



TMT insights: Financial reporting and accounting quarterly - Q2 2022

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

In this edition:

- As the market cools, explore **trends influencing IPOs and M&A** in the technology, media and telecommunications sector.
- Read up on accounting considerations related to **business disposals**.
- Get the latest on SEC activity, including guidance on **safeguarding crypto**, proposed **SPAC rules**, what comes next for its landmark **climate disclosure proposal** and the comment period for its **cybersecurity disclosure proposal** as well as **comment letter trends**.
- Learn more about **global progress on ESG regulation**.
- Find out about **FASB activity**.

Issue spotlight

Find out what's likely to drive TMT deals during the remainder of 2022.

Plus, get the latest on evolving regulatory activity affecting ESG reporting and crypto.

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Business update

The technology, media and telecommunications industries have never been more important as they are in today's world as they continue to lead innovation affecting our personal and professional lives. In 2021, TMT companies led a blistering, record-setting pace for IPOs, mergers and acquisitions, and debt deals, but the trend has not continued into 2022. In the first half of 2022, TMT companies, broadly, have experienced a significant decline in valuation and IPOs have stalled. We looked at the key drivers and factors likely to influence the remainder of 2022.

Initial Public Offerings in TMT

The roller coaster ride of the past two years is continuing, with US capital markets experiencing the longest extended period of high volatility since the 2008 financial crisis. The increased market volatility has been driven by several factors, including inflation and geopolitical uncertainty. "Geopolitical concerns, rising interest rates and inflation have resulted in a more cautious and sober tone in both the equity and debt markets. Debt investors, while more selective, should still be able to put capital to work, as acquisition-related issuance is expected to remain strong this year," said Rob Cohen, PwC's Debt Capital Markets Advisory Leader.

In June, the Federal Reserve approved a 0.75% interest rate increase, the largest since 1994. It followed two previous rate hikes of 0.25% in March and 0.50% in May. Federal Reserve Chairman Jerome Powell signaled that further interest rate increases are expected throughout 2022 in an effort to stem persistent inflation.

Global economic uncertainty following Russia's invasion of Ukraine in February materially stalled IPO activity in many markets. The war in Ukraine is expected to weigh heavily on sentiment until there is a clearer path for resolution.

It's unclear when the appetite for IPOs will return. In most cases, TMT companies planning IPOs in early 2022 have paused efforts amid the sustained market

volatility, which is a significant impediment to pricing an IPO. This is particularly true for companies with late-stage investment at significantly higher valuations than those observed today.

Globally, more than 600 special purpose acquisition companies (SPACs) are still searching for acquisition targets with in excess of \$150 billion of capital looking for merger partners. This represents a significant potential deal pipeline as these SPACs look for opportunities to de-SPAC within their two-year life. Despite the significant amount of capital available for investment, SPAC and de-SPAC transactions are expected to become increasingly less attractive. On March 30, the SEC proposed much-anticipated rules relating to SPACs as a result of increased perception by regulators as well as many investors, the financial media and the public at large, that these SPAC mergers are just a shortcut for private companies to go public without all the hurdles of a traditional IPO. The proposed rules related to SPAC IPOs and de-SPAC transactions aim to enhance disclosures, provide additional investor protections and align these transactions with traditional IPOs.

We do see IPO preparations underway for companies looking to be ready to take advantage of a market window, if one opens. The backlog of IPOs could lead to a strong upswing in volumes if volatility does moderate. Hotspots continue to include

cryptocurrency and other digital assets, health tech, energy storage and the metaverse. ESG continues to gain increasing focus from equity investors and will be a critical factor in their investment decisions. Regulators are beginning to catch up, and in March 2022 the SEC proposed rule amendments that would

require public companies to include certain climate-related information in their registration statements and periodic reports.

Mergers and acquisitions

Despite stagnant TMT IPOs through the first half of 2022, there appears to be far less slowdown in M&A activity in the TMT sector. We continue to expect the following trends to drive M&A activity in the TMT sector:

User growth: There is a war for eyeballs in the tech space where companies are looking to attract users and create a broader platforms through content acquisition. The union is sound: Companies may have a strong existing user bases but need content or complementary business models to sustain or expand membership, while content owners are looking for innovative ways to monetize. This makes myriad potential combinations possible, and we expect to see companies across industries and subsectors get hitched and create broader platform companies, often in surprising ways.

