn't necessarily mean that an incident is not material. Several times, we've talked about reputational harm as an example [of] that. There may not be a quantifiable threshold, but yet it could be material as we think about the qualitative nature of the impact.

Ms. Grove Casey

What's considered to be an unreasonable delay for disclosure purposes?

Ms. Louis

This is important because you have to make the filings within the four business days of determining what's material, but you also shouldn't postpone determining what is material unreasonably. We don't want to rush the process, but we also want to make sure that we're doing timely disclosures.

Sometimes we have cases where impacts related to a system or [the] information itself may involve large quantities or important data that we immediately know is material, but I may not have complete information about the incident to really be able to assess whether it is material. I may not be able to understand its full extent given some of the incidents that could occur. So, we need to investigate the incident, and [the SEC] just wants to make sure that you're not intentionally deferring—saying something is material to keep the information from being made public. That intentional delay would be considered something that they would say would be improper in the circumstances.

There does need to be a demonstration of good faith compliance with these principles that exist. You should have internal policies, procedures, [and] controls that should enable you to do this in a way that's intended to have good faith compliance with this idea that I don't unreasonably delay determining that something's material to then start the clock on how fast I have to communicate it.

Ms. Grove Casey

Are there related bans on insider trading prior to filing?

Ms. Louis

The SEC decided that they did not have to create a specific rule within this particular regulation. They don't need new rules to ban insider trading during this time period between us having an incident, investigating it, and then disclosing it. You already have a fiduciary responsibility that exists where you can't do trading while you're in the possession of material non-public information. Also, given the limited time period that you have in looking at the materiality of the incident and the public disclosure, they felt that adding to the regulations in that way wasn't necessarily going to be beneficial in the end.

Ms. Grove Casey

Are there any requirements to update incident disclosures?

Ms. Louis

When we have an amendment to Form 8-K, there are going to be cases where I didn't necessarily have all the information that's required to be included. It wasn't determined or available at the time of the required filing. So, while I had to make this information publicly available within four business days without unreasonable delay, I may not have everything that I know is material [and] I need to tell you. It's important that we do make these amendments in a timely way, so that updates regarding these incidents are also done in a time period that would be useful to the readers and to the users of these financial statements. There may be cases where we have to amend, clarify, or enhance prior statements that we made at the time now [that] we've subsequently discovered other things that we think would be important for you to know and understand as we're refreshing those disclosures [after] we've gone through this actual process of investigation.

Ms. Grove Casey

Do these disclosures apply to foreign private issuers?

Ms. Louis

They do in the fact that they do have forms that they fill in [as] a foreign private issuer (what they call an FPI). There is Form 20-F that talks about boards' oversight of cyber threats and management's role. There's Form 6-K that gives information on material cyber incidents as we think about things that FPIs disclose or otherwise publicize in foreign jurisdictions, stock exchanges, or security holders. The SEC's goal was to establish disclosure requirements that parallel those related to domestic issuers knowing that there are some limitations on what we can impose on these foreign private issuers.

Ms. Grove Casey

Do these disclosures have to be provided in XBRL like other filings?

Ms. Louis

We need to tag these new disclosures in the inline XBRL, and [that] does need to include tagging narrative disclosures, as well as tagging some quantified amounts. The goal in this is to make the information more accessible to investors and potential investors and to facilitate a more effective and efficient analysis of the organization.

SUPPLEMENTAL MATERIALS

A. IFRS S1 and S2 Finalized Sustainability and Climate-Related Disclosures

By Jennifer F. Louis, CPA

Background

The International Financial Reporting Standards Foundation (IFRS Foundation) established the International Sustainability Standards Board (ISSB) to address the fragmented landscape of voluntary, sustainability-related standards and requirements that add cost, complexity, and risk to both companies and investors. The ISSB mandate is to develop and issue a comprehensive global baseline of sustainability reporting standards for consistent, comparable, and high-quality sustainability reporting designed to meet investor needs.

The International Sustainability Standards Board (ISSB) issued its first two sustainability reporting standards in June 2023:

- General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1), which is the core framework for the disclosure of material information about sustainability-related risks and opportunities across an entity's value chain.
- Climate-related Disclosures (IFRS S2), which is the first thematic standard, sets out requirements for entities to disclose information about climate-related risks and opportunities.

IFRS S1 requires an entity to disclose information about *all* sustainability-related risks and opportunities. Given the global focus on climate, IFRS S2 was created to provide specific requirements for climate-related disclosures.

The IFRS Sustainability Disclosure Standards are based on the four-pillars of a pre-existing Task Force on Climate-Related Financial Disclosures (TCFD framework):

- Governance
- Strategy
- Risk management
- Metrics and targets. [IFRS S1 para BC3].

The TCFD framework is already required or used voluntarily in several regions. Therefore, the structure of the IFRS Sustainability Disclosure Standards will be familiar to preparers and users of sustainability reporting that have used, or understand, the TCFD framework.

To become authoritative, IFRS Sustainability Disclosure Standards will need to be adopted by local securities exchanges and other regulators to become mandatory. Several organizations have already announced their intention to do so. An entity can also choose to voluntarily apply IFRS Sustainability Disclosure Standards, even if the entity does not apply IFRS.

Effective Date

IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. However, entities are permitted to report the requirements in IFRS S1 only to the extent that they relate to the disclosure of climate-related information in the first year of adoption. The application of IFRS S2 is unaffected.

An entity would be required to provide information under IFRS S1 about its other sustainability-related risks and opportunities in the second year that it applies IFRS Sustainability Disclosure Standards. This will allow entities time to build the capacity necessary to report consistent, complete, comparable, and verifiable sustainability-related financial disclosures.

Overview

IFRS S1 requires an entity to disclose information about its sustainability-related risks and opportunities that is useful to the primary users of general-purpose financial reporting in making decisions relating to providing resources to the entity. The primary users are existing and potential investors, lenders, and other creditors of the entity.

To effectively identify sustainability-related risks and opportunities, an entity needs to understand the resources that it relies on, and relationships along its value chain. IFRS S1 explains that an entity and the resources and relationships throughout its value chain form an interdependent system in which the entity operates. In other words, an entity's relationships and interactions with stakeholders, society, the economy, and the natural environment throughout its value chain are directly linked to the ability of the entity to generate cash flows over the short, medium, and long term. The analysis performed to identify sustainability-related risks and opportunities is the first step a reporting entity would take in determining which information to include in its sustainability reporting.

Focus on an Entire Value Chain

The application guidance explains that the resources that an entity depends on, and the impacts, can vary and take different forms. These resources include, but are not limited to, financial, manufactured, intellectual, human, relationship, and natural. Understanding the concept of *value* helps to focus on the areas of a business which lead to value preservation, regeneration, development or deterioration, and depletion. For example, an increase in training would develop the value of the human aspect of the business but would deplete the financial side.

IFRS S1 references the close relationship between an entity's ability to create value for itself and the value it creates, preserves, or erodes for other parties. For example, the pesticides used to protect an entity's crops from disease today might affect the surrounding bee populations responsible for the pollination of the crops. The entity's ability to generate future cash flows from the sale of the crops is directly linked to the health of the bee population. If the pesticides used inadvertently kill the bee population, the crops won't be pollinated and, as a result, the entity's use of pesticides today might impact the entity's ability to sell the crops in the future. Consequently, the health of the bee population impacts the entity's ability to generate value for itself.

Understanding the link between the entity's prospects and sustainability-related risks and opportunities to which it is exposed is critical. In making this assessment, an entity must consider not only its own activities, but also those in its value chain. IFRS S1 explains a process consisting of two steps to identify and disclose all material sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

- Step 1: Identify sustainability-related risks and opportunities that could affect an entity's prospects over the short, medium, and long term.
- Step 2: Determine which disclosures to provide in relation to the sustainability-related risks and opportunities identified in Step 1.

Relationship to SASB Standards

In addition to the IFRS Sustainability Disclosure Standards, an entity is required to refer to and consider the applicability of the disclosure topics in the Sustainable Accounting Standards Board (SASB) standards. The SASB standards are industry-based (e.g., oil & gas and commercial banking) and specify disclosure topics appropriate for that industry (e.g., water management) and a list of metrics within each disclosure topic (e.g., total water withdrawn, total water consumed, and the percentage of each in regions with high or extremely high baseline water stress).

An entity "shall" refer to and consider the disclosure topics in the SASB standards when identifying sustainability-related risks and opportunities. IFRS S1 clarifies that an entity is required to consider the SASB standards in a systematic manner, but not required to apply each of the individual provisions if such disclosures are not relevant to the decision-making of users of general-purpose financial reports and do not faithfully represent sustainability-related risk or opportunity. IFRS S1 explicitly states that an entity might conclude that the disclosure topics included in the SASB standards are not applicable to its circumstances.

Since an entity cannot simply disregard the SASB standards, it should clearly document for internal purposes how it has assessed and taken into consideration the applicability of the SASB standards when identifying sustainability-related risks and opportunities.

When an IFRS Sustainability Disclosure Standard does not specifically address a sustainability-related risk or opportunity, the entity is required to apply judgment in identifying information that faithfully represents the specific risk or opportunity and would be relevant to the decision-making needs of the entity's primary users.

In making this judgment, the entity may also consider, to the extent they do not conflict with an IFRS Sustainability Disclosure Standard:

- The Climate Disclosure Standards Board (CDSB) framework application guidance for water- and biodiversity-related disclosures.
- The most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the information needs of primary users.
- The information, including metrics, disclosed by entities in the same industry (or industries) or geographical region(s).
- The European Sustainability Reporting Standards (ESRS) and the Global Reporting Initiative (GRI) standards, to the extent that these assist the entity in meeting the objective of IFRS S1.

Reasonable and Supportable Information

An entity is not required to perform an exhaustive search to identify those sustainability-related risks and opportunities that could affect the entity's prospects over the short, medium, or long term. The determination of what constitutes "reasonable and supportable information" includes entity-specific facts, as well as general conditions in the external environment. This would include internal and external sources, such as:

- The entity's risk management processes
- Industry and peer group experience
- External ratings, reports, and statistics

The associated effort to the entity should be compared to the benefits of the resulting information to the primary users. The more useful the sustainability-related information for users, the more effort is expected of an entity in obtaining that information.

Assessing Materiality

Once all the sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects have been identified, the entity then needs to consider which of the sustainability-related risks and opportunities are material. IFRS S1 is clear that only material information needs to be disclosed.

As with all IFRS reporting standards, an entity does not need to disclose any immaterial information even if required by an IFRS Sustainability Disclosure Standard. Consistent with the definition of materiality in IFRS reporting, information is material if omitting, misstating, or obscuring that information could reasonably be expected to influence decisions that the primary users make on the basis of that information.

Fair Presentation

IFRS S1 requires the fair presentation of sustainability-related financial disclosures. To achieve fair presentation, an entity is required to provide a complete, neutral, and accurate depiction of the entity's sustainability-related risks and opportunities. An entity is required to disclose additional information if the disclosures required by IFRS Sustainability Disclosure Standards are insufficient to enable primary users to assess the effects of sustainability-related risks and opportunities on the entity's prospects.

Reporting Entity

An entity is required to provide sustainability-related financial disclosures applying the same reporting boundary as used for financial reporting purposes. For example, assume that an entity is the parent of a group of companies and is required to prepare consolidated financial statements in accordance with IFRS, which is the group's applicable accounting framework. The consolidated financial statements are for the parent and its subsidiaries. The entity is required to provide its sustainability-related financial disclosures in its sustainability reporting on the same basis.

An entity is separately required to provide sustainability-related information regarding sustainability-related risks and opportunities in the entity's value chain. This requirement does not alter the reporting boundary, but it highlights that an entity's prospects are affected by sustainability-related risks and opportunities arising from the entity's value chain. An entity's value chain is defined as the full range of activities, resources, and relationships related to the entity's operations that the entity uses and relies on to create its products or services from conception to end-of-life. This includes entities in the upstream and downstream activities related to the entity's business model.

An entity's sustainability reporting processes and controls might not be as well established as its financial reporting processes and controls. As a result, the entity is likely to encounter challenges in determining the scope of its value chain and obtaining the necessary information from entities within its value chain.

However, IFRS S1 provides some relief for an entity when identifying the scope of, and information from, its value chain. IFRS S1 states that an entity is required to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort to determine the scope of the value chain.

Upstream and Downstream Activities

Although not explicitly defined in IFRS Sustainability Disclosure Standards, upstream activities generally include activities by a party other than the entity that relate to the initial stages of the entity's production of a good or service (e.g., materials sourcing, materials processing, and supplier activities). Downstream activities include activities by a party other than the entity that relate to any process after the entity's input (e.g., transportation and distribution, processing of sold products, the use of sold products, and end-of-life treatment of sold products).

Connection to Financial Statements

An entity is required to use the same financial data and assumptions for sustainability reporting purposes as are used for financial reporting purposes to the extent that this is possible and considering the applicable financial reporting principles. However, there might be scenarios where assumptions used for financial and sustainability reporting do not match.

Example 1 – The same financial data and assumptions

A manufacturer uses the number of units of a product that it is expected to produce when preparing its scenario analysis for its sustainability report. When carrying out its impairment assessment for financial reporting purposes, the entity should use the same projected number of units of the product that it is expected to produce.

Example 2 – Different financial data and assumptions

Certain financial reporting frameworks have specific requirements that must be satisfied before improvements or enhancements to assets (and their expected increase in production) can be included in an impairment assessment. In contrast, an entity's scenario analysis for sustainability reporting might incorporate expected improvements in an asset's efficiency which might increase the number of units expected to be produced. As a result, the assumptions used for financial and sustainability reporting could be different.

More on the Four Pillars

The IFRS Sustainability Disclosure Standards are based on the four pillars used in the TCFD framework: governance, strategy, risk management, and metrics and targets. These pillars are referred to as the "core content" in IFRS S1.

Governance

The governance-related disclosure requirements help primary users understand the entity's governance processes, controls, and procedures that the entity uses to monitor and manage sustainability-related risks and opportunities. To achieve this objective, an entity is required to disclose information including, but not limited to:

- The governance body or individual responsible for the oversight of sustainability-related risks and opportunities; and
- Their role in those processes.

Strategy

An entity is required to disclose information about its strategy and how it addresses the identified sustainability-related risks and opportunities. This includes disclosures regarding:

- The sustainability-related risks and opportunities that could affect the entity's prospects and the time horizons (i.e., short, medium or long term) over which the effects of each could reasonably be expected to occur;
- Qualitative and quantitative information about the current and anticipated financial effects of sustainability-related risks and opportunities on the entity's business model and value chain;
- The effects of sustainability-related risks and opportunities on the entity's strategy and decision-making; and
- The effects of those sustainability-related risks and opportunities on the entity's financial position, financial performance, and cash flows for the reporting period, and their anticipated effects, taking into consideration how those sustainability-related risks and opportunities have been factored into financial planning.

An entity is also required to disclose information that enables primary users to understand the resilience of the entity's strategy and business model to the identified sustainability-related risks.

Risk Management

The required risk management disclosures include the processes that the entity uses to identify, assess, prioritize, and monitor identified sustainability-related risks and opportunities. Disclosure is also required about the extent to which, and how, these processes integrate into the entity's overall risk management processes.

This includes disclosures regarding:

- The inputs and parameters used, such as information about data sources and the scope of operations covered in the processes;
- Whether and how the entity uses scenario analysis to help identify sustainability-related risks;
- How the nature, likelihood, and magnitude of the sustainability-related risks are assessed;
- Whether and how sustainability-related risks are prioritized in relation to other types of risks;
- How the entity monitors sustainability-related risks; and
- Whether and how this process has changed from the prior year.

Metrics and Targets

Once sustainability-related risks and opportunities have been identified and assessed as material, IFRS S1 requires an entity to disclose information to enable the primary users to understand the entity's performance in relation to these sustainability-related risks and opportunities, including industry-based metrics and progress towards any targets that the entity has set, or is required to meet by regulation or legislation. For each such target, an entity is required to disclose any milestones or interim targets, performance against the target, and an analysis of trends or changes in the entity's performance.

An entity is required to disclose information that enables primary users to understand the current and anticipated effects of sustainability-related risks and opportunities on its business model and value chain. This includes a requirement for an entity to describe where these sustainability-related risks and opportunities are concentrated in the entity's value chain.

More on Reporting of Disclosures

Sustainability-related disclosures must be provided as part of the entity's general purpose financial report. In order to align reporting, IFRS S1 requires an entity to publish its sustainability-related financial disclosures and annual financial statements at the same time. In addition, the entity's sustainability-related financial disclosures must cover the same reporting period as is used for financial reporting purposes.

