# Consumer Markets insights

A quarterly summary for the Consumer Markets sector

October 2024

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# Introduction

We are pleased to share our quarterly Consumer Markets (CM) insights publication. This report provides some of the latest industry, accounting, and regulatory updates of interest to the Consumer Markets sector. Please contact the authors listed on the last page of this document with any feedback or ideas for future publications

## Strategy for business

### PwC's 2024 Trust Survey

PwC's 2024 Trust Survey highlights a growing awareness among executives about the importance of trust in business growth and new ventures. However, a significant trust gap exists between executives' perceptions and the actual trust levels reported by employees and consumers, especially in the consumer markets sector. This gap has widened over the past two years, posing risks during controversies as most consumers are unlikely to return to a brand once trust is lost.

To bridge this gap, executives must prioritize safeguarding personal data and clearly communicate their data protection measures. Transparency about data policies is crucial, as 67% of consumers prioritize data protection. Employees also value data protection, along with fair treatment, ethical behavior, and executive listening. High trust levels among employees lead to increased effort and positively impact operations, including attracting talent. Learn more about the results of our survey and next steps you can take.

### PwC's 2024 US Responsible AI Survey

Generative AI continues to propel to the top of corporate agendas. As leaders begin to have a better understanding of how AI will impact their business strategy, they are also beginning to realize what it takes to responsibly build and deploy AI solutions that not only drive productivity and business transformation but also manage risk. As leaders continue to make investments in AI technologies, only 58% of respondents to the survey indicated that they have completed a preliminary assessment of AI risks in their organization. Those that have identified the risks and made investments in responsible AI practices note benefits ranging from enhanced customer experience to improved transparency and innovation. Learn more about our survey results and actions your company can take to help manage AI risk in our 2024 US Responsible AI Survey.

### How CPG companies can reconnect and stay connected with customers

There are six key strategies that consumer-packaged goods (CPG) companies can implement to build deeper relationships, strengthen loyalty, and drive growth within their customer base:

1. Human-centric insights
2. Tailored channel innovation
3. Audience-led marketing
4. Frictionless commerce
5. Adaptive value chain
6. Behavior-led rewards

Read more about how CPG companies can become more customer-oriented, stay relevant, and create new opportunities for growth with these six strategies.

### The changing face of hospitality: Four key insights for business transformation

Explore the transformative insights from the 46th NYU International Hospitality Industry Investment Conference, hosted by PwC's Jeanelle Johnson. Industry leaders discussed navigating near-term challenges and capitalizing on long-term trends such as changing customer preferences, labor shortages, and technological advancements. They emphasized the necessity of adaptability and a willingness to pivot for growth, highlighting strategies like acquiring new properties, targeting specific demographics, and renovating existing assets to stay competitive.

Creating unique destination experiences emerged as a key trend, with hotels now expected to offer more than just a place to stay. Embracing technology while maintaining a human touch was another significant point, with AI and automation seen as tools to enhance guest experiences and free staff for personalized service. The overarching message was clear: businesses that adapt and modernize through technology will gain a competitive edge, ensuring they remain at the forefront of the industry.

# Accounting and financial reporting hot topics

## Getting ready for the new segment reporting requirements

Public companies are required to apply new segment reporting requirements in ASU 2023-07 for the first time for fiscal years beginning after December 15, 2023. That means calendar year-end companies should be planning now for the new disclosures that will be required in their 2024 Form 10-Ks. The new guidance requires incremental disclosures about reportable segments but does not change the definition of a segment, the method for determining segments, or the criteria for aggregating operating segments into reportable segments. The most significant change is the requirement to disclose significant segment expenses. Other requirements include disclosing the title and position of the individual or the name of the group identified as the chief operating decision maker ("CODM") and how the CODM uses each reported measure of segment profit or loss to assess performance and allocate resources to the segment. All requirements also apply to companies with one reportable segment and will be required in interim periods for years beginning after December 15, 2024.

As companies evaluate the new requirements, here are some helpful reminders:

### What is a "significant segment expense"?

A significant segment expense is an expense that is: (1) regularly provided to or easily computed from information regularly provided to the CODM, (2) included in the reported measure of segment profit or loss, and (3) significant to the segment. Any expense incurred by the segment, including direct expenses, shared expenses, allocated corporate overhead, or interest expense, would represent a significant segment expense if it meets these criteria. The guidance requires significance to be assessed using both quantitative and qualitative factors. An expense category may be considered significant if its omission would change an investor's understanding of the segment results to a degree that it would cause the investor to change its investment decisions. It's important to note that a company's significant expenses do not have to be identical for each of its reported segments.

