TMT insights:

Financial reporting and accounting quarterly — Q3 2024

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

In this edition:

- 73% of TMT companies are using generative AI to drive business model overhauls.
- Ecosystem collaborations are enhancing margins, with ecosystem leaders achieving up to 60%.
- New rules for segment reporting require disclosures on significant expenses and decision-maker roles.
- Companies should reassess goodwill impairments amid economic shifts.
- California climate amendments ease compliance for subsidiaries, but cybersecurity disclosures are required within four days under SEC rules.
- The AICPA proposes updates to its “cheap stock” guide to address evolving equity compensation practices.

Issue spotlight

Stay ahead of the curve as we head into the last quarter of 2024 with updates on AI and regulatory shifts in cybersecurity, segment reporting and sustainability.

Business update

What's top of mind for TMT business leaders as we head into the fourth quarter of 2024? They're looking to unlock the full potential of AI-driven transformation by modernizing their data strategy and embracing business ecosystems. TMT companies are reinventing their business models and using data to fuel growth, despite rising challenges and evolving regulations.

AI-powered transformation

Artificial intelligence (AI) continues to shape the way business gets done, and obviously tech companies have been leading this wave of innovation. In PwC's June 2024 Pulse Survey, 51% of executive respondents reported that they are prioritizing investment in new technologies, primarily generative AI, over cost cutting. Additionally, 73% of respondents reported that they will use generative AI to make changes to their company's business model. When it comes to implementing AI, the top performers are organizations that collaborate across the C-suite to make technology choices that lay the foundation for AI-centric transformation and new business models. These transformations will likely usher in the rise of more Chief AI Officers (CAIOs).

An integral part of an AI-centric transformation is going all in on cloud adoption so data can be modernized to make it easier for AI to ingest. Data modernization makes data monetization easier — and that's helping the sector lead the pack on business model reinvention.

Embracing business model reinvention

Sustaining high growth levels has become increasingly difficult due to a combination of rising capital costs, intensifying competition and shifting consumer expectations. In PwC's June 2024 Pulse Survey, 76% of executives across all sectors said companies should overhaul their business models or risk failure within a decade. Quick adaptation amid disruption is crucial for survival.

In response to these challenges, we're seeing companies in the sector embrace business model reinvention by collaborating with other organizations to collectively create and share value by engaging within business ecosystems. Not only are these companies embracing business model reinvention, they're achieving significantly better margins by engaging in these business ecosystems. TMT companies that act as ecosystem drivers enjoy margins of 50% to 60%, compared to the 30% to 35% margins seen in traditional product-led firms. Ecosystems are offering access to new market segments, foster consumer loyalty, and drive innovation by enabling deeper collaboration among participants.

Fueling growth through data strategies

Data collaboration is helping create new value streams, especially for media and telecom companies. For media companies this is largely happening in the advertising space, such as allowing for more personalized, relevant ads that boost revenue without compromising viewer privacy. For telecoms sitting on mountains of customer data, using technology like data clean rooms to share data without violating privacy rules is allowing them to package data insights as services and solutions — think market research and personalization — within their business ecosystem.

TMT companies are increasingly leveraging data strategies to drive growth and maintain competitiveness. Utilizing customer data, such as viewing habits and online behaviors, can help personalize user experiences, enhance content offerings and explore new monetization opportunities. Mergers and acquisitions (M&A) are playing a crucial role in expanding data capabilities, allowing companies to access valuable first-party data and integrate advanced technologies.

Data-driven approaches present challenges, particularly in privacy and compliance. With growing global regulations and recent court rulings, TMT companies face the complex task of balancing data utilization with adherence to privacy laws, which could affect their data-driven growth initiatives. The Supreme Court's Chevron decision diminishes the interpretive power of agencies like the Federal Communications Commission (FCC) and Federal Trade Commission (FTC), leading to a more unpredictable regulatory environment. With increased potential for court challenges to agency interpretations, TMT companies could face heightened complexity and uncertainty in complying with evolving data privacy regulations that could affect how TMT uses customer data in its deployment of automation and Artificial Intelligence (AI).

Accounting update

In this issue, we highlight key reminders when adopting new segment reporting guidance, considerations when assessing goodwill for impairment and standard setting proposals expected to be released before the year's close.

Getting ready for the new segment reporting requirements

Public companies are required to apply the new segment reporting requirements in Accounting Standards Update (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 public 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 what a company identifies as significant expenses does not have to be the same across its reported segments.

Determining if information is "regularly provided"

While the prior segment guidance focused on information "regularly reviewed" by the CODM, the new guidance refers 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 recurring 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 readily available to the CODM, which may trigger additional segment disclosures.

Multiple measures of segment profit or loss

Previously, public companies were permitted to disclose only one measure of segment profitability. The new guidance allows public companies to disclose multiple measures of segment profitability if the CODM uses multiple measures to assess segment performance and allocate resources. Companies will have to disclose the measure of segment profit or loss the CODM uses that is most consistent with the amounts included in their consolidated financial statements.

Since additional measures of segment profitability are voluntary, and the ASU does not address how such amounts should be calculated (i.e., they are based on how management reviews segment performance), the U.S. Securities and Exchange Commission (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 Generally Accepted Accounting Principles (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, public companies will need to comply with the SEC's rules and interpretations for disclosures of non-GAAP measures, which include reconciliation requirements and provisions that such measures not be misleading. 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's 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's 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 proceed directly to a quantitative assessment. Companies can choose to perform the qualitative assessment on all, some, or none of its reporting units.