Aligned with the requirements for financial reporting, IFRS S1 requires an entity to disclose comparative information in respect of the previous reporting period for all amounts disclosed in the current reporting period. In addition, the standard states that, if it is useful to understand the sustainability-related financial disclosures for the current reporting period, the entity is also required to disclose comparative information for narrative and descriptive sustainability-related information.

Any prior-period errors should be corrected retrospectively. Errors result from the deliberate or accidental misuse of, or disregard for, information that is or should be available. This distinguishes errors from changes to estimates, which are updates to amounts with inherent measurement uncertainty, made to reflect the prevailing circumstances and to take account of the latest information.

Unreserved Statement of Compliance

An entity that complies with all of the requirements of the IFRS Sustainability Disclosure Standards is required to include an explicit and unqualified statement of compliance to that effect. This is different from current practice where companies often prepare sustainability-related financial disclosures that comply with only portions of the relevant sustainability reporting frameworks under which they report.

Where local laws or regulations prohibit an entity from disclosing information required by an IFRS Sustainability Disclosure Standard, an entity is permitted to not disclose that information. The entity is, however, required to disclose the type of information not disclosed and to help users understand the source of the restriction. An entity using this exemption is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards.

IFRS S1 also permits entities, in limited circumstances, to omit information about a sustainability-related "opportunity" that is otherwise required by an IFRS Sustainability Disclosure Standard if that information is commercially sensitive. There are three requirements that an entity needs to consider before applying this provision:

1. Information about the sustainability-related opportunity is not already publicly available;
2. Disclosure of that information could reasonably be expected to prejudice seriously the economic benefits the entity would otherwise be able to realize in pursuing the opportunity; and
3. The entity has determined that it is impossible to disclose that information in a manner (e.g., at an aggregated level) that would enable the entity to meet the objectives of the disclosure requirements without prejudicing seriously the economic benefits the entity would otherwise be able to realize in pursuing the opportunity.

IFRS S2 Climate-Related Disclosures

An entity is required to identify climate-related risks and opportunities that could affect the entity's prospects over the short, medium, and long term. IFRS S2 requires an entity to use all reasonable and supportable information that is available to the entity without undue cost or effort. Consistent with IFRS S1, an entity is required to disclose material information relating to the governance, strategy, risk management, and metrics and targets associated with its climate-related risks and opportunities.

Physical risks are risks resulting from climate change that can be event-driven or from longer-term shifts in climatic patterns. Acute physical risks arise from weather-related events such as storms, floods, drought, or heat waves, which are increasing in severity and frequency. Chronic physical risks arise from longer-term shifts in climatic patterns including changes in precipitation and temperature which could lead to sea level rise, reduced water availability, biodiversity loss, and changes in soil productivity.

These risks may carry financial implications for entities, such as direct damage to assets, and indirect effects of supply-chain disruption. Financial performance may also be affected by changes in water availability, sourcing, and quality; and extreme temperature changes affecting entities' premises, operations, supply chain, transportation needs, and employee safety.

Climate-related transition risks are risks that arise from efforts to transition to a lower-carbon economy. Transition risks include policy, legal, technology, market, and reputational risks. These risks could carry financial implications for an entity, such as increased operating costs or asset impairment due to new or amended climate-related regulations. The entity's financial performance could also be affected by shifting consumer demands and the development and deployment of new technology.

Consistent with IFRS S1, an entity is required to disclose material information relating to the governance, strategy, risk management, and metrics and targets associated with its climate-related risks and opportunities.

Governance

The governance-related disclosure requirements for IFRS S2 align with the requirements contained in IFRS S1; however, IFRS S2 is specifically focused on climate.

Strategy

An entity is required to disclose information about its strategy for managing the identified climate-related risks and opportunities. The requirements include:

- Qualitative and quantitative information about the current and anticipated financial effects of climate-related risks and opportunities;
- Information on how the entity plans to achieve any climate-related targets; and
- Key assumptions in developing a climate-related transition plan.

An entity is also required to disclose information that enables primary users to understand the resilience of the entity's strategy and business model to climate-related changes, developments, or uncertainties.

Risk Management

The required risk management disclosures for IFRS S2 align with the requirements contained in IFRS S1; however, IFRS S2 is specifically focused on climate.

Climate-Related Scenario Analysis

Climate-related scenario analysis evaluates a range of hypothetical outcomes of climate-related risks and opportunities by looking at various scenarios under a specified set of assumptions and constraints. Climate-related scenario analysis is not intended to forecast or predict what might happen in the future, but rather to provide information around "what if" scenarios.

Metrics and Targets

IFRS S2 requires an entity to disclose information to the primary users on how the entity uses metrics and targets to measure, monitor, and manage the identified climate-related risks and opportunities. This includes cross-industry metrics, industry-based metrics, metrics and targets set by the entity, and any targets required by law or regulation.

There are seven cross-industry metric categories in IFRS S2 that include both quantitative and qualitative components that entities are required to disclose, if material:

- Greenhouse gas (GHG) emissions (in absolute terms)—Measured in accordance with the GHG Protocol Corporate Standard unless an entity is required by a jurisdictional authority to use a different method. These disclosures are expressed in metric tons of CO_2 equivalent.
- Climate-related transition risks—Disclosure of the vulnerability of assets or business activities in absolute and percentage terms (e.g., the amount and percentage of an entity's revenue from coal mining).
- Climate-related physical risks—Disclosure of the vulnerability of assets or business activities in absolute and percentage terms (e.g., the amount and percentage of an entity's property portfolio in an area subject to flooding).
- Climate-related opportunities—Disclosure of the amount and percentage of assets or business activities aligned with climate-related opportunities (e.g., an entity's revenue stream from services that support the transition to a lower-carbon economy).
- Capital deployment—Disclosure of the amount used by an entity towards climate-related risks and opportunities (e.g., the amount that an entity has invested in research and development for low-carbon products, as a percentage of annual revenue).
- Internal carbon prices—The carbon prices used in emission costing by metric ton, including how the entity uses that pricing for decision-making.
- Remuneration—The percentage of current-period executive management remuneration that is connected to climate-related considerations; additionally, qualitative considerations of how remuneration factors into climate-related considerations.

An entity is required to disclose the quantitative and qualitative climate-related targets it has set to monitor progress towards achieving its strategic goals, and any targets required by law or regulation. For each target, the entity must disclose:

- Metrics and approach used to set and review the target;
- The objective of the target;
- Whether the target applies to the entire entity or a part of the entity, such as a specific business unit or specific geographical region;
- The period over which the target applies;
- The base period from which progress towards meeting the target is measured;
- Whether it is an absolute or intensity-based target; and
- How the latest international agreement on climate change (including jurisdictional commitments) has informed the target.

GHG Emission Disclosures

IFRS S2 requires an entity to measure and disclose its Scope 1, Scope 2, and Scope 3 GHG emissions in accordance with the GHG Protocol Corporate Standard, subject to certain transition reliefs:

- Scope 1—Direct GHG emissions that occur from sources that are owned or controlled by the entity (e.g., GHG emissions from combustion in the entity's furnaces at its factories).
- Scope 2—Indirect GHG emissions that occur from the generation of purchased electricity, heat, or steam that an entity uses (e.g., GHG emissions at the facility where the electricity is generated).
- Scope 3—Any other indirect GHG emissions outside Scope 2 that occur upstream and downstream in the entity's value chain (e.g., GHG emissions generated from an employee commuting to work).

There are 15 Scope 3 GHG emission categories described in the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard. There is no requirement in IFRS S2 to disaggregate Scope 3 GHG emissions per category; however, the illustrative examples indicate that the entity may indeed, at times, need to disaggregate its Scope 3 GHG emission by category.

For each GHG emission target disclosed, an entity is required to disclose:

- Whether Scope 1, Scope 2, or Scope 3 GHG emissions (including which GHG gases) are covered by the target;
- Whether it is a gross or net GHG emissions target (if the entity only has a net GHG emissions target, the associated gross GHG emissions target is required to be disclosed);
- Whether the target was informed based on a specific sector's decarbonization approach; and
- The planned use of carbon credits to offset GHG emissions to meet any net GHG emission targets, including:
  - Whether it relates a nature-based or technological carbon removal;
  - Which third party will verify the carbon credit; and
  - Any other factors to help users understand the credibility and integrity of the carbon credit.

B. New SEC Cybersecurity Disclosure Rules

By Jennifer F. Louis, CPA

Background

The Securities and Exchange Commission ("Commission") is adopting new rules to enhance and standardize disclosures regarding cybersecurity risk management, strategy, governance, and incidents by public companies that are subject to the reporting requirements of the Securities Exchange Act of 1934. Specifically, they are adopting amendments to require current disclosure about material cybersecurity incidents. They are also adopting rules requiring periodic disclosures about a registrant's processes to assess, identify, and manage material cybersecurity risks, management's role in assessing and managing material cybersecurity risks, and the board of directors' oversight of cybersecurity risks. Additionally, the final rules require the cybersecurity disclosures to be presented in Inline eXtensible Business Reporting Language ("Inline XBRL").

Previous disclosure practices were varied. For example, while some registrants do report material cybersecurity incidents (most typically on Form 10-K), review of various filings by SEC staff in the Division of Corporation Finance showed that companies provide different levels of specificity regarding the cause, scope, impact, and materiality of cybersecurity incidents. SEC staff also observed that while most registrants that are disclosing cybersecurity risks appear to be providing such disclosures in the risk factor section of their annual reports on Form 10-K, the disclosures are sometimes included with other unrelated disclosures. This makes it more difficult for investors to locate, interpret, and analyze the information provided.

Why Disclosures are Needed

Several trends impact the need for more timely and reliable information related to registrants' cybersecurity. An ever-increasing share of economic activity is dependent on electronic systems. Disruptions to those systems can have significant effects on registrants and, in the case of large-scale attacks, systemic effects on the larger economy. Overall, evidence suggests that companies may be underreporting cybersecurity incidents.

Additionally, there has been a substantial rise in the prevalence of cybersecurity incidents, propelled by several factors: the increase in remote work spurred by the COVID-19 pandemic; the increasing reliance on third-party service providers for information technology services; and the rapid monetization of cyberattacks facilitated by ransomware, black markets for stolen data, and crypto-asset technology.

In addition, recent developments in artificial intelligence may intensify cybersecurity threats. Researchers have shown that artificial intelligence systems can be leveraged to create code used in cyberattacks, including by actors not well-versed in programming.

The costs and adverse consequences of cybersecurity incidents to companies are increasing. Such costs include business interruption, lost revenue, ransom payments, remediation costs, liabilities to affected parties, cybersecurity protection costs, lost assets, litigation risks, and reputational damage.

Applicability

For purposes of this SEC release, the terms "public companies," "companies," and "registrants" include issuers that are business development companies as defined in section 2(a)(48) of the Investment Company Act of 1940, which are a type of closed-end investment company that is not registered under the Investment Company Act, but do not include investment companies registered under that Act.

Effective Date

Registrants must begin complying with the requirement to report a material cybersecurity incident, as defined, on Form 8-K or Form 6-K on December 18, 2023. Smaller reporting companies will have until June 15, 2024.

All registrants are required to comply with the annual disclosure requirements beginning with annual reports for fiscal years ending on or after December 15, 2023.

Regulation S-K Item 106(b)—Risk Management and Strategy

Registrants will provide more consistent and informative disclosure regarding their cybersecurity risk management and strategy in their annual reports. The purpose of the rules is to inform investors, not to influence whether and how companies manage their cybersecurity risk.

Registrants must describe their processes, if any, for the assessment, identification, and management of material risks from cybersecurity threats, and describe whether any risks from cybersecurity threats have materially affected or are reasonably likely to materially affect their business strategy, results of operations, or financial condition.

The rule requires disclosure of information material to the investment decisions of investors, in a way that is comparable and easy to locate, while steering clear of security-sensitive details.

The rules require a description of "the registrant's processes, if any, for assessing, identifying, and managing material risks from cybersecurity threats in sufficient detail for a reasonable investor to understand those processes."

The SEC still expects the disclosure to allow investors to ascertain a registrant's cybersecurity practices, such as whether they have a risk assessment program in place, with sufficient detail for investors to understand the registrant's cybersecurity risk profile.

Registrants will continue to tailor their cybersecurity processes to threats as they perceive them. The rule requires registrants to describe those processes insofar as they relate to material cybersecurity risks.

The elements that a registrant should address in its Item 106(b) disclosure, as applicable, are:

- Whether and how the described cybersecurity processes in Item 106(b) have been integrated into the registrant's overall risk management system or processes;
- Whether the registrant engages assessors, consultants, auditors, or other third parties in connection with any such processes; and
- Whether the registrant has processes to oversee and identify material risks from cybersecurity threats associated with its use of any third-party service provider.

The elements compose a non-exclusive list of disclosures. Registrants should additionally disclose whatever information is necessary, based on their facts and circumstances, for a reasonable investor to understand their cybersecurity processes.

Item 106(b)(2) requires a description of "[w]hether any risks from cybersecurity threats, including as a result of any previous cybersecurity incidents, have materially affected or are reasonably likely to materially affect the registrant, including its business strategy, results of operations, or financial condition and if so, how."

The rules also require disclosure of whether a registrant engages assessors, consultants, auditors, or other third parties in connection with their cybersecurity. The SEC believes it is important for investors to know a registrant's level of in-house versus outsourced cybersecurity capacity. Registrants are *not* required to name the third parties (though they may choose to do so). This may magnify concerns about increasing a company's cybersecurity vulnerabilities. For the same reason, registrants are not required to provide a description of the services provided by third parties.

Regulation S-K Item 106(c)—Governance

Registrants must:

1. Describe the board's oversight of risks from cybersecurity threats.
2. Describe management's role in assessing and managing material risks from cybersecurity threats.

Under Item 106(c)(1), registrants must "[d]escribe the board's oversight of risks from cybersecurity threats," and, if applicable, "identify any board committee or subcommittee responsible" for such oversight "and describe the processes by which the board or such committee is informed about such risks."

Depending on context, some registrants' descriptions of the processes by which their board or relevant committee is informed about cybersecurity risks may include describing the frequency of discussions on cybersecurity. Discussion of frequency may in some cases be included as part of describing the processes by which the board or relevant committee is informed about cybersecurity risks in compliance with Item 106(c)(1), to the extent it is relevant to an understanding of the board's oversight of risks from cybersecurity threats.

The disclosure has a materiality qualifier, to make clear that registrants must "[d]escribe management's role in assessing and managing the registrant's material risks from cybersecurity threats."

Item 106(c)(2) directs registrants to consider disclosing the following as part of a description of management's role in assessing and managing the registrant's material risks from cybersecurity threats:

- Whether and which management positions or committees are responsible for assessing and managing such risks, and the relevant expertise of such persons or members in such detail as necessary to fully describe the nature of the expertise;
- The processes by which such persons or committees are informed about and monitor the prevention, detection, mitigation, and remediation of cybersecurity incidents; and
- Whether such persons or committees report information about such risks to the board of directors or a committee or subcommittee of the board of directors.

These elements are limited to disclosure that the SEC believes balances investors' needs to understand a registrant's governance of risks from cybersecurity threats in sufficient detail to inform an investment or voting decision with concerns that the rules could inadvertently pressure registrants to adopt specific or inflexible cybersecurity-risk governance practices or organizational structures.

Form 8-K Item 1.05—Material Cybersecurity Incidents

Registrants must disclose any cybersecurity incident they experience that is determined to be material, and describe the material aspects of its:

1. Nature, scope, and timing; and
2. Impact or reasonably likely impact.

An Item 1.05 Form 8-K must be filed within four business days of determining an incident was *material*. There is time leading up to determining that an incident is material. Registrants must amend a prior Item 1.05 Form 8-K to disclose any information called for in Item 1.05(a) that was not determined or was unavailable at the time of the initial Form 8-K filing.

The rules require the registrant to "describe the material aspects of the nature, scope, and timing of the incident, and the material impact or reasonably likely material impact on the registrant, including its financial condition and results of operations." The rule's inclusion of "financial condition and results of operations" is not exclusive; companies should consider qualitative factors alongside quantitative factors in assessing the material impact of an incident.

Harm to a company's reputation, customer or vendor relationships, or competitiveness may be examples of a material impact on the company. Similarly, the possibility of litigation or regulatory investigations or actions, including regulatory actions by state and federal governmental authorities and non-U.S. authorities, may constitute a reasonably likely material impact on the registrant.

Most organizations' materiality analyses will include consideration of the financial impact of a cybersecurity incident. In most cases, the registrant will likely be unable to determine materiality the same day the incident is discovered.

While it is possible that occasionally there may be incidents that initially appear material but developments after the filing of the Item 1.05 Form 8-K reveal to be not material, the alternative of delaying disclosure beyond the four-business-day period after a materiality determination has the potential to lead to far more mispricing and will negatively impact investors making investment and voting decisions without the benefit of knowing that there is a material cybersecurity incident.