Cryptocurrency and digital assets: Traditional finance companies seeking a cryptocurrency foothold are bolstering their core businesses through M&A. Companies across industries are attempting to incorporate and monetize non-fungible tokens (NFTs) as a component of their core businesses.

/Tech: Digital health care, fintech and autotech have exploded, and the pieces are everywhere. With significant market fragmentation and crowding in health care; innovative “asset-light” models within fintech; and the continued proliferation of electric vehicles, we anticipate IPOs, deal-making and consolidation in these subsectors in the years ahead as leaders are defined, investor sentiment and

expectations evolve, and new trends emerge.

On the heels of the effects of the Omicron COVID-19 variant on the global economy, we continue to experience high levels of market volatility due to the inflationary environment, US federal interest rate increases, and geopolitical concerns that continue to cause uncertainty for the second half of 2022. Read more in our [TMT: Deals 2022 midyear outlook](#) and register to join us for a related [webcast](#) on July 28.

Accounting update

In this issue, we highlight some of the accounting considerations related to business disposals and new SEC guidance effective this quarter on safeguarding crypto assets. On the standard-setting front, FASB has added new crypto and ESG-related projects to their agenda; stay tuned as deliberations begin on these projects in the upcoming months. This quarter we also spotlight the FASB's recent decision to refocus its project on income tax disclosures.

Navigating the accounting for business disposals

Business disposals continue to be a hot topic as companies reevaluate their portfolios. Further, the Russian government's invasion of Ukraine, as well as the economic sanctions imposed on Russia, has caused many businesses to reconsider the feasibility of their operations within these jurisdictions. Decisions to dispose of assets and business operations may have significant accounting and reporting implications.

Held for sale criteria

Long-lived assets are classified as "held for sale" when they meet certain criteria in ASC 360-10-45-9, including management's commitment to a disposal plan. The criteria also require that the sale must be probable within one year, which is a frequent area of judgment.

Questions have recently arisen regarding the impact of put and call options, as companies contemplate structures that might allow them to regain control of a disposed business if economic and political conditions improve. A put or call option may preclude sale accounting for long-lived assets as it may indicate that either a seller has not yet relinquished control or a buyer has not yet gained control of the assets. Relevant guidance on this aspect can be found in ASC 810 for disposals of a business and ASC 610-20 for disposals of assets that do not constitute a business.

Recognition and measurement considerations

An asset (or group of assets) that meets the held for sale criteria should be recorded at the lower of its carrying value or its fair value less cost to sell, beginning in the period the held for sale criteria are met. Once classified as held for sale, depreciation and amortization should not be recorded for any long-lived assets included in the disposal group.

Additional losses should be recognized for any subsequent decreases in fair value less cost to sell. Any subsequent increase in the disposal group's fair value less cost to sell should be recognized, but not in excess of the cumulative loss previously recognized.

Groups of assets classified as held for sale should be presented separately on the balance sheet. The assets and liabilities are not netted; rather, they are typically grouped into four categories: current assets held for sale, long-term assets held for sale, current liabilities held for sale, and long-term liabilities held for sale. The prior period balance sheet is not required to be recast unless the disposal group qualifies for treatment as discontinued operations.

Other reminders

Discontinued operations: Depending on the significance of the assets or group of assets that meet the held for sale criteria and whether the disposition constitutes a strategic shift in the company's operations, the disposal may qualify as a discontinued operation. This triggers additional presentation and disclosure requirements, including recasting of prior periods to separately present discontinued operations on a net-of-tax basis and separate calculation of earnings per share amount.

Income tax considerations: A decision to sell the shares of a subsidiary could require the recognition of additional deferred tax assets or liabilities associated with the difference between the seller's carrying amount of the subsidiary's net assets in the financial statements and the seller's basis in the shares of the subsidiary (otherwise known as "outside" basis differences). There could also be impacts on a company's valuation allowance analysis even before committing to a plan of disposal. Listen to our podcast, [*Tax toolkit: Navigating divestitures effectively*](#), for more details.