Current economic conditions and changes in the company's business can affect how companies choose to perform the impairment test. The following outlines some common situations and their potential impact.

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's not uncommon for companies to continue to record goodwill impairments 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 perception 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 within 12 months of the acquisition's close. 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.*

AICPA proposes updates to its “cheap stock” guide

In June, the Financial Reporting Executive Committee of the American Institute of Certified Public Accountants (AICPA) released for public comment a working draft of two updated chapters from the AICPA Valuation of Privately-Held Company Equity Securities Issued as Compensation Guide (the Guide), which is sometimes referred to as the “cheap stock guide.” The Guide provides non-authoritative interpretive guidance and illustrations related to the accounting for, valuation of, and disclosures related to privately-held company equity securities issued as compensation. There has been significant growth in the breadth and volume of secondary market transactions (i.e., third parties buying and selling common stock of the company directly from each other) since the prior update of the Guide in 2013. The AICPA working draft addresses the evolution of these transactions and their impact on privately-held company stock valuations and accounting.

Comments on the draft chapters were due September 20, and we expect the chapters to be finalized in 2025. The Guide interprets existing authoritative literature, and the updates will not have a definitive effective date. We believe, therefore, that even before they are finalized, affected companies should consider the guidance in the draft chapters when performing any future valuations or accounting for secondary market transactions.

Read our publication, *AICPA releases draft chapters of updated "cheap stock" guide*, to learn more.

Standard setting proposals expected before year end

Since June, the Financial Accounting Standards Board (FASB) has released two proposals and is targeting the issuance of six additional proposals before the end of 2024, making significant progress on their current technical agenda. Take advantage of the opportunity to weigh in on these 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 amendments to derivatives and revenue scoping

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 the 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 variable interest entity	Clarification that the existing factors in business combinations guidance should be applied to determine the accounting acquirer
Share-based consideration to a customer	Clarification of the definition of a "performance condition" for share-based payments to a customer

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

Regulatory update

On the regulatory front, we provide updates on sustainability reporting across multiple frameworks and SEC guidance on cybersecurity incident reporting.

Developments in sustainability reporting

We are pleased to announce the release of the next installment of content in our inaugural global Sustainability reporting guide. This guide details the requirements under the primary sustainability reporting frameworks with extraterritorial provisions. We provide our insights and perspectives, interpretive and application guidance, and illustrative examples related to the:

- European Sustainability Reporting Standards (ESRS) adopted by the European Commission for purposes of compliance with the Corporate Sustainability Reporting Directive (CSRD)
- IFRS® Sustainability Disclosure Standards issued by the International Sustainability Standards Board
- Climate disclosure rules issued by the SEC

The guide details the foundational and general disclosure requirements under each framework, with helpful analysis about interoperability. We also provide separate chapters dedicated to the materiality assessment and greenhouse gas emissions reporting.

More chapters will be issued this year addressing environmental, social, and governance topics and jurisdictional sustainability reporting regimes, as well as additional content related to the application of the EU Taxonomy Regulation.

California climate disclosure amendments

In August, the California State Legislature approved a bill that would amend two of California's climate disclosure laws. The proposed amendments will become law unless vetoed by Governor Newsom before September 30. The California State Legislature adjourned on August 31 for the 2024 session, which means that no further amendments can be proposed this year.

The proposed amendments are largely administrative in nature, although one amendment may make the required reporting of greenhouse gas (GHG) emissions easier for subsidiaries with parents that report GHG emissions. Further, although the governor of California had proposed a two-year extension of the timing for certain disclosures, no extension of the implementation dates was included in the final amendments.

Proposed amendments in another bill would have affected the scope and timing of the law requiring disclosure of information about certain emissions claims and the sale and use of carbon offsets (California AB 1305). The legislature did not hold a final vote on the bill, and, as a result, no changes were approved.

For more on what is included in these amendments, see our publication, *California advances amendments to sustainability reporting laws*. For more information on the California laws, see our publication, *California's not waiting for the SEC's climate disclosure rules*.

Corporate Sustainability Reporting Directive (CSRD)

In July, the European Financial Reporting Advisory Group (EFRAG) released a new compilation of explanations based on questions submitted to the ESRS Q&A Platform addressing questions submitted through July 2024. In August, the European Commission issued FAQs on the interpretation of certain provisions in CSRD and ESRS.

Both documents are intended to facilitate the implementation of the ESRS and do not introduce new guidance. Although non-authoritative, these resources may be helpful to preparers in interpreting the CSRD and ESRS requirements.

As discussed in prior editions, EU Member States were to complete the transposition of the CSRD into local law by early July 2024. Many have yet to complete the transposition process. Until their process is complete, we expect that EU Member States will abide by the CSRD as published by the European Union.

For more information

To learn more about the fundamentals of the sustainability accounting and reporting landscape, register for our upcoming webcast, *Sustainability reporting 101 – Back to basics*, on October 22.

SEC staff provides 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. Registrants should, however, 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*.

About PwC's TMT industry practice

Our TMT practice is dedicated to helping business leaders in the technology, media and telecommunications industries manage their complex businesses while delivering sustained outcomes. In doing so, we offer a range of capabilities, including risk, transformation, cloud and digital, deals, sustainability, cybersecurity and privacy, governance/boards, tax services and much more. We are committed to advancing quality in everything we do.

Let's talk

For deeper insights regarding the topics addressed in this latest edition of our TMT insights: Financial reporting and accounting quarterly, please contact:

Conall Dempsey

Technology, Media and Telecommunications Trust Solutions Leader

PwC US