### Determining if information is "regularly provided"

Rather than focusing on items "regularly reviewed," the new guidance applies to significant segment expenses "regularly provided" to the CODM. The CODM could receive segment information in various ways, including hardcopy, electronically, or presented in a regularly held meeting. Public companies should evaluate the segment information regularly provided to the CODM, taking into account advances in management information systems that make detailed information more easily available to the CODM, potentially triggering additional segment disclosures.

### Multiple measures of segment profit or loss

To the extent the CODM uses multiple measures of segment profitability to assess segment performance and allocate resources, the new guidance allows public companies to disclose those multiple measures. Companies will have to disclose, at a minimum, the measure of segment profit or loss that is most consistent with the amounts included in their consolidated financial statements. Since additional measures of segment profitability are not required to be included (i.e., they are voluntary) and the ASU does not include any requirements as to how such amounts should be calculated (i.e., they are based on how management reviews segment performance), the SEC staff has expressed a view in several public forums that any additional measures of segment profitability included in the segment footnote that are not consistent with GAAP would be considered non-GAAP financial measures. Although the SEC staff has indicated that it will not object to the inclusion of additional measures of segment profitability, these measures would need to comply with the SEC's rules and interpretations for non-GAAP measures. Refer to our publication, *SEC provides greater clarity on new segments guidance,* for additional information.

### For more information

To learn more, read our publication, *FASB updates segments guidance,* and chapter 25 of our *Financial statement presentation guide*.

## Checking in on annual goodwill impairment assessments

Companies may perform their annual goodwill impairment assessment at any time during the year, as long as it is consistently performed at the same time each year (although different reporting units may be tested at different dates). Many companies elect to perform the annual assessment in the months leading up to their fiscal year end, often choosing a date that aligns with the company's budgeting process. The guidance permits companies to first evaluate qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount (the "step 0" test). If it is, a quantitative assessment is needed to identify and measure any impairment loss. Otherwise, no further impairment testing is necessary. Conversely, companies can choose to proceed directly to a quantitative assessment. A company can choose to perform the qualitative assessment on none, some, or all of its reporting units.

Current economic conditions and changes in the company's business can impact how it chooses to perform the impairment test. We outline some common situations and the potential impact below:

| Scenario | Potential impact |
|---|---|
| Recently recorded goodwill impairment charge | If a company recently recorded a goodwill impairment, there is likely minimal or no "cushion" between the fair value and carrying amount of the reporting unit. As such, if there are additional negative indicators, a quantitative impairment test is most likely warranted. It is not uncommon for companies to continue to record goodwill impairment in successive reporting periods if negative trends continue. |
| Lack of cushion in the most recent quantitative impairment test | A qualitative assessment may not be effective or efficient if the amount of cushion between the fair value and carrying amount of the reporting unit in the most recent quantitative assessment was not significant. A lack of cushion would cause the reporting unit to be highly sensitive to adverse changes in economic factors. |
| Significant amount of time elapsed or changes in economic conditions since the last quantitative impairment test | Companies may elect to perform the quantitative goodwill impairment test for a reporting unit if a significant amount of time has elapsed since the last quantitative test as a means of refreshing its understanding of the extent of the cushion between fair value and carrying amount. Companies should also consider if there have been negative economic indicators (either from a macroeconomic perspective or specifically related to the company's operations) that would render the most recent quantitative assessment less relevant, regardless of the amount of time that has elapsed. |
| Decrease in a public company's market capitalization | A decrease in market capitalization may be an indication of market participant perspectives of the value of the company's businesses and the risk associated with future projections, particularly if market capitalization is below book value. Even when total market capitalization exceeds book value, sustained decreases in the company's stock price could be an indication of a decrease in fair value of one or more reporting units. This negative economic factor can be an indicator that a qualitative assessment is not the most appropriate approach to evaluate impairment. |
| Recent acquisitions | Recently acquired reporting units are typically included in the annual impairment assessment as delaying inclusion until the next fiscal year would result in more than 12 months between assessments, which is prohibited. An alternative is to use a different date for the impairment assessment of a recent acquisition that is within 12 months of the close of the acquisition. For recent acquisitions, however, the company would have recently determined the fair value of the acquired entity, which could, in conjunction with the other considerations above, impact the decision to perform a qualitative versus quantitative impairment test. |

### For more information

To learn more, read chapter 9 of our *Business combinations and noncontrolling interests guide*.

## Standard setting proposals

The FASB is targeting the issuance of several new proposals before the end of 2024, making significant progress on their current technical agenda. Keep an eye out for the opportunity to weigh in on the proposed amendments and participate in this important step in the FASB's due process.