The SEC is not exempting registrants from providing disclosures regarding cybersecurity incidents on third-party systems they use, nor are they providing a safe harbor for information disclosed about third-party systems. While there are valid concerns about a registrant's reduced control over such systems, the SEC notes the centrality of the materiality determination: whether an incident is material is not contingent on where the relevant electronic systems reside or who owns them. In other words, the SEC does not believe a reasonable investor would view a significant breach of a registrant's data as immaterial merely because the data were housed on a third-party system, especially as companies increasingly rely on third-party cloud services that may place their data out of their immediate control. Instead, materiality turns on how a reasonable investor would consider the incident's impact on the registrant.

Depending on the circumstances of an incident that occurs on a third-party system, disclosure may be required by both the service provider and the customer, or by one but not the other, or by neither. Companies may have reduced visibility into third-party systems; yet registrants should disclose based on the information available to them. The final rules generally do not require that registrants conduct additional inquiries outside of their regular channels of communication with third-party service providers pursuant to those contracts and in accordance with registrants' disclosure controls and procedures. This is consistent with the SEC's general rules regarding the disclosure of information that is difficult to obtain.

Series of Cybersecurity Incidents

The term "cybersecurity incident" is to be construed broadly. The definition of cybersecurity incident the SEC is adopting extends to "a series of related unauthorized occurrences."

This reflects that cyberattacks sometimes compound over time, rather than present as a discrete event. Accordingly, when a company finds that it has been materially affected by what may appear as a series of related cyber intrusions, Item 1.05 may be triggered even if the material impact or reasonably likely material impact could be parceled among the multiple intrusions to render each by itself immaterial.

National Security or Public Safety Concerns

A registrant may delay filing if the United States Attorney General ("Attorney General") determines immediate disclosure would pose a substantial risk to national security or public safety. The SEC agrees that a balancing of concerns consistent with our statutory authority is necessary to avoid empowering threat actors with actionable information that could harm a registrant and its investors.

However, delayed reporting of cybersecurity incidents can also result in mispricing of securities, and such mispricing can be exploited by threat actors, employees, related third parties, and others through trades made before an incident becomes public. Therefore, Item 1.05 focuses the disclosure primarily on the impacts of a material cybersecurity incident, rather than on requiring details regarding the incident itself.

Initially, disclosure may be delayed for a time period specified by the Attorney General, up to 30 days following the date when the disclosure was otherwise required to be provided. The delay may be extended for an additional period of up to 30 days if the Attorney General determines that disclosure continues to pose a substantial risk to national security or public safety and notifies the Commission of such determination in writing.

In extraordinary circumstances, disclosure may be delayed for a final additional period of up to 60 days if the Attorney General determines that disclosure continues to pose a substantial risk to national security and notifies the Commission of such determination in writing. Beyond the final 60-day delay, if the Attorney General indicates that further delay is necessary, the Commission will consider additional requests for delay and may grant such relief through a Commission-exemptive order.

The SEC purposefully did not add a requirement for disclosure regarding the incident's remediation status, whether it is ongoing, and whether data were compromised. A registrant need not disclose specific or technical information about its planned response to the incident or its cybersecurity systems, related networks and devices, or potential system vulnerabilities in such detail as would impede the registrant's response or remediation of the incident.

Why Not Just Use Forms 10-Q or 10-K Reporting?

The SEC is not adopting suggestions to replace Item 1.05 with periodic reporting of material cybersecurity incidents on Forms 10-Q and 10-K because such an approach may result in significant variance as to when investors learn of material cybersecurity incidents.

Based on when an incident occurs during a company's reporting cycle, the timing between the materiality determination and reporting on the next Form 10-Q or Form 10-K could vary from a matter of months to a matter of weeks or less.

For example, if two companies experience a similar cybersecurity incident, but one determines the incident is material early during a quarterly period and the other makes such determination at the end of the quarterly period, commenters' suggested approach would have both companies report the incident around the same time despite the first company having determined the incident was material weeks or months sooner, which would result in a significant delay in this information being provided to investors. Such a variance would therefore reduce comparability across registrants and may put certain registrants at a competitive disadvantage.

Why is Material Impact not Quantified?

The SEC declined to use a quantifiable trigger for Item 1.05 because some cybersecurity incidents may be material, yet not cross a particular financial threshold. The material impact of an incident may encompass a range of harms, some quantitative and others qualitative.

What is an Unreasonable Delay?

Companies must make their materiality determinations "without unreasonable delay." Though the determination need not be rushed prematurely, it also cannot be unreasonably delayed to avoid timely disclosure. For example, for incidents that impact key systems and information, or involve unauthorized access to or exfiltration of large quantities of particularly important data, a company may not have complete information about the incident but may know enough about the incident to determine whether the incident was material. In other words, a company being unable to determine the full extent of an incident because of the nature of the incident or the company's systems, or otherwise the need for continued investigation regarding the incident, should not delay the company from determining materiality.

If the materiality determination is to be made by a board committee, intentionally deferring the committee's meeting on the materiality determination past the normal time it takes to convene its members would constitute unreasonable delay.

If a company were to revise existing incident response policies and procedures in order to support a delayed materiality determination for or delayed disclosure of an ongoing cybersecurity event, such as by extending the incident severity assessment deadlines, changing the criteria that would require reporting an incident to management or committees with responsibility for public disclosures, or introducing other steps to delay the determination or disclosure, that would constitute unreasonable delay.

Adhering to normal internal practices and disclosure controls and procedures will demonstrate good faith compliance.

Are There Related Bans on Insider Trading Prior to Filing?

The SEC did not include any new rules to ban trading by insiders during the materiality determination period. Those with a fiduciary duty or another relationship of trust and confidence are already prohibited from trading while in possession of material, nonpublic information. The risk of insider trading is low given the limited period between experiencing a material incident and public disclosure.

Recently adopted amendments to Rule 10b5-1 added a certification condition for directors and officers wishing to avail themselves of the rule's affirmative defense. Specifically, directors and officers need to certify in writing, at the time they adopt the trading plan, that they are unaware of material nonpublic information about the issuer or its securities, and are adopting the plan in good faith and not as part of a plan or scheme to evade the insider trading prohibitions. Therefore, given the timing of the incident disclosure requirement, as well as the recently adopted amendments to Rule 10b5-1, the SEC does not find a need for a new rule banning trading by insiders during the period between the materiality determination and disclosure.

Updating Incident Disclosures

The SEC is issuing a new instruction to clarify that updated incident disclosure must be provided in a Form 8-K amendment. A registrant should include in its Item 1.05 Form 8-K a statement identifying any information called for in Item 1.05(a) that is not determined or is unavailable at the time of the required filing, and then file an amendment to its Form 8-K containing such information within four business days after the registrant, without unreasonable delay, determines such information, or within four business days after such information becomes available.

Companies will not have to distinguish whether information regarding a material cybersecurity incident that was not determined or was unavailable at the time of the initial Form 8-K filing should be included on current reports or periodic reports, as the reporting would be in an amended Form 8-K.

Use of a Form 8-K amendment rather than a periodic report will allow investors to identify updates more quickly regarding incidents that previously were disclosed. However, the final rules do not require updated reporting for all new information. Rather, Instruction 2 to Item 1.05 directs companies to file an amended Form 8-K with respect to any information called for in Item 1.05(a) that was not determined or was unavailable at the time of the initial Form 8-K filing. Other than with respect to such previously undetermined or unavailable information, the final rules do not separately create or otherwise affect a registrant's duty to update its prior statements.

Registrants may have a duty to correct prior disclosure that the registrant determines was untrue (or omitted a material fact necessary to make the disclosure not misleading) at the time it was made. For example, the registrant subsequently discovers contradictory information that existed at the time of the initial disclosure. Registrants also have a duty to update a disclosure that becomes materially inaccurate after it is made. For example, the original statement is still being relied on by reasonable investors. Registrants should consider whether they need to revisit or refresh previous disclosure, including during the process of investigating a cybersecurity incident.

Foreign Private Issuers

Foreign Private Issuers (FPIs) must provide on Form 20-F:

1. A description of the board's oversight of risks from cybersecurity threats.
2. A description of management's role in assessing and managing material risks from cybersecurity threats.

FPIs must furnish on Form 6-K information on material cybersecurity incidents that they disclose or otherwise publicize in a foreign jurisdiction, to any stock exchange, or to security holders.

The SEC goal was to establish disclosure requirements for FPIs parallel to those proposed for domestic issuers in Regulation S-K Items 106 and 407(j) and Form 8-K Item 1.05.

Structured Data Requirements

Registrants must tag the new disclosures in Inline XBRL, including by block text-tagging narrative disclosures and detail tagging quantitative amounts. Structured data requirements would make the disclosures more accessible to investors and other market participants and facilitate more efficient analysis.

GROUP STUDY MATERIALS

A. Discussion Problems

A. IFRS Sustainability Standards

1. Discuss the effective date for IFRS S1 and S2 and how the information to be reported in the first year of adoption differs from information to be reported in the second year.

2. Discuss the risk management pillar of the IFRS Sustainability Disclosure Standards and the types of disclosures required.

3. Discuss the IFRS S2 requirements to disclose the GHG emission, including the nature of the different scopes of disclosures.

B. SEC Cybersecurity Disclosures

1. Discuss the nature and timing of newly required disclosures of cybersecurity incidents.

2. Discuss the circumstances in which the U.S. Attorney General might become involved in the timing of an entity's reporting of a cybersecurity incident.

3. Discuss the SEC's position on quantifying the material impact of cybersecurity incidents.

B. Suggested Answers to Discussion Problems

A. IFRS S1 and S2 Finalized Sustainability and Climate-Related Disclosures

1. IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. However, entities are permitted to report the requirements in IFRS S1 only to the extent that they relate to the disclosure of climate-related information in the first year of adoption. The application of IFRS S2 is unaffected.

   An entity would be required to provide information under IFRS S1 about its other sustainability-related risks and opportunities in the second year that it applies IFRS Sustainability Disclosure Standards. This will allow entities time to build the capacity necessary to report consistent, complete, comparable, and verifiable sustainability-related financial disclosures.

2. The required risk management disclosures include the processes that the entity uses to identify, assess, prioritize, and monitor identified sustainability-related risks and opportunities. Disclosure is also required about the extent to which, and how, these processes integrate into the entity's overall risk management processes.

   This includes disclosures regarding:

   - The inputs and parameters used, such as information about data sources and the scope of operations covered in the processes;
   - Whether and how the entity uses scenario analysis to help identify sustainability-related risks;
   - How the nature, likelihood, and magnitude of the sustainability-related risks are assessed;
   - Whether and how sustainability-related risks are prioritized in relation to other types of risks;
   - How the entity monitors sustainability-related risks; and
   - Whether and how this process has changed from the prior year.

3. IFRS S2 requires an entity to measure and disclose its Scope 1, Scope 2, and Scope 3 GHG emissions in accordance with the GHG Protocol Corporate Standard, subject to certain transition reliefs:

   - Scope 1—Direct GHG emissions that occur from sources that are owned or controlled by the entity (e.g., GHG emissions from combustion in the entity's furnaces at its factories).
   - Scope 2—Indirect GHG emissions that occur from the generation of purchased electricity, heat, or steam that an entity uses (e.g., GHG emissions at the facility where the electricity is generated).
   - Scope 3—Any other indirect GHG emissions outside Scope 2 that occur upstream and downstream in the entity's value chain (e.g., GHG emissions generated from an employee commuting to work).

   For each GHG emission target disclosed, an entity is required to disclose:

   - Whether Scope 1, Scope 2, or Scope 3 GHG emissions (including which GHG gases) are covered by the target;
   - Whether it is a gross or net GHG emissions target (if the entity only has a net GHG emissions target, the associated gross GHG emissions target is required to be disclosed);
   - Whether the target was informed based on a specific sector's decarbonization approach; and

- The planned use of carbon credits to offset GHG emissions to meet any net GHG emission targets, including:
    - Whether it relates a nature-based or technological carbon removal;
    - Which third party will verify the carbon credit; and
    - Any other factors to help users understand the credibility and integrity of the carbon credit.

B. New SEC Cybersecurity Disclosure Rules

1. Registrants must disclose any cybersecurity incident they experience that is determined to be material, and describe the material aspects of its:

    a. Nature, scope, and timing; and

    b. Impact or reasonably likely impact.

    An Item 1.05 Form 8-K must be filed within four business days of determining an incident was *material*. There is time leading up to determining that an incident is material. Registrants must amend a prior Item 1.05 Form 8-K to disclose any information called for in Item 1.05(a) that was not determined or was unavailable at the time of the initial Form 8-K filing.

    Harm to a company's reputation, customer or vendor relationships, or competitiveness may be examples of a material impact on the company. Similarly, the possibility of litigation or regulatory investigations or actions, including regulatory actions by state and federal governmental authorities and non-U.S. authorities, may constitute a reasonably likely material impact on the registrant.

2. A registrant may delay filing if the Attorney General determines immediate disclosure would pose a substantial risk to national security or public safety. The SEC agrees that a balancing of concerns consistent with our statutory authority is necessary to avoid empowering threat actors with actionable information that could harm a registrant and its investors.

    Initially, disclosure may be delayed for a time period specified by the Attorney General, up to 30 days following the date when the disclosure was otherwise required to be provided. The delay may be extended for an additional period of up to 30 days if the Attorney General determines that disclosure continues to pose a substantial risk to national security or public safety and notifies the Commission of such determination in writing.

    In extraordinary circumstances, disclosure may be delayed for a final additional period of up to 60 days if the Attorney General determines that disclosure continues to pose a substantial risk to national security and notifies the Commission of such determination in writing. Beyond the final 60-day delay, if the Attorney General indicates that further delay is necessary, the Commission will consider additional requests for delay and may grant such relief through a Commission-exemptive order.

3. The SEC declined to use a quantifiable trigger for Item 1.05 because some cybersecurity incidents may be material, yet not cross a particular financial threshold. The material impact of an incident may encompass a range of harms, some quantitative and others qualitative.

    A lack of quantifiable harm does not necessarily mean an incident is not material. For example, an incident that results in significant reputational harm to a registrant may not be readily quantifiable and, therefore, may not cross a particular quantitative threshold, but it should nonetheless be reported if the reputational harm is material. Similarly, whereas a cybersecurity incident that results in the theft of information may not be deemed material based on quantitative financial measures alone, it may in fact be material given the impact to the registrant that results from the scope or nature of harm to individuals, customers, or others, and thus, may need to be disclosed.

PART 2. AUDITING

Compilation Reporting

The AICPA provides guidance on several different levels of service. While the audit is at the high end of the attest continuum, the preparation is at the low end and is not an attest service. The compilation engagement is an attest engagement but provides no assurance.

For more on reporting on compilation engagements, let's join Kurt Oestriecher, a CPA and a partner with Oestriecher and Company in Alexandria, Louisiana, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

Today we want to talk about the reporting that is associated with probably the most popular engagement that most accountants perform, and that's compilations. Even if you're in tax, a lot of times you end up with compiled financial statements out of that tax return balance sheet for many clients. So, to begin with, let's talk a little bit about what the compilation report is, and where our guidance is.

Mr. Oestriecher

Yes, well, it's something that is required anytime you're under Section AR-C 80. When the preparation engagement was introduced—oh, this has been a while now, seven, eight, nine years ago, something like that—that's where you basically had the reporting and the non-reporting option of financial statements on which you're providing no assurance. Remember, the audit and the review provide different levels of assurance. The compilation used to be the only thing with no assurance, but now we have the preparation.

The compilation is appropriate when you're issuing financial statements and you and the client have agreed to follow the compilation standards in Section AR-C 80. One reason I want to make a distinction, within AR-C 70, which is the preparation engagement where the hallmark of that is there is no report, you have an option under 70 to issue a report rather than put the words "no assurance provided." That is not a compilation report; you are still in the preparation standard. The reason I mentioned that is I had a very, very interesting discussion with a person in a CPE course one time, and I could understand the confusion. For whatever reason, their client—I don't know if it was their software—but they couldn't get "no assurance provided" on the bottom of the financial statements. (Can't you just print it to a PDF and add it or something? But for whatever reason, they couldn't.) He said, "We looked at the standards and it said you could issue a disclaimer report, so we issued the compilation report." Of course, what does that report say? "We have compiled it accordingly." But you didn't, you prepared.

Folks, the compilation report is when you're engaged to do a compilation. Don't ever use this report when you're doing a preparation. I think it's pretty obvious you wouldn't use it in a review or an audit. Look at your engagement letter. You have to [agree] with the client that this is what we've been engaged to do, and once you're engaged, you *must* report. If you were to issue compiled financial statements or if you have an engagement letter with a client to issue compiled financial statements and you just gave them a balance sheet or income statement and put something like "no assurance provided" and did not issue a report, then you're in violation of the standards.

Again, these things that used to be just so easy and sacrosanct got a little bit blurred when the preparation engagement came out. So, look at your engagement letter. That will tell you when you are required to issue a report.

Ms. Grove Casey

Did you want to talk a little bit about what is in that basic report?

Mr. Oestriecher

Yes, the basic report is one paragraph, three sentences. Now, you will never see that; that is like a unicorn because if you were to ever see that, that meant that there are no independence problems, no supplementary information presented, it was in accordance with U.S. GAAP, there are no departures from GAAP, and all the disclosures are there—which never happens. But it's where you start.

One of the very interesting things that we see about the compilation report, years ago (and this is when I served on the Committee), we asked a question, "If an audit report has a header and paragraph column headings to tell people this is the opinion, or this is management responsibility, why don't we have that in the compilation report?" And we didn't have a good answer, so we put all that in there. Many people might remember where you used to have to put "Accountant's Compilation Report" as a header. Later on, they obviously got smarter people in the Committee, and they said, "Why does the compilation report look so much like the audit report? We shouldn't have these things look similar when they are so divergent in that one gives an opinion, and one doesn't."

So, they kept the review report with the header and all those paragraph headings because there's some level of assurance provided, but on the compilation report, they made it as bare bones as possible. They said, "Take out the header." You *can* put a header if you want to, but you don't need that. You don't even need an addressee. We're just going to come up with one paragraph, and it starts with the word "management." So, if you are issuing a compilation report and the first word is not "management," you're using a very, very outdated report.

Now, after the word "management" everything's going to change, but that should be first: "Management is responsible for the …" and then you start listing up the financial statement. So, within that first sentence, that's where there are going to be a lot of differences. You're going to put the name of the entity. When I'm talking about the appropriate name of the entity, if it is "XYZ, LLC, DBA Acme Company," put that. Whatever you see on the financial statements, that is what you're going to want to see on the first sentence in the first paragraph of your compilation report.

Once you have the name of the reporting entity correct, now you have to look at the titles of the financial statements. So, depending on if you're under U.S. GAAP or a special purpose framework, you might use the word "Balance Sheet." If it's income tax basis, you might say "Balance Sheet—Income Tax Basis" or "Statement of Assets and Liabilities and Equities Arising From Income Tax Basis." If it's cash basis, you say "… Arising from Cash Transactions." So, you have to make sure, whatever your title—and it should be an appropriate title—for the financial statements themselves, that exact title is used [for the compilation report].

The next thing you have to be concerned about in that first sentence is the periods presented. Quite often, people have comparative financial statements, but they are only referring to the current year [in the description]. If you're showing comparative one month this year to one month last year, and eight months to this year and eight months to last year, that all needs to be in the description. So, most people would say something along these lines in the income statement: "For the one [year] and seven months ended July 31, 2023, and 2022." That would be enough of a description to cover both periods presented, the month and the year to date, and this year and last year. That's why they are in that very, very first sentence. You just have to look and make sure that everything is appropriate.

After that, the remaining sentences are boilerplate. We have an example in the text where you describe that a compilation is [providing] no assurance and you state that you performed the engagement in accordance with Statements on Standards for Accounting and Review Services issued by the Accounting and Review Services Committee of the AICPA—and I've been warning people on this. While we spell out Statements on Standards for Accounting and Review Services, and we spell out Accounting and Review Services Committee, please do not put American Institute of Certified Public Accountants, put AICPA. It has been, I think, since '16 that when you go to the AICPA website—a lot of people don't believe me—but now, our AICPA website says, "AICPA & CIMA" ([Chartered] International Management Accountants). The AICPA has asked that we not call that a merger, but man, it sure looks like a merger to me. It is now known as the Association of International Certified Professional Accountants, that combined entity of the Institute and CIMA. Now, the Institute still legally exists, so the Institute is there, but basically, they just have a very brief board meeting. Most of the business is conducted in this joint meeting with the Association of International Certified Professional Accountants, and no one has ever been able to give me a straight answer as to who owns the Standard. Is it the Institute or the international group? And I'm pretty sure it's the

Institute. I think the plan was—now this is just Kurt's conspiracy theory—I think the plan was to eventually get rid of the Institute and just have this one organization. But remember, we are governed by 54 different jurisdictions: the 50 states, Guam, Puerto Rico, DC, and the Virgin Islands, and the statutes that created many of these state boards of accountancy refer to standards issued by the American Institute of Certified Public Accountants. So, I think that's why [we still have both]. I'm pretty sure it's still owned by the Institute, but I'm really urging people just to put "AICPA" as the acronym because it's weird when they see one acronym and not the other one.

Ms. Grove Casey

So, that's the standard report. Typically, we have that city and state at the bottom of it. But let's talk about modifications because that's our more likely scenario, really.

Mr. Oestriecher

Yes, and I do want to mention one thing about the date. Remember, you date the report as of the completion of the compilation procedures. In my firm, 90-plus percent of all of our compilations are as a result of our back-office accounting. I have some wonderful people over there. We do the payroll for the client each month and we do the accounts payable. Then, at the end of the month, they start cranking out [bookkeeping reports]. They used to come to my desk in a binder. Now, I get an email with the file attached to me—we pretty much are paperless with this, but all that was bookkeeping nonattest service.

The compilation started when I read those financial statements. That is the hallmark of the compilation: what the engagement letter [says], understanding the entity, reading the financial statements, and then, using your knowledge of the financial reporting framework of the entity and their accounting policies [to determine], did anything look out of whack? So, when I'm reading it, I'm actually compiling it. Fortunately, that's usually the same day. So, if the bookkeeper finishes on, let's say, September 7 and you read it on September 12, it shouldn't have the September 7 date (if you've been on vacation or something and come back). That's not a huge, gigantic deal, but please make sure you understand it's the date that you read it, and usually that's the date that you also forward it to your client. So, that is the one thing I wanted to mention on the date because there is some confusion on the date.

Now, let's get into all those other paragraphs that you might be able to have (and you will have) in a compilation. I promise you that within our firm, if we have 60 compilation clients, I'll bet you there are about 40-plus variations of the report because the very first thing you get, and the most common one, is the omission of disclosures, and for all of our monthly write-up clients we omit the disclosures. So, you have a paragraph—and it's only allowed in compilations, this blanket GAAP departure—where you can explain to any user that management has elected to omit substantially all of the disclosures. And I bet you're asking this question, Debi, why do they say the word "substantial" and not just say "all"? Is that what's going through your mind right now? Well, it is what goes through everybody's mind when I ask them that. It's because, remember, footnotes aren't disclosures. Disclosures can actually be on the face of the financial statement. Let's say on accounts receivable you put in parentheses "(net of allowance of $18,000.)" That is actually a disclosure, so that's why they say "substantially all disclosures" because you might have slipped one in accidentally on the face of the financial statement. That's why they actually use the words "substantially all disclosures required by…"—now this is where it gets different. If these are U.S. GAAP compilations, you would say "required by generally accepted accounting principles in the United States." But if it's income tax basis, which I think the vast majority of compilations now are actually income tax basis, you don't say "required by" because the tax code contains no required disclosures. You say, "Management has elected to omit substantially all the disclosures ordinarily included in financial statements prepared on the income tax basis of accounting."

People say, "Well, Kurt, if the tax code says you don't have to have disclosures, then why would we even ordinarily include them?" And I'll tell you, the linkage has been lost but I can tell you the history because people know I'm a nerd. SAS 62, however many years ago, said in these special purpose frameworks (and we called them OCBOAs back then), if that framework does not require disclosures, then you will use the GAAP-similar disclosures. In other words, if you have fixed assets, use the GAAP fixed asset disclosures. If you have receivables, use those similar disclosures and, by the way, you also include things like subsequent events and related-party transactions. So, that was the authoritative guidance. Then, at one time, there was a technical practice aid that said follow the auditing guidance in compilations. Then, with SSARS 15, we actually made it explicit. So, we finally had our own standard within compilations that said if it's tax basis or cash basis and they don't have disclosures in the tax code, go use GAAP. But then, when the clarifying standard came out, they took that out. So, that's why I said there's no linkage there. If someone were to have a highly technical, someone's-life-depended-on-it argument, I would have to argue that no, actually, you can't show anywhere where it's required, and we could not include that. But first of all, that tribunal will never happen, and secondly, because it's on peer reviewers' checklists, you will lose in your peer review. So please, I wish I could tell you the exact authoritative standard, like I used to be able to tell you, that said in a compilation you have to do it, but what I will tell you, no matter what framework you're using, if footnotes and other disclosures are not present, you will include this paragraph, but make sure you're using the words "required by" or "ordinarily included" as appropriate.

Then, that goes on to say, for most people, if they're not going to put in the disclosures, what else do they omit? The statement of cash flows. Why do we omit the statement of cash flows? I'll tell you the reason: because it can't be automatically generated by the computer. No matter which software says it will do a statement of cash flows, I can't push a button on Sage, QuickBooks, or any of those software packages. I can't push a button. Now, it will give me what they are calling a statement of cash flows, but trust me, *it ain't right*. So, we just say we're going to omit that. Then, that's when people, if it's GAAP, typically will say "Management has elected to omit substantially all the disclosures required by United States generally accepted accounting principles and the statement of cash flows," or "…disclosures and the statement of cash flows required by…." You can kind of go either way there.

Then, you go on to [mention] the users. I can't remember the exact wording, but it warns people that these financial statements are not intended for those who are not informed about such matters. That would basically mean no one should use them, but people took that to heart because most people would want to know information about the statement of cash flows.

But this is where it gets interesting. That same guidance that we've always had that said if disclosures aren't required within your framework, then you have to put them in there, there's nothing like that for statement of cash flows. You're not required to present a statement of cash flows in income tax basis (or certainly cash basis), and they also aren't ordinarily included, so you don't need to make that reference. You can, there's nothing wrong if you want to say, "Management has elected to omit substantially all the disclosures and the statement of cash flows ordinarily included in the income tax basis" because you might say I would have ordinarily included it. But I can tell you, most people make no reference to the statement of cash flows on anything other than U.S. GAAP, or in the very rare circumstances that you're doing FRF for SMEs or IFRS for SMEs. But in your cash basis, contractual basis, regulatory basis, and income tax basis, generally we do not mention the statement of cash flows. So, there's a lot going on in that paragraph and make sure it is appropriate for the basis of accounting that management has selected.

Ms. Grove Casey

Did you want to talk about our favorite line at the bottom of compilation reports which has to do with independence?

Mr. Oestriecher

Oh, yes. First of all, you're required in a compilation to make a determination of independence and that takes us about seven seconds on almost all of our compilation clients. We asked these questions: do we perform nonattest services for the client? Yes. Is the client willing to designate an individual with suitable skill, knowledge, and/or experience to oversee these services? We answer no. Done. Independence is [impaired]. We have now been duly divorced from the client. (Is that appropriate to say if you lack independence? Usually, you are "married" to them because you're doing most of the work.)

For years you just put, "we are not independent with respect to XYZ company" and that was it. But folks, the key here is, make sure somewhere you have documented the reason for your lack of independence or your determination of independence before you put that paragraph in there. You can't just assume it; you have to pinpoint something. It's not going to be a family relationship (even though it could), it's probably not going to be an ownership, it's always the nonattest service.

Remember, Debi, you're younger than me, but when I first got into this profession almost 40 years ago, it was extraordinarily rare that we disclosed lack of independence because it was maybe a family-owned company or something like that. But ever since the nonattest thing exploded in the early 2000s, our clients just don't want to jump through those hoops, so it is something that's very common. Please make sure you make the determination, and you make that disclosure. I call it a disclosure, but that "reporting element" is more appropriate to call it. Disclosures are things management would include. A reporting element is something we're responsible for. We are responsible for our compilation report. I can understand why people would call it a disclosure.

I can't remember, but maybe it was SSARS 19 that said if you want to, we will let you disclose the reasons for your lack of independence. Our firm has never done that for the very simple reason that it's an administrative headache because I just described to you our process and the short length of time it takes in order to determine if independence is impaired. Well, if you disclose the reasons, you have to disclose *all* the reasons. That means you have to consider all the reasons.

Ms. Grove Casey

Right, all the reasons. And if you miss one, it's a problem.

Mr. Oestriecher

Right. I think it was Paul Simon that once wrote that there are 50 ways to leave your lover. I think there are 389 ways to impair your independence. I'm not sure Simon and Garfunkel are going to come out of retirement and make a song about independence or not, but you have to go through all those and you have to identify who are the close relatives and who are the immediate family members—and first of all, you even have to define who are the covered members on every engagement. Who wants to do all that? So, I cannot be stronger in my recommendation to you that you will not want to do this.

The other thing is it provides no relevant information. There aren't levels of independence. Lack of independence doesn't mean we're a bad firm or our clients are bad. It just means that we are not entirely objective on these financial statements because it was our work, or because I own part of the company, or because my wife owns part of the company. It doesn't make you bad people, it is just a lot of work for what I consider to be irrelevant information. I have had some sole practitioners that say, "Kurt, I understand what you're saying. However, I'm the only covered member. I'm the only person in my office. It doesn't take me long to say I don't own any of this stuff, and I want the banks or users to know that independence is impaired because we're helping the client, doing management services." To them that is valuable information, and I can't argue with that. It's just perception. But the larger the firm, the less likely you're probably going to want to do that.

Ms. Grove Casey

Let's talk about some of the other issues that come up when we're issuing these reports. Maybe we're using a prescribed format because the client [has an insurance requirement] or it's the bonding requirements for construction contractors. Let's talk about those reports a little bit.

Mr. Oestriecher

Well, the first thing, let's talk about a couple of other paragraphs. If there is a departure from the framework, you have to have a paragraph for that. That gets into what you said about a construction entity. Maybe they're not cutting things off. You have to understand your industry and if there are departures. So, the first thing, make sure you know what framework you're in. [For example] U.S. GAAP and it's a C corp. Well, the entity is not going to be accruing deferred taxes at all, or probably even interim taxes, so that's a departure. You have to disclose that.

Remember, just because there is no assurance provided does not mean you do not have a responsibility. If you identify departures from the framework while you're reading the financial statement, you have an obligation to either get the information and propose to the client, "This is how you fix it," or if the client says, "I don't want to do that every month," you have a departure.

There is a myth out there, however, that you can't have departures from tax basis because you're doing everything in accordance with the tax law every month; therefore, you can never have a departure. It's only the complex GAAP stuff that you don't want to include—that's where you'd have the GAAP departure. Debi, I've got some clients that could care less about what the tax code is, and they want their financial statements to do certain things. My most famous one is a person who said, "Look, I only want to have my absolute expenses included each month," but he still wants his rent check because he owns a rent building. So, each month, he wanted rent for that month to go into deferred rent as an asset. He kept his salary at the same salary from 1982—he increased his salary over the years, but he says, "That's my *base* salary. Any extra that I take, that's a deferred bonus." He didn't like to see any depreciation till the end of the year, and he didn't want to accrue his pension till the end of the year, so he had departures all over the place. Then, after we gave him his December 31 financial statements the way he wanted to see things, then we do the tax return and adjust all this, and he called those his "period 13" financial statements. Well, the period 13 financial statements didn't have all those departures, but I had about seven paragraphs of departures. Now, I'm fairly certain, because he didn't have any loans and he wasn't taking these to the bank, at some point, I would have had to say, "Gee, are these so misleading that if he does take them to a bank, I just can't issue a compilation report?" Because he had all these assets that weren't assets. It was money that had been spent and was never going away. So, for people who don't want to record depreciation until the end of the year, well, it's a real expense and the tax code calls for it, so you *can* have departures on income tax basis. Where it's really tough to have departures is modified cash basis because cash basis is cash. Then, for any modifications you're saying, "Hey, that's my modification." So, I can see where you wouldn't have any departures there.

Understand your framework, determine if there's anything that's not being recorded for each month or quarter that is appropriate for that framework, and then, have the appropriate paragraph included in your report that describes that departure.

So, I wanted to get there, and then, that kind of gets into the special purpose frameworks. We've talked a lot about them. Anytime you have a special purpose framework (that is the artist formerly known as OCBOA), you will always have a secondary [paragraph]. Your second paragraph will always say "the financial statements have been prepared in accordance with the _______ basis of accounting." In this case, I'll say income tax basis of accounting. And you have to say, "which is a basis of accounting that differs from United States generally accepted accounting principles" or "generally accepted accounting principles in the United States." You can use either one of those. But it still harps on the belief of the Committee—and I think it's an appropriate belief—that there is an underlying assumption that anyone looking at financial statements will assume they are based on United States GAAP unless we tell them otherwise. That's why you have to have that little warning, in addition to the first paragraph where you reference income tax basis about three or four times. So, those are the common things that you will see in the report.