### Proposed amendments to derivatives and revenue scoping

On July 23, the FASB proposed new accounting guidance that would create an exception for certain contracts from being accounted for as derivatives and clarify the accounting for share-based payments received from customers in revenue arrangements. Feedback on the proposal is due by October 21. For a summary of the proposal, read our publication, *FASB proposes amendments on derivatives and revenue scoping*.

### Proposed improvements to hedge accounting

On September 25, the FASB proposed new accounting guidance that would provide targeted updates designed to better portray the economic results of an entity's risk management activities in its financial statements. Feedback on the proposal is due by November 25.

### Additional proposals expected before the end of 2024

| FASB project | Summary |
|---|---|
| Software costs | Targeted improvements to the guidance on internal-use software development costs |
| Environmental credit programs | Accounting and disclosure for participants in compliance and voluntary programs that result in creation of environmental credits |
| Government grants | Accounting by business entities for cash or tangible nonmonetary grants received from a government entity |
| Interim reporting | General principle for interim reporting and compilation of existing interim disclosure requirements |
| Determining the acquirer in the acquisition of a VIE | Clarification that the existing factors in business combinations guidance should be applied to determine accounting acquirer |
| Share-based consideration to a customer | Clarification of the definition of a "performance condition" for share-based payments to customers |

For the latest project updates and expected timing, refer to the FASB's current projects page.

## New income tax disclosures: planning ahead

Public companies will be required to include new income tax disclosures in their annual financial statements for years beginning after December 15, 2024. Although the effective date is still more than a year away, companies should begin preparing now for the new information requirements, which may require incremental processes and controls. Additionally, companies that may want to apply the new guidance on a retrospective basis should consider compiling the necessary information as a "dry run" this year end so they are prepared to present the comparative periods when they adopt the new disclosures. We've updated our publication, *FASB issues guidance on income tax disclosures*, with additional Q&As to help companies as they navigate the new requirements.

# Regulatory update

## SEC comment letter trends

The SEC's Division of Corporation Finance's filing review process is a key function utilized by the SEC staff to monitor the critical accounting and disclosure decisions applied by registrants. Our analysis of SEC comment letters identifies the frequency of topical areas addressed by the SEC staff and how its focus areas change over time. Within the Consumer Markets sector, the top five areas of focus in comment letters are:

1. Non-GAAP measures - compliance with Item 10(e) of Regulation S-K and the related compliance and disclosure interpretations
2. MD&A - requirements in Item 303 of Regulation S-K and the related disclosure objectives
3. Segment reporting - identification of operating segments and aggregation into reportable segments, as well as emphasis on the disclosure requirements of ASC 280
4. Revenue recognition - ASC 606 disclosure requirements including performance obligations, transaction price, variable consideration, recognizing revenue, gross versus net presentation, and disaggregated revenue
5. Risk factors – Climate change matters - In 2021, the SEC staff began a renewed focus on the quality and adequacy of climate-related disclosures under existing rules, specifically as detailed in the SEC's 2010 interpretive release. The staff continues issuing comments related to climate change disclosures on both annual reports on Form 10-K and registration statements. These comments are largely focused on information related to climate change-related risks and opportunities that may be required in disclosures of a company's description of business, legal proceedings, risk factors, and MD&A. The staff also has been looking at other climate change-related disclosures that may be outside of SEC filings (e.g., Corporate Social Responsibility reports, investor presentations, information on websites) in formulating comments.

Refer to the list of comment letter trends specific to the Consumer Markets sector for the 12 months ended June 30, 2024. Additionally, PwC's Accounting podcast series focuses on the following common topical areas in comment letters:

What's trending in 2023 SEC comment letters

2023 SEC comment letter trends: non-GAAP measures

2023 SEC comment letter trends: Revenue

2023 SEC comment letter trends: MD&A

2023 SEC comment letter trends: Segments, today and tomorrow

## SEC staff guidance on cybersecurity incident reporting

Beginning in December 2023, most registrants were required to report material cybersecurity incidents on new Item 1.05 of Form 8-K within four business days after the registrant determines that the incident is material. In the past quarter, the SEC staff has continued to release statements and interpretative guidance clarifying certain aspects of this requirement:

- SEC Division of Corporation Finance Director Erik Gerding issued a statement reminding registrants that nothing in the new rules prohibits a registrant from providing information to other parties about material cyber incidents beyond what is disclosed in Item 1.05 of Form 8-K. However, registrants should consider the requirements of Regulation FD in connection with any such disclosures to private parties.
- The SEC staff issued five new compliance and disclosure interpretations related to evaluating the materiality and Form 8-K reporting requirements of ransomware-related cybersecurity incidents.

For more information, read our publications, *SEC adopts cybersecurity disclosure rules* and *Making materiality judgments in cybersecurity incident reporting*.

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