I think you asked earlier about things like prescribed forms. So, what do you do there? What is the difference [when using] a prescribed form? Well, it's something in between United States GAAP and a special purpose framework. You can almost make an argument that it is contractual basis because someone said, "For you to get this loan, you have to fill out this personal financial statement of the American Banking Association," or to get a certain license in Louisiana, they had a prescribed form. That could be maybe regulatory, but it really isn't because it doesn't have all the measurement elements; it just says, "This is the form we want you to fill out." So, anytime you fill out a form and it looks like a balance sheet, and it has all the elements of the balance sheet because it wants you to list things like cash, receivable, property and equipment net of depreciation, and your assets equal liability plus equity, that's a prescribed-form financial statement. Now, if it is a form like a borrowing-based certificate that just maybe has inventory and receivable numbers on it, that's obviously not a complete financial statement, so that is not a prescribed form. That's just financial information.

Remember, the overall blanket of compilation standards is that of financial statements. So, we had to come up with something to cover these hybrid things that look like financial statements, but really weren't GAAP and really weren't special purpose framework, and we call them prescribed forms. We used to actually have a Section 300 that would say "we have compiled the accompanying personal financial statement of James and Jane Person in accordance with the prescribed format of the American Banking Association." That all went away when they clarified it, then the

Committee said, "Oops, we really need that," so now, you have to go to the Guide, and there's a special report. But what's interesting about that report is that report assumes that you are going to use U.S. GAAP measurement to determine what numbers you're going to put in that prescribed form. Well, the personal financial statement for the American Banking Association doesn't have a place for deferred taxes on the differences between the fair value of assets and their tax basis, so you now have to have a departure paragraph for that. It gets kind of interesting there with prescribed forms, but you actually have to go to the guidance updated annually by the Accounting and Review Services Committee. I believe it is illustration number 16 in the Guide. And of course, all your third-party practice aids have examples of that prescribed form report. So, that's kind of a sticky area.

Then, restricting the report. Most people don't realize you can, in fact, restrict a compilation report anytime you want to. You just would add a paragraph. We have never restricted one for any reason, but if you needed to, you can. I will say that if you're doing contractual or regulatory basis, you're required to restrict the report to those people that are aware of the contract or the regulatory.

Supplementary information—anything that is included behind the compilation report that is not part of a basic financial statement is supplementary information. So, if you include budget versus actual, that's supplementary. If, on the main income statement, you have general and administrative expenses and then you have a detailed schedule, that is supplementary information. Anytime supplementary information is presented, you must report on it. You can either issue a separate report, which is rarely done, or you can add a paragraph in your basic compilation report that says, "the accompanying supplementary information"—and then you identify it on page 3 or in schedule 1, but make sure you identify it—"is presented for supplementary analysis," and you state that you either compiled it or you didn't compile it. Obviously, if it came from the same data that was used to prepare the financial statements, you have compiled it, because that is what you have read. Years ago, we did work for some broadcast entities here in the central Louisiana area and in their quarterly financial statements, which were compiled, they wanted the ratings numbers that were obtained by the station manager and just given to us. Well, we didn't compile those. We didn't read them, I didn't know what I was looking at, we just put them in there. So, that would be an example of something that you didn't compile. It is generally something external to the financial records.

Required supplementary information, fortunately, unless you're doing a homeowners' association or governmental entity, you're not going to have any required. But if you are within a framework that has required supplementary information, then you *will* add a paragraph because now you have to say that you omitted it because it was required. So, again, government entities and homeowners' associations, that's where you have the required supplementary information. Make sure you add a paragraph that either says it's there and it's correct; it's not there; it's partially there; or it's there and it's incorrect. You have six different options, I think, when you have required supplementary information.

Going concern is something that comes up very often. When you omit disclosures, going concern is a disclosure issue. So, if management is omitting disclosures, then you don't have to worry about it. But something new has happened with the standards. It used to be that you could *not* have a paragraph in your compilation report that introduced new information. Now you are allowed to. You can put anything in your report you want to. So, if management has elected to omit substantially all the disclosures and you believe that there's a potential issue there on going concern, you can add that, and it's called an *other-matter paragraph*. An *emphasis-of-matter* paragraph emphasizes something that management has included. This would be what's considered an other-matter paragraph. But I strongly caution you when you do that because management is not going to be happy.

If they've objected to putting it in, and if I thought that it was necessary for third parties to know, I would ask management to disclose it in "Selected Information"—which is the next topic in the text—where you don't have footnote disclosures, but instead you say, "Management has elected to omit substantially all disclosures, but selected information is presented." Then, you describe the going concern and I would put in an emphasis paragraph to do that. If management says, "No, we don't want it," I say, "Fine, but I'm not issuing a compilation report then." I think that's the best way to handle going concern. You can use Selected Information for anything, but that's probably one of the [most common]. Maybe a significant subsequent event, a significant related party transaction, or going concern. That's typically where you would see disclosing Selected Information.

Ms. Grove Casey

Let's talk a little bit about the comparative financial statements.

Mr. Oestriecher

Yes. Looking at financial statements for one year gives good information, comparing it to the prior year gives great information, and comparing it to the prior year and budget is awesome information—that's what I always say. So, let's at least give them great, and if we can convince them to do a budget, we can give them awesome. I think most of us like comparative, which is fine. Now, the first year you pick up a client you have to ask yourself, "Well, what if they had done their own books last year?" Believe it or not, you can include the client comparatives in there, you just have to disclaim and say, "Hey, we only covered this year," and then the column has to say, "Client Prepared." My high recommendation is don't include client-compared unless you compile it also—and you might as well compile it because that means you're just reading it, correct? I mean, you already have all the information you need on the client, so you just read both years. I would prefer just to compile both years the first year if you are the first time they've ever used a CPA.

A couple of little caveats there. If you omit disclosures, you have to omit disclosures for all periods presented. Believe it or not, you can do comparatives where maybe last year was reviewed, and now, they no longer have the banking requirements, so you're down to a compilation and the client wants to compare it to financials. Absolutely you can do that. I try to avoid split-level reporting, but if that's what the client wants, you would just simply add a paragraph—either include last year's review report or refer to last year's review report in the compilation or in the audit report. Remember, this is a compilation discussion, so it's always going to be a step down. If this was a review or audit discussion, then there are different rules you would follow when you're stepping up.

Now, in the rare occasion that you have restated the prior year, [for example] last year, in October, I issued financial statements. Then, when I got to December, I said, "Oopsie, I found a problem with July," and I fixed that last year. Well, now, in my database, when I print out a comparative, if someone were to pull last year's October financial statements, it's not going to agree with what I have this year as comparative. Add a paragraph explaining what happened. So, a lot of little nuances like that with comparative financial statements, but if you have the basic report correct and you keep these few caveats in mind, you will have appropriate reporting for comparatives.

Compilation Reporting Requirements

By Kurt Oestriecher, CPA

Introduction

Errors on compilation reports are often cited on peer review deficiency lists, so the accountant should be familiar with all of the elements of the compilation report, as well as the necessary modifications when appropriate. This discussion will examine all of the common, and some of the not so common, issues encountered when reporting on compiled financial statements.

Compilation Reporting Requirements

An accountant must issue a report when compiling financial statements. The objective of the report is to prevent misinterpretation of the degree of responsibility the accountant is assuming when associated with those financial statements. The report must contain the following required elements (AR-C 80.17):

- Include a statement that management (owners) are responsible for the financial statements
- Identify the financial statements that are subject to the compilation engagement
- Identify the entity whose financial statements are subject to the report
- Specify the dates and periods covered by the financial statements
- Include a statement that the accountant performed the engagement in accordance with SSARS issued by the ARSC of the AICPA
- Include a statement on the limitations of a compilation, that the accountant did not review or audit, no procedures were performed, and no assurance is provided
- The signature of the accountant
- The city and state of the accountant
- Date the compilation procedures were completed

Basic Compilation Report—Sample

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 202X and 202X and the related statements of income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. I (we) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (we) did not audit or review the financial statements nor was (were) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

[Signature of accounting firm or accountant]

[Accountant's city and state]

[Date of the accountant's report]

Additional Reporting Issues

Reporting on Financial Statements that Omit Substantially All Disclosures

An accountant may issue a compilation report when management elects to omit substantially all of the disclosures required by the applicable financial reporting framework. The accountant may not issue such a report unless the accountant believes that the omission of disclosures is not undertaken in order to mislead those who might reasonably be expected to use the financial statements. When reporting on such financial statements, the accountant should include a paragraph after the paragraph describing the accountant's responsibilities that includes the following elements:

- A statement that management has elected to omit substantially all disclosures
- A statement that if the omitted disclosures were included, they may influence the user's conclusions about the company's financial position, results of operations, and cash flows
- A statement that, accordingly, the financial statements are not designed for those who are not informed about such matters

The following is an example paragraph when management omits substantially all disclosures and the statement of cash flows:

Management has elected to omit substantially all the disclosures and the statement of cash flows required by accounting principles generally accepted in the United States of America. If the omitted disclosures and cash flows were included in the financial statements, they might influence the user's conclusions about the company's assets, liabilities, equity, revenue, and expenses. Accordingly, the financial statements are not designed for those who are not informed about such matters.

If the framework used by management is a special purpose framework, such as the income tax basis, the paragraph should be modified to refer to the income tax basis and refer to "disclosures ordinarily included" because there is no authoritative guidance that requires disclosures to accompany income tax basis financial statements.

Management has elected to omit substantially all the disclosures ordinarily included in financial statements prepared in accordance with the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's assets, liabilities, equity, revenue, and expenses. Accordingly, the financial statements are not designed for those who are not informed about such matters.

It is not appropriate to issue a compilation report on prospective financial information that excludes the summary of significant assumptions. Those assumptions are critical information that is needed for the user to understand the prospective information.

Reporting When the Accountant Is Not Independent

An accountant may issue a compilation report when independence is impaired, but the impairment must be disclosed in the final paragraph of the report. The following is an example of such a disclosure:

I am (we are) not independent with respect to XYZ Company.

The accountant may disclose the reasons for the lack of independence, but if the accountant chooses this option, then all reasons for lack of independence must be disclosed.

An example disclosure for independence impairment resulting from the performance of non-attest services is as follows:

We are not independent with respect to XYZ Company as of and for the year then ended because we perform certain accounting services that impair our independence.

Departures from the Applicable Financial Reporting Framework

An accountant is required to disclose any material departures from the applicable financial reporting framework in the compilation report if the departure is not already disclosed by management in the notes to the financial statement. This disclosure should be in a separate paragraph and should state the nature of the departure and the effects of the departure if they are known. If the effects are not known, a statement to that effect should be in the paragraph.

If the accountant believes that the departures are so pervasive as to make the financial statements misleading, and that disclosure of the departure is not adequate, the accountant should withdraw from the engagement. The accountant should not issue a statement that the financial statements are not in accordance with the applicable financial reporting framework.

The accountant should not include a statement in the report that the financial statements are not in conformity with the applicable financial reporting framework.

Legend

Each page of the financial statements may include a reference such as "See Accountant's Report." The guidance for the legend is now contained in the explanatory material; therefore, it is not required. The guidance indicates that when an accountant believes the financial statements could be separated from the report, it may be appropriate for the accountant to place a footer on the financial statements.

Special Purpose Frameworks

The initial paragraph of a compilation report on financial statements prepared using a special purpose framework should make reference to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances when management has a choice of financial reporting frameworks in the preparation of such financial statements.

If the special purpose framework is in accordance with a regulatory or contractual basis of accounting, the accountant should include in the report the purpose for which the financial statements are prepared or refer to the note that includes such information.

The compilation report should include a separate paragraph that indicates the following:

- An indication that the financial statements are prepared in accordance with a special purpose framework
- Reference to the note that describes the special purpose framework (unless management has elected to omit substantially all disclosures)
- An indication that the special purpose framework is a framework other than GAAP

Prescribed Format

The AICPA Standards had specific guidance related to reporting on prescribed forms from December 1981 until the issuance of SSARS 21. SSARS 21 restated all existing guidance and did not bring forward any of the standards related to prescribed forms. Noting the necessity of such guidance, the ARSC has now included guidance related to prescribed forms in the Guide, which is the second level of authoritative guidance. Because there is no reference to a prescribed format in AR-C 80, this is the guidance that is applicable.

Paragraphs 2.101–2.106 of the Guide allows for a report on a financial statement presented in a format prescribed by a third party. There is a glaring difference in the current guidance on prescribed format financial statements and the guidance that used to exist in AR 300. AR 300 specifically defined a prescribed format; therefore, it was understood that the presentation, measurement, and disclosures were not intended to be in accordance with either GAAP or a special purpose framework. The new guidance begins with the assumption that the elements of the financial statement will be *measured* under either GAAP or a special purpose framework and *presented* using the prescribed format. This now requires an accountant to determine if measurement departures exist between the prescribed form and United States GAAP, and to disclose such departures in the compilation report (paragraph 2.103).

The report that is described in the Guide must be used because this is the highest level of authority that provides a sample report. The report makes reference to a *presentation* in accordance with a prescribed form, with the underlying elements *measured* in accordance with United States GAAP. The sample report also includes a paragraph that restricts the report in accordance with paragraph 2.104 of the Guide.

Restricting the Use of an Accountant's Compilation Report

While nothing in the standards precludes an accountant from restricting a compilation report, compilation reports are generally considered to be of general use and are not restricted. The guidance on this issue has been moved from the AR section and is now included in the Guide in Paragraphs 2.98 and 2.99.

Supplementary Information

When supplementary information is included with the basic financial statements, the accountant should clearly indicate the degree of responsibility, if any, the accountant is taking with respect to the supplementary information. This communication can be presented in the basic compilation report as an other matter paragraph, or the accountant may issue a separate report. When the accountant has compiled the supplementary information, the following issues must be addressed in the other matter paragraph:

- State that the information is presented for purposes of additional analysis and is not a required part of the basic financial statements

- State that the information is the representation of management
- State that the information was subject to the compilation engagement, but was not audited or reviewed, and no opinion, conclusion, or assurance is provided on such information

When the accountant has not performed compilation procedures on the supplementary information, the accountant shall include an other matter paragraph in the compilation report that contains the following elements:

- State that the information is presented for purposes of additional analysis and is not a required part of the basic financial statements
- State that the information is the representation of management
- State that the information was not subject to the compilation engagement and, therefore, no opinion, conclusion, or assurance is provided on such information

A sample paragraph for supplementary information that has been compiled is as follows:

The schedule of general and administrative expenses included as schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the representation of management. The information was subject to our compilation engagement; however, I (we) have not audited or reviewed the information, and, accordingly, do not express an opinion, a conclusion, or provide any assurance on such information.

Required Supplementary Information

Required supplementary information is defined as supplementary information that is required to be included by a designated GAAP standard setter. The accountant may either compile or not compile the required supplementary information, but when supplementary information is required, an accountant must address the required supplementary information in the compilation report, even when the required supplementary information is not presented.

If the accountant compiled the required supplementary information, the report will state that the accountant compiled. If the accountant did not compile the required supplementary information, the report shall state the accountant did not compile.

There are multiple scenarios that are possible with required supplementary information, and the standards address each of the following situations:

- The RSI is properly included, and the accountant compiled the RSI
- The RSI is properly included, and the accountant did not compile the RSI
- The RSI is not included
- Some RSI is included, and some is omitted
- The RSI is included, but there are departures
- The accountant has unresolved doubts

Reporting on Comparative Financial Statements

Standards permit reporting on comparative financial statements, but the report must cover all periods presented. The guidance on comparative financial reporting has been moved from AR 200 and is now included in the Guide in paragraphs 2.66–2.78. The following guidance is provided for unusual circumstances.

Client-prepared Financial Statements Included for Comparative Purposes

Financial statements that have been prepared by the client that are included for comparative purposes but have not been audited, reviewed, or compiled by the accountant are permitted. However, the accountant may advise their client that a clear indication should be included so that a user does not inappropriately extend the compilation report to such financial statements.

Omission of Substantially All Disclosures

An accountant that compiles financial statements in which management has elected to omit substantially all disclosures may not issue comparative financial statements when disclosures are omitted for only one of the periods presented. In this case, the disclosures must be either omitted or included for all periods presented.

An accountant may be requested to report on comparative financial statements when the previous year included disclosures and management requests to omit disclosures in the current year. In this case, the accountant must omit disclosures for both years and include in his or her report an additional paragraph indicating the nature of the previous services rendered with respect to those financial statements and the date of his or her report.

Continuing Accountant—Same or Higher Level of Service in Current Year

A continuing accountant who performs the same or higher level of service with respect to the financial statements of the current period should update his or her report on the financial statements of a prior period presented with those of the current period. A report is updated when the accountant considers information performed during the current-year engagement on the report that has been previously issued. If the accountant concludes that it is not necessary to modify the previously issued report, the report is updated by including a paragraph in the audit or review report referencing the compilation report of the previous period.

Continuing Accountant—Lower Level of Service in Current Year

An accountant performing a lower level of service in the current year (i.e., compiled in the current year, and audited or reviewed in the prior year) should either:

1. Include in a separate paragraph of his or her report a description of the responsibility assumed for the financial statements of the prior period. This description would include the date of the report on the prior period financial statements and that the accountant has not performed any procedures in connection with that review or audit engagement after that date.
2. Reissue his or her report on the financial statements of the prior period.

A reissued report will bear the same date as the original report. If the accountant has become aware of facts and circumstances that would cause him or her to modify the originally issued report, the accountant should modify the report for those circumstances and dual-date the report.

Previous Reporting Framework Departure Corrected

When an accountant issues a report on comparative financial statements that contained a departure from the applicable reporting framework in the previous year, and the client has now corrected that departure, the accountant should include a separate explanatory paragraph indicating the following:

- The date of the accountant's previous report
- The circumstances that caused the report to be changed
- When applicable, that the financial statements of the prior period have been changed

Prior Year Financial Statements were Compiled by a Predecessor Accountant

Predecessor Reissues his or her Report

A predecessor accountant may reissue his or her report at the request of the successor accountant but is not required to do so. If a predecessor accountant reissues his or her report, the predecessor accountant should consider the impact if he or she becomes aware of information that would have affected the compilation report if that information had been known at the time of issuance. The predecessor is not required to perform any additional compilation procedures, but subsequent events may lead to a modification of the report when the accountant becomes aware of such issues.

Predecessor Does Not Reissue his or her Report

When the predecessor does not reissue his or her report, the successor accountant should either:

1. Make reference to the predecessor's report in his or her report
2. Compile, review, or audit the prior period and issue the appropriate report

When an accountant chooses to make reference to the predecessor's report, the following items should be included in the report:

- A statement that the prior-period financial statements were audited, reviewed, or compiled by another accountant
- The date of the report
- If the prior year was compiled, a statement that the other accountants did not audit or review the financial statements, and they were not aware of any modifications (if applicable)
- If the prior year was reviewed, a statement that based on his or her review, the other accountants were not aware of any material modifications, other than any modifications indicated in the report
- If the prior year was audited, the type of opinion issued
- A description of any emphasis-of- matter paragraphs issued by the previous accountant or auditor

Going Concern

Going concern is a financial statement disclosure that is the responsibility of management. If management elects to omit substantially all disclosures, the accountant is prohibited from including an emphasis paragraph in his or her report.

If a compilation includes disclosures and the accountant becomes aware of issues related to going concern during the application of compilation procedures, he or she should determine that the going concern issue is properly disclosed. If going concern is not properly disclosed, then the effects of the departure should be considered in the compilation report. If the going concern issue is properly disclosed, the accountant may include an emphasis-of-matter paragraph describing the going concern but is not required to do so.

If an accountant becomes aware of going concern issues and management elects to omit substantially all disclosures, the accountant has the following options:

- Issue the report with substantially all disclosure omitted
- Encourage management to include disclosures
- Encourage management to include disclosure of the going concern as selected information
- Withdraw from the engagement

An accountant may not issue a compilation report if management elects to omit disclosures if full disclosure compilations have been prepared in the past and the accountant believes the reason for the step-down is to avoid disclosure of going concern.

Disclosing Selected Information

In certain circumstances, management may wish to disclose selected information so as to not make the financial statements misleading, however management does not want to go through the time and expense of composing all disclosures required under the applicable reporting framework. Guidance for including such information is included in paragraph 2.45 of the Guide. In this instance, management may select no more than a few disclosures and include them under the heading "Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles are not Included." The accountant shall still include a paragraph in his or her report that management has elected to omit substantially all disclosures. The most common disclosures under "Selected Information" are:

- Going Concern
- Related-party Transactions
- Subsequent Events
- Significant Uncertainties or Concentrations

Summary

When reporting on financial statements under SSARS, the accountant must be aware of the applicable reporting requirements. Deficiencies in compilation reports are often cited in peer review due to the large number of potential options available to management that are not available in audits and reviews (omission of disclosures, independence requirements). A firm should establish quality control procedures to ensure that all of the reporting requirements under AR-C 80 and Chapter 2 of the *AICPA Preparation Compilation and Review Guide* have been followed and that the reports are in compliance. Special consideration should be given to comparative financial statements that have unusual elements, such as split-level reporting and other accountants compiling the previous year.

Sample Compilation Report
United States GAAP

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 202X and 202X and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (we) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

[*Signature of accounting firm or accountant, as appropriate*]

[*Accountant's city and state*]

[*Date of the accountant's report*]

Sample Compilation Report
U.S. GAAP, Cash Flows, and Disclosures Omitted

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 202X and 202X and the related statements of income, in accordance with accounting principles generally accepted in the United States of America. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (we) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Management has elected to omit substantially all the disclosures and the statement of cash flows required by accounting principles generally accepted in the United States of America. If the omitted disclosures and cash flows were included in the financial statements, they might influence the user's conclusions about the company's assets, liabilities, equity, revenue, and expenses. Accordingly, the financial statements are not designed for those who are not informed about such matters.

[*Signature of accounting firm or accountant, as appropriate*]

[*Accountant's city and state*]

[*Date of the accountant's report*]

Sample Compilation Report
U.S. GAAP, Cash Flows and Disclosures Omitted, Independence Impaired

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 202X and 202X and the related statements of income, in accordance with accounting principles generally accepted in the United States of America. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (we) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Management has elected to omit substantially all the disclosures and the statement of cash flows required by accounting principles generally accepted in the United States of America. If the omitted disclosures and cash flows were included in the financial statements, they might influence the user's conclusions about the company's assets, liabilities, equity, revenue, and expenses. Accordingly, the financial statements are not designed for those who are not informed about such matters.

We are not independent with respect to XYZ Company.

[*Signature of accounting firm or accountant, as appropriate*]

[*Accountant's city and state*]

[*Date of the accountant's report*]

Sample Compilation Report
Income Tax Basis, Disclosures Omitted, Independence Impaired

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the balance sheets-income tax basis as of December 31, 202X and 202X and the related statements of income-income tax basis, and for determining that the income tax basis of accounting is an acceptable financial reporting framework. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (we) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

The financial statements are prepared in accordance with the income tax-basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Management has elected to omit substantially all the disclosures ordinarily included in financial statements prepared in accordance with the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's assets, liabilities, equity, revenue, and expenses. Accordingly, the financial statements are not designed for those who are not informed about such matters.

We are not independent with respect to XYZ Company.

[*Signature of accounting firm or accountant, as appropriate*]

[*Accountant's city and state*]

[*Date of the accountant's report*]

Sample Compilation Report U.S. GAAP, Cash Flows and Disclosures Omitted, Supplementary Information is Compiled

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 202X and 202X and the related statements of income, in accordance with accounting principles generally accepted in the United States of America. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (we) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

The schedule of general and administrative expenses included as schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the representation of management. The information was subject to our compilation engagement; however, I (we) have not audited or reviewed the information, and, accordingly, do not express an opinion, a conclusion, nor provide any assurance on such information.

Management has elected to omit substantially all the disclosures and the statement of cash flows required by accounting principles generally accepted in the United States of America. If the omitted disclosures and cash flows were included in the financial statements, they might influence the user's conclusions about the company's assets, liabilities, equity, revenue, and expenses. Accordingly, the financial statements are not designed for those who are not informed about such matters.

[*Signature of accounting firm or accountant, as appropriate*]

[*Accountant's city and state*]

[*Date of the accountant's report*]

Sample Compilation Report
Prescribed Format

Management is responsible for the [*identification of the financial statements, including period covered and the name of entity*] included in the accompanying prescribed form in accordance with accounting principles generally accepted in the United States of America. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (We) did not audit or review the financial statements included in the accompanying prescribed form, nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on the financial statements included in the accompanying prescribed form.

The financial statements included in the accompanying prescribed form are presented in accordance with the requirements of [*developer of the format of the financial statements*] and are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America.

This report is intended solely for the information and use of [*the specified parties*] and is not intended to be and should not be used by anyone other than these specified parties.

[*Signature of accounting firm or accountant, as appropriate*]

[*Accountant's city and state*]

[*Date of the accountant's report*]

GROUP STUDY MATERIALS

A. Discussion Problems

1. Discuss the accountant's requirements for issuing a compilation report when independence is impaired, and the advantage or disadvantage of disclosing the reasons.

2. Discuss the information that should be included in a compilation report on financial statements when the financial statements were prepared using a special purpose framework.

3. Discuss the reporting options available to continuing accountants who perform a lower level of service in the current year than they performed in the prior year.

B. Suggested Answers to Discussion Problems

1. An accountant may issue a compilation report when independence is impaired, but the impairment must be disclosed in the final paragraph of the report. The accountant may disclose the reasons for the lack of independence; however, if the accountant chooses this option, then *all* reasons for lack of independence must be disclosed.

2. The initial paragraph of a compilation report on financial statements prepared using a special purpose framework should make reference to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances when management has a choice of financial reporting frameworks in the preparation of such financial statements.

   If the special purpose framework is in accordance with a regulatory or contractual basis of accounting, the accountant should include in the report the purpose for which the financial statements are prepared or refer to the note that includes such information.

   The compilation report should include a separate paragraph that indicates the following:

   - An indication that the financial statements are prepared in accordance with a special purpose framework
   - Reference to the note that describes the special purpose framework (unless management has elected to omit substantially all disclosures)
   - An indication that the special purpose framework is a framework other than GAAP

3. An accountant performing a lower level of service in the current year (i.e., compiled in the current year, and audited or reviewed in the prior year) should either:

   a. Include in a separate paragraph of his or her report a description of the responsibility assumed for the financial statements of the prior period. This description would include the date of the report on the prior period financial statements and that the accountant has not performed any procedures in connection with that review or audit engagement after that date.

   b. Reissue his or her report on the financial statements of the prior period.

   A reissued report will bear the same date as the original report. If the accountant has become aware of facts and circumstances that would cause him or her to modify the originally issued report, the accountant should modify the report for those circumstances and dual-date the report.

GLOSSARY OF KEY TERMS

Cybersecurity Incident— an unauthorized occurrence, or a series of related unauthorized occurrences, on or conducted through a registrant's information systems that jeopardizes the confidentiality, integrity, or availability of a registrant's information systems or any information residing therein. An accidental occurrence is also considered to be an unauthorized occurrence. Therefore, the SEC notes that an accidental occurrence may be a cybersecurity incident under their definition, even if there is no confirmed malicious activity.

Cybersecurity Threat— any potential unauthorized occurrence on or conducted through a registrant's information systems that may result in adverse effects on the confidentiality, integrity, or availability of a registrant's information systems or any information residing therein.

Downstream activities— activities by a party other than the entity that relate to any process after the entity's input

Information System—electronic information resources, whether owned or used by the registrant, including physical or virtual infrastructure controlled by such information resources, or components thereof, organized for the collection, processing, maintenance, use, sharing, dissemination, or disposition of the registrant's information to maintain or support the registrant's operations.

ISSB—International Sustainability Standards Board

RSI—Required Supplementary Information is supplementary information that is required to be included by a designated GAAP standard setter

Sustainability— the ability to maintain or support a process continuously over time

TCFD—Task Force on Climate-Related Financial Disclosures

Upstream activities— activities by a party other than the entity that relate to the initial stages of the entity's production of a good or service

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

1. According to Jennifer Louis, what is the overall goal of the International Sustainability Standards Board (ISSB), which was established by the International Financial Reporting Standards (IFRS) Foundation?

   A. To look at the risks and opportunities associated with sustainability across an entity's value chain.
   B. To create a comprehensive, global baseline for sustainability reporting.
   C. To look at climate-based risks and opportunities and how they relate to sustainability as a whole.
   D. To create sustainability guidelines, benchmarks, and metrics that are industry based.

2. According to Jennifer Louis, are the two IFRS standards created by the ISSB authoritative?

   A. Yes, these standards are authoritative and reporting entities must incorporate their guidance.
   B. No, these standards are merely recommendations for best sustainability practices.
   C. They are not authoritative on their own, but they are if adopted by local exchanges or regulators.
   D. They are not authoritative and can only be adopted voluntarily by entities that already apply IFRS.

3. According to Jennifer Louis, what is the *value chain* principle?

   A. An entity's ability to create value for itself.
   B. An entity's ability to create value for itself both currently and in the future.
   C. An entity's ability to create value for itself and how it can create, preserve, or erode value for other parties now and in the future.
   D. How an entity's ability to create value for itself will change in the long run, regardless of current success or failure.

4. According to Jennifer Louis, which of the following is considered an *upstream activity*?

   A. Sourcing supplies and materials for a product.
   B. Selling the product.
   C. Using the product.
   D. Another entity processing the product.

5. According to Jennifer Louis, what are *Scope 2* greenhouse gas (GHG) emissions as defined in IFRS S2?

   A. Emissions that occur upstream.
   B. Emissions that occur downstream.
   C. Emissions that the reporting entity can directly control.
   D. Emissions that occur due to resources purchased by the entity.

Continued on next page

6. According to Jennifer Louis, what is a *cybersecurity threat* as outlined in the SEC's new cybersecurity disclosure rules?

   A. An unauthorized occurrence conducted through a registrant's information system that jeopardizes the confidentiality, integrity, or availability of information on the system or the system's integrity.
   B. Events that occur for which registrants must compile information on Form 10-K and file it with the SEC.
   C. The potential for an unauthorized cybersecurity event to occur, which is relevant to a registrant's annual disclosures, strategy, and risk management.
   D. Occurrences that affect public companies and other registrants who are issuers under the Investment Company Act of 1940.

7. According to Jennifer Louis, where would registrants disclose a material cybersecurity incident?

   A. In the annual financial statement disclosures.
   B. On Form 8-K.
   C. On Form 10-K.
   D. On Form 20-F.

8. According to Jennifer Louis, assuming there are no special circumstances, when must registrants file Form 8-K?

   A. On the day of the incident or as soon as possible.
   B. Within four business days.
   C. Within thirty business days after the date of the incident.
   D. It depends on the individual case and is decided by a U.S. attorney general.

9. According to Jennifer Louis, are registrants required to disclose how a cybersecurity incident was remediated?

   A. No, the SEC purposefully did not include this requirement so bad actors cannot take advantage of the information.
   B. Yes, this information is required to be disclosed under the SEC's new cybersecurity disclosure rules to help other registrants in similar circumstances.
   C. It depends on whether the cybersecurity incident is material and whether it is ongoing at the time it is reported.
   D. It depends on what method is used to remediate the incident and whether that method is approved by the SEC.

10. According to Jennifer Louis, once incident disclosures are filed, do registrants have to update them?

    A. Yes, registrants are required to update incident disclosures at least once after the incident is fully resolved.
    B. Yes, registrants are required to update incident disclosures regularly over the course of the investigation.
    C. No, once the incident disclosure is filed, any additional information will be included in the registrant's financial statement disclosures.
    D. It depends on what information is found during the investigation and whether it is necessary to amend the disclosure for clarity or enhancement.

Continued on next page

11. According to Kurt Oestriecher, what guidance should CPAs follow when performing a compilation engagement?

    A. AR-C 60.
    B. AR-C 70.
    C. AR-C 80.
    D. AR-C 90.

12. According to Kurt Oestriecher, what is the first word of a compilation report?

    A. Assurance.
    B. Compiled.
    C. Independent.
    D. Management.

13. According to Kurt Oestriecher, what is the correct date for a compilation report?

    A. The date that payroll is performed and reports are generated.
    B. The date that the compilation procedures are completed.
    C. The date that the compilation report is forwarded to the client.
    D. The last day of the financial period being compiled.

14. According to Kurt Oestriecher, how should a lack of independence be addressed in a compilation engagement?

    A. No change is needed in the standard compilation report because practitioners are not required to be independent to issue them.
    B. The compilation report should be modified in the first sentence to simply state, "We are not independent with respect to ABC company."
    C. In addition to mentioning the lack of independence in the report, practitioners need to document the reason for lack of independence somewhere.
    D. Practitioners are required to list all of the reasons for a firm's lack of independence in a table in the compilation report.

15. According to Kurt Oestriecher, how is the compilation report affected if the financial statements are prepared using a special purpose framework instead of generally accepted accounting principles (GAAP)?

    A. A second paragraph naming the framework must be included.
    B. U.S. GAAP should not be mentioned in the report at all if it is not used.
    C. A sentence is included about how use of the special purpose framework is a departure from GAAP.
    D. A paragraph is added stating that the practitioner is not responsible for reporting any identified departures.

CPE Network®
Accounting & Auditing Report
Volume 37, Issue 1 **January 2024**

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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 CeriFi, LLC. All responses will be kept confidential. Comments in addition to the answers to these questions are also welcome. Please send comments to **CPLgrading@cerifi.com.**

How would you rate the topics covered in the January 2024 **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
IFRS Sustainability Disclosures	|______|	|______|	|______|	|______|	|______|	|______|
SEC Cybersecurity Disclosures	|______|	|______|	|______|	|______|	|______|	|______|
Compilation Reporting	|______|	|______|	|______|	|______|	|______|	|______|

Which segments of the January 2024 issue of **CPE Network® A&A Report** did you like the most, and why?

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Which segments of the January 2024 issue of **CPE Network® A&A Report** did you like the least, and why?

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

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How would you rate the effectiveness of the speakers in the January 2024 **CPE Network® A&A Report?** Rate each speaker on a scale of 1–5 (5 highest):

	Overall	**Knowledge of Topic**	**Presentation Skills**
Jennifer Louis	|______|	|______|	|______|
Kurt Oestriecher	|______|	|______|	|______|

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

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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 ____

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Email ____

Once Again, Thank You…

Your Input Can Have a Direct Influence on Future Issues!

CPE Network®

CPE Group Attendance Sheet

Firm/Company Name: ______________________________

Account #: ______________________________

Location: ______________________________

Program Title: CPE Network Accounting and Auditing Report, January 2024 Date: __________

Name	Email	Total Hrs	IRS PTIN ID (if applicable Tax only)	Sign In	Sign Out

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.

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Delivery Method:	Group Internet Based
Total CPE Credit:	3.0
Instructions:	During the webinar, the moderator must verify student presence a minimum of 3 times per CPE hour. 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.

			First CPE Hour			**CPE Hour 2**			**CPE Hour 3**			**FOR TR USE ONLY**
First Name	**Last Name**	**Student Email**	**Poll 1**	**Poll 2**	**Poll 3**	**Poll 1**	**Poll 2**	**Poll 3**	**Poll 1**	**Poll 2**	**Poll 3**	**Certificate Issued?**

CHECKPOINT LEARNING NETWORK

CPE NETWORK®
USER GUIDE

REVISED December 31, 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 CeriFi, LLC.

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

“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 online.

- If the emailed 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 email 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 the following means:

Email: CPLgrading@cerifi.com

When sending your package to CeriFi, 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 CeriFi 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. Participants’ two-way video should remain on during the entire presentation.

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 asks 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.

Where individual participants log into a group live program they are required to enable two-way video to participate in a virtual face-to-face setting (with cameras on), elements of engagement are required (such as group discussion, polling questions, instructor posed questions with time for reflection, or a case study with engagement throughout the presentation) in order to award CPE credits to the participants. Participation in the two-way video conference must be monitored and documented by the instructor or attendance monitor in order to authenticate attendance for program duration. The participant-to-attendance monitor ratio must not exceed 25:1, unless there is a dedicated attendance monitor in which case the participant-to-attendance monitor ratio must not exceed 100:1.

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 emailed 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 email 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 the following means:

Email: CPLgrading@CeriFi.com

When sending your package to CeriFi, 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 CeriFi 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—Email

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

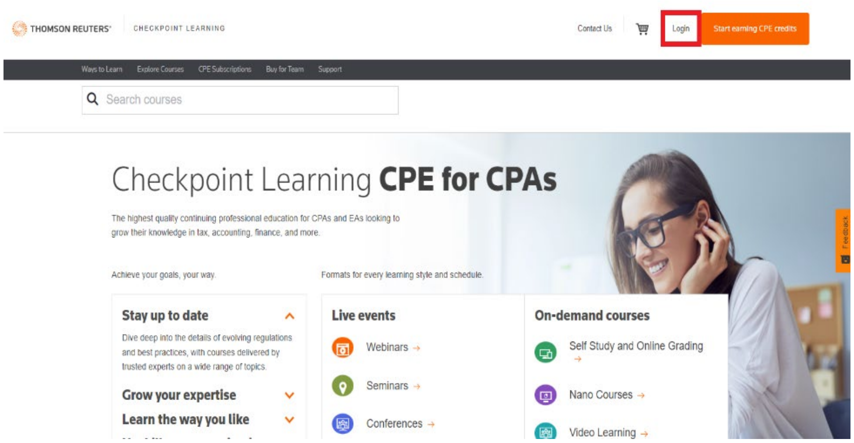
- Watch the video.
- Review the supplemental materials.
- Read the discussion problems and the suggested answers.
- Complete the quizzer by filling out the bubble sheet enclosed with the transcript package.
- Complete the survey. We welcome your feedback and suggestions for topics of interest to you.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

CPLgrading@cerifi.com

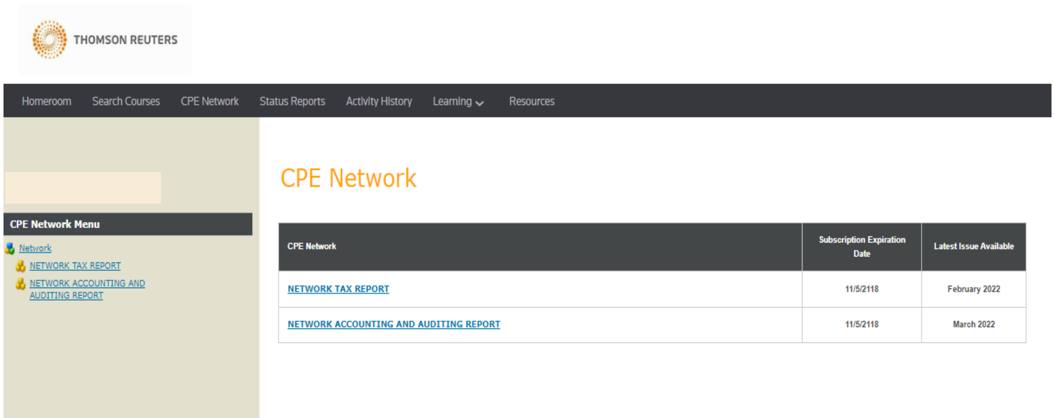
Self-Study—Online

Follow these simple steps to use the online program:

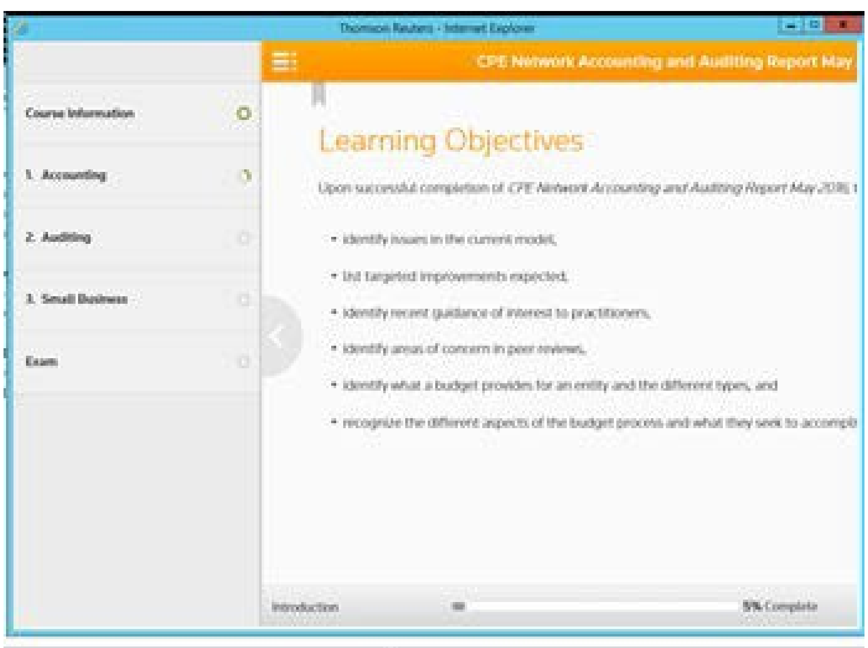
- Go to www.checkpointlearning.thomsonreuters.com .
- Log in using your username and password assigned by your firm's administrator in the upper right-hand margin ("Login or Register").



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

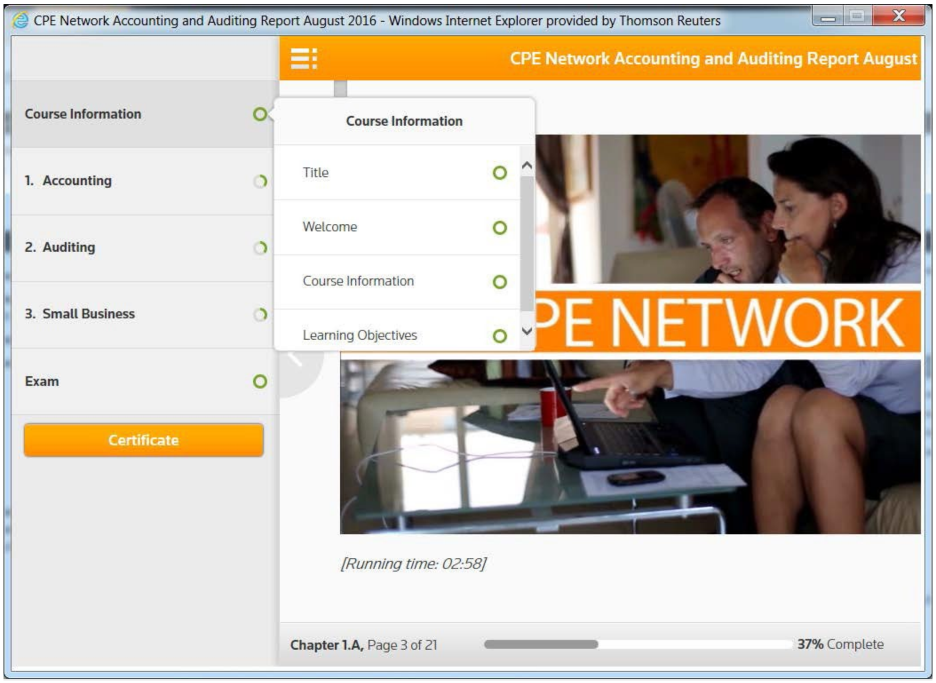


The Chapter Menu is in the gray bar at the left of your screen:

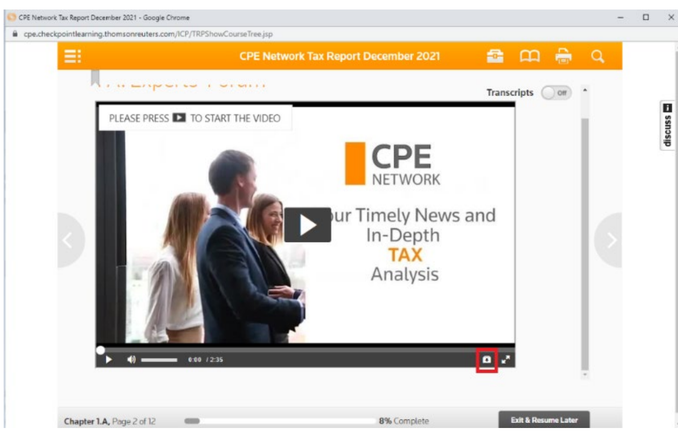


Click down to access the dropdown menu and move between the program Chapters.

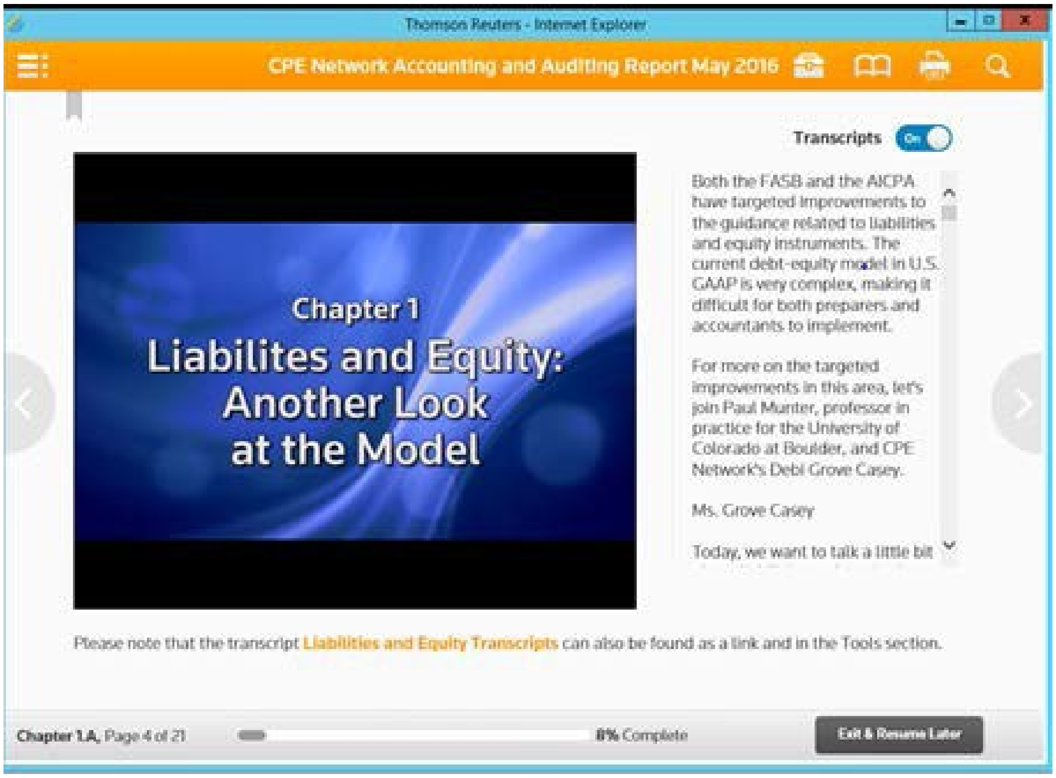
- **Course Information** is the course Overview, including information about the authors and the program learning objectives



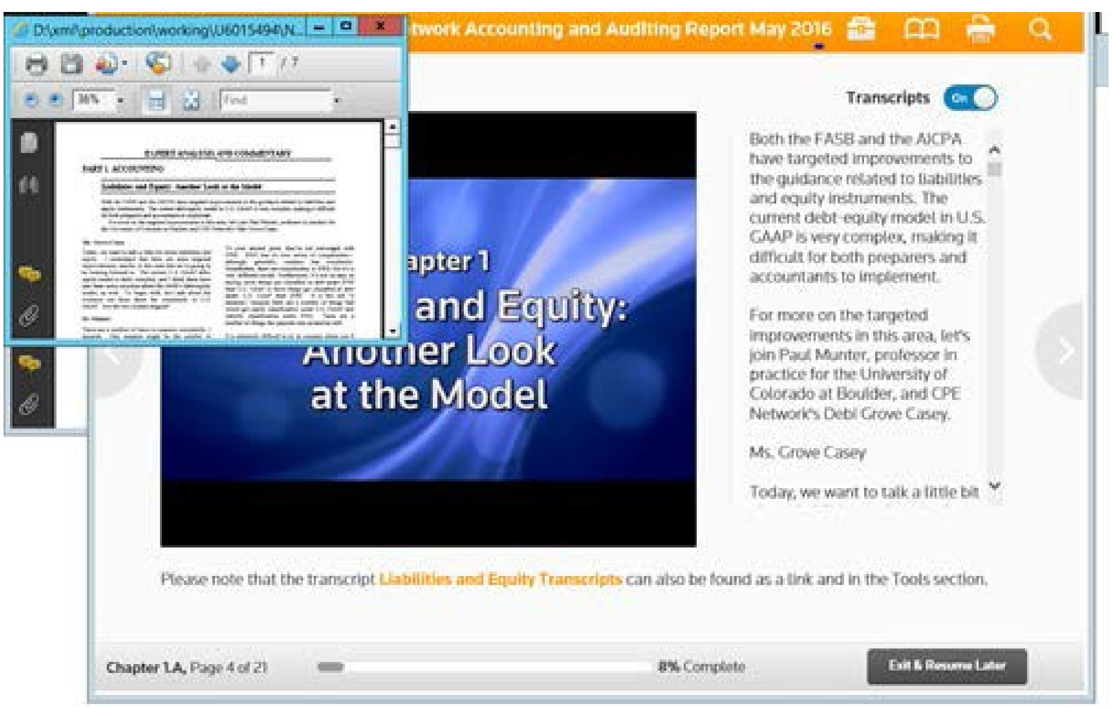
- **Each Chapter is self-contained.** Each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the discussion questions. This streamlined approach allows administrators and users to more easily access the related materials.



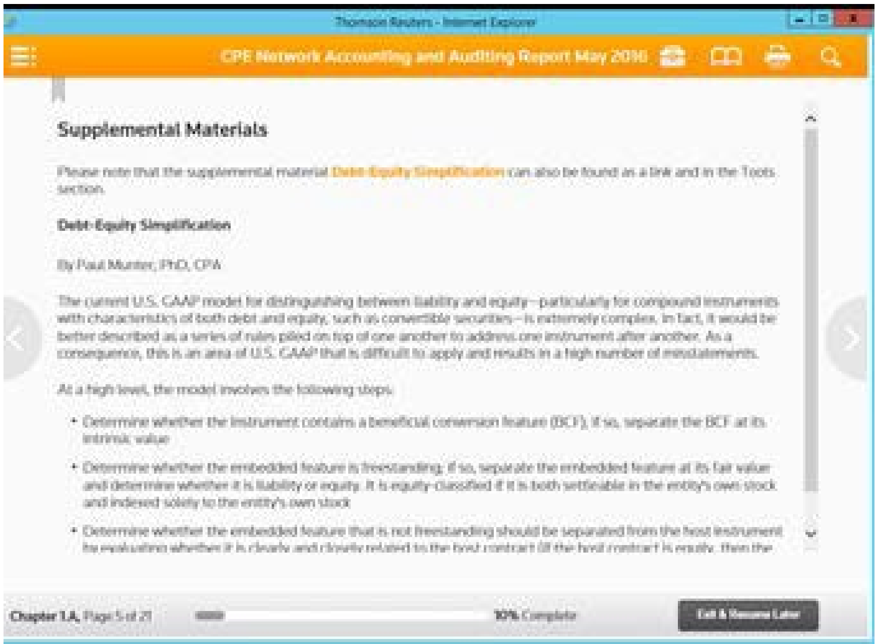
Video segments may be downloaded from the CPL player by clicking on the download button. Tip: you may need to scroll down to see the download button.

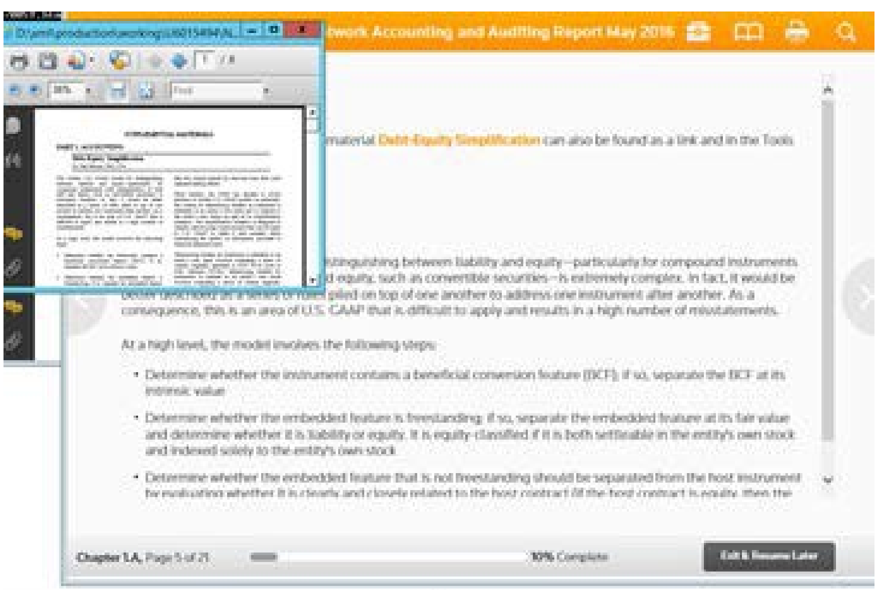


Transcripts for the interview segments can be viewed at the right side of the screen via a toggle button at the top labeled **Transcripts** or via the link to the pdf below the video (also available in the toolbox in the resources section). The pdf will appear in a separate pop-up window.



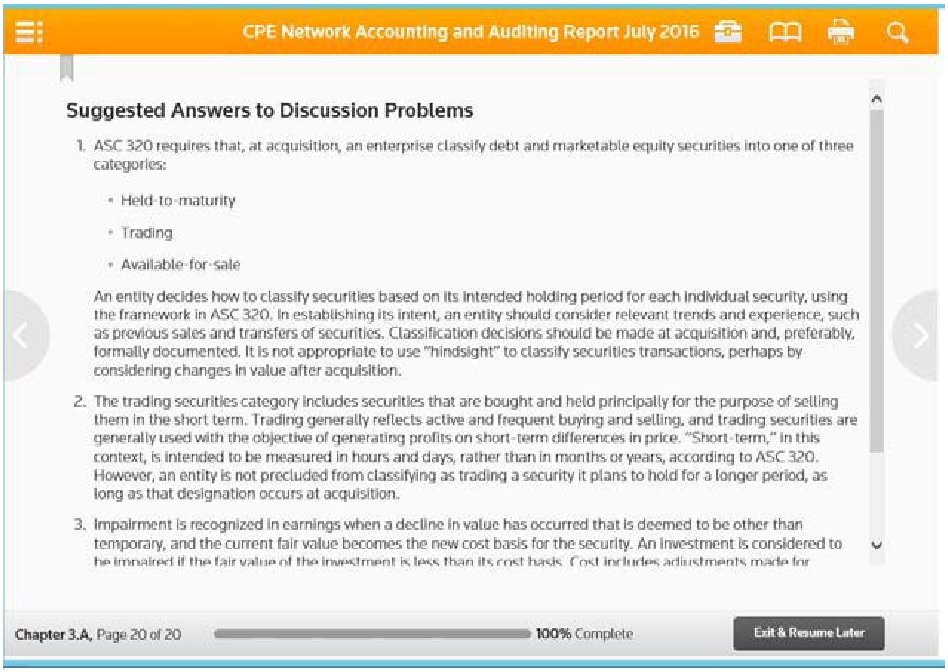
Click the arrow at the bottom of the video to play it, or click the arrow to the right side of the screen to advance to the supplemental material. As with the transcripts, the supplemental materials are also available via the toolbox and the link will pop up the pdf version in a separate window.





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

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



CPE Network Accounting and Auditing Report July 2016

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-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.

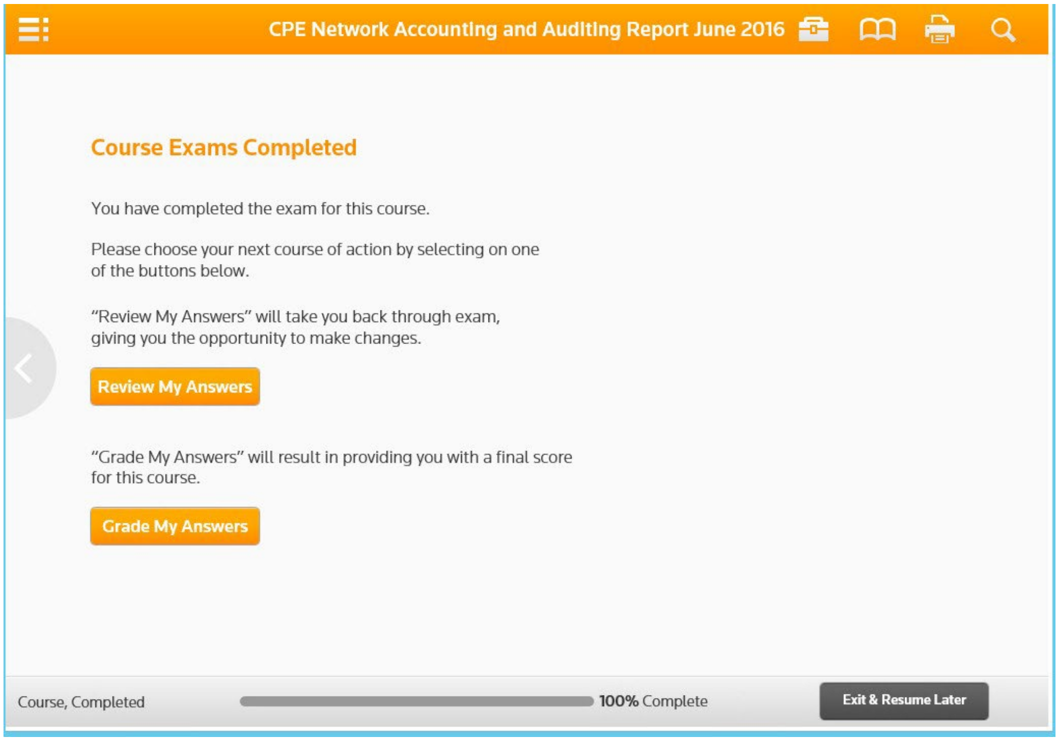
2. The trading securities category includes securities that are bought and held principally for the purpose of selling them in the short term. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term 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

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**.



- 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.

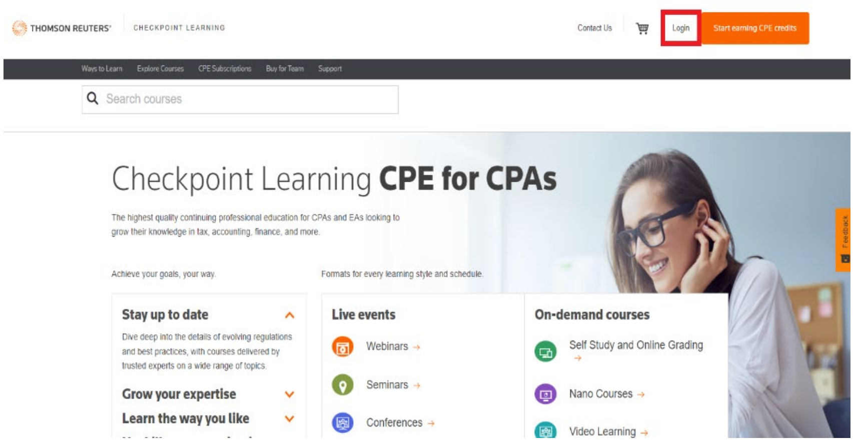
Print

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**.

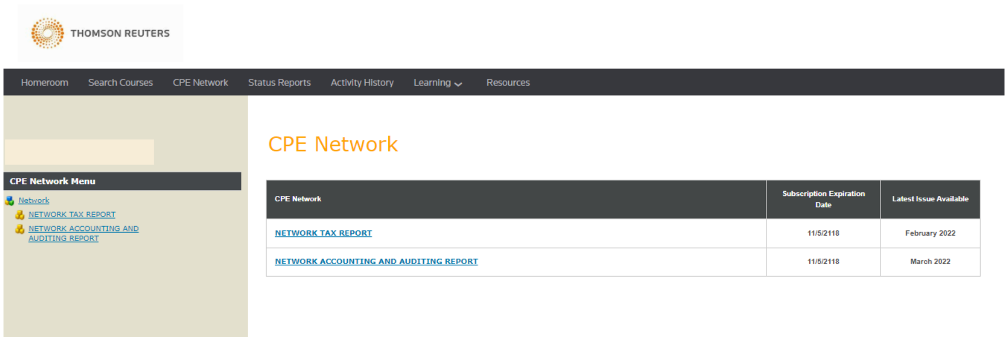
Transitioning From DVDs

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

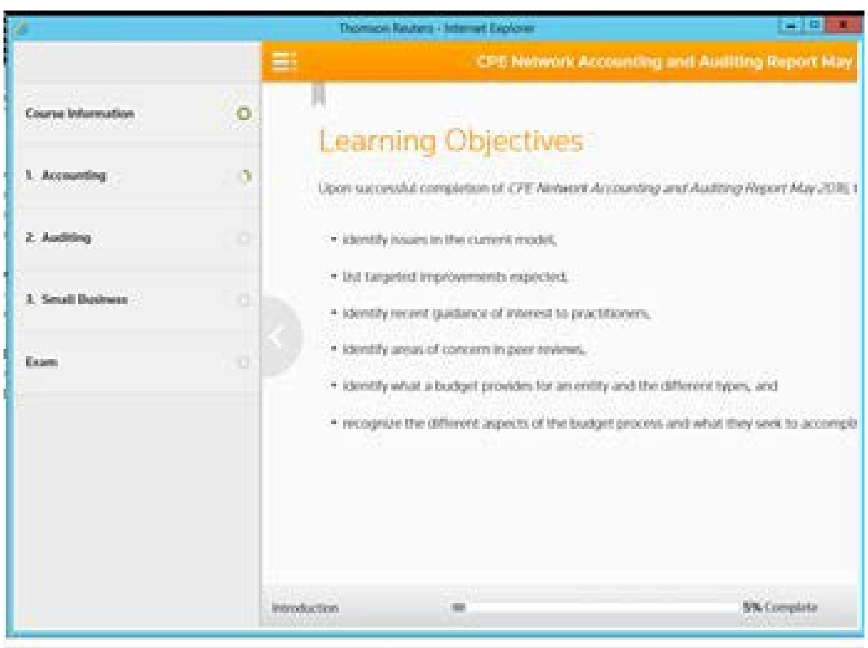
- Go to www.checkpointlearning.thomsonreuters.com .
- Log in using your username and password assigned by your firm's administrator in the upper right-hand margin ("Login").



- 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.

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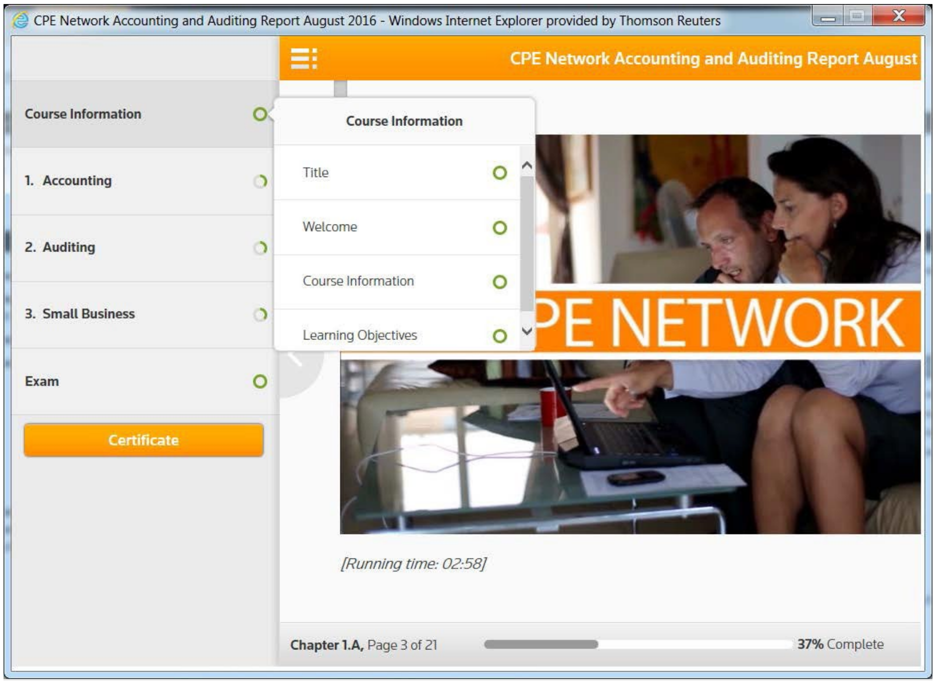
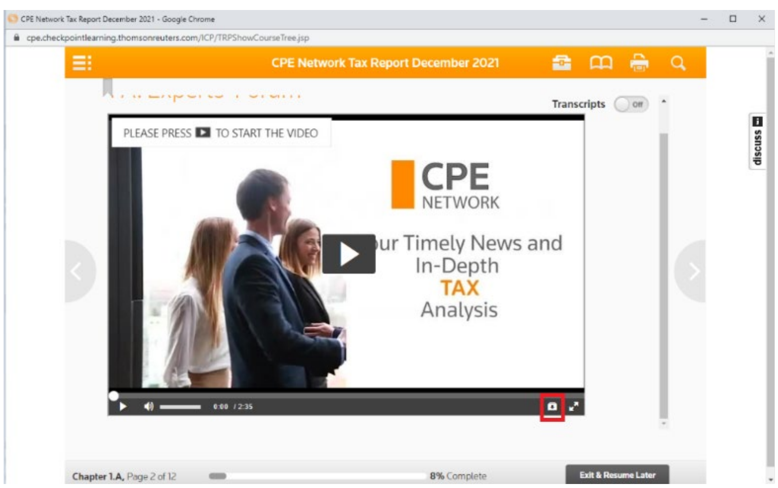


- Each Chapter is self-contained. Each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the discussion questions.



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 to administrators with each release.

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 (if any).
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	844.245.5970	Cplsupport@cerifi.com	• Browser-based • Certificate discrepancies • Accessing courses • Migration questions • Feed issues
Product Support	844.245.5970	Cplsupport@cerifi.com	• Functionality (how to use, where to find) • Content questions • Login Assistance
Customer Support	844.245.5970	Cplsupport@cerifi.com	• Billing • Existing orders • Cancellations • Webinars • Certificates