For more information

Read more about the held for sale model in Chapter 5 of our [*Property, plant, equipment and other assets*](#) guide and Chapter 8 of our [*Financial statement presentation*](#) guide. For more details on discontinued operations, refer to Chapter 27 of our [*Financial statement presentation*](#) guide and listen to our podcast, [*Discontinued operations, your reporting questions answered*](#).

SEC guidance on safeguarding crypto effective this quarter

The SEC staff released new interpretative guidance effective this quarter for companies that engage in activities in which they have an obligation to safeguard customers' crypto assets, citing the "unique risks and uncertainties" present in these arrangements. [*Staff Accounting Bulletin No. 121 \(SAB 121\)*](#) requires companies that perform crypto asset custodial activities, whether directly or through an agent acting on its behalf, to record a liability and a corresponding asset at fair value. It also requires disclosure of the nature and amount of crypto assets the reporting entity is responsible for safeguarding for its customers.

Determining whether the guidance is applicable to a company's specific facts and circumstances could require significant judgment. SEC registrants are expected to comply with the guidance in the first interim or annual financial statements ending after June 15, 2022 (e.g., Q2 2022 for calendar year-end public companies), and apply it retrospectively to the beginning of the year. Certain other specified entities are also in the scope of the new interpretive guidance.

For more information, read our In depth, [*Perspectives on SAB 121 and safeguarding crypto assets*](#).

FASB adds projects on digital assets and environmental credits

The FASB voted this quarter to take on two projects addressing emerging issues. The first project will address the accounting for digital assets, with decisions on scope to be made at a future meeting. The second project will consider the accounting for environmental credits, such as renewable energy credits and carbon offsets. Stay tuned as the FASB begins deliberating these projects in the upcoming months.

Income tax disclosure project gets a reboot

This spring, the FASB revisited the scope and objectives of its income tax disclosure project and decided to primarily focus on two topics:

- **Income taxes paid:** The FASB voted to explore disaggregation of taxes paid by jurisdiction, for example by top jurisdictions or using a quantitative threshold.

- **Rate reconciliation table:** The FASB voted to explore both a quantitative threshold approach (e.g., leveraging the SEC's current 5% rule) and an approach that would prescribe specific categories for disclosure of individual reconciling items in the rate reconciliation table, such as the foreign tax differential by jurisdiction.

The FASB directed its staff to continue research and outreach efforts and will begin making decisions at a future meeting.

FASB votes to discontinue goodwill project

At its June 15 meeting, the FASB voted to remove its project on the subsequent accounting for goodwill from its technical agenda. The FASB had been considering standard setting that would require amortization of goodwill, which received mixed feedback from stakeholders. Board members cited consideration of costs versus benefits as the primary reason to remove the project.

Regulatory update

In regulatory developments, comments are in on the SEC's high profile climate and cyber disclosure proposals and the staff will now turn to reviewing the feedback and drafting final rules. Global regulators have also moved forward on their ESG reporting initiatives, issuing draft standards for comment. Meanwhile, this quarter the SEC issued a new proposal on SPAC transactions as well as a new "Dear CFO" letter, which focuses on impacts of the Russian government's invasion of Ukraine. Plus, learn about the newest trends in SEC comment letters for TMT companies.

SEC's landmark climate disclosure proposal moves to the next phase

Now that the comment period for the SEC's climate disclosure proposal has come to a close, the SEC staff will review the feedback and draft final rules for vote by the Commissioners. Based on the compliance dates noted in the proposal, the current expectation is that the SEC will adopt the final rules with an effective date in December 2022.

As proposed, new disclosures would be required for all public companies and would include certain climate-related financial metrics in the audited financial statements. Companies would also be required to disclose

information about greenhouse gas emissions, which would be subject to a phased-in assurance requirement (for large accelerated and accelerated filers). The disclosure requirements would be phased based on registrant type. If the rules are adopted and become effective in 2022, large accelerated filers would be required to provide the new disclosures first in 2023 (Form 10-Ks filed in 2024).

While some of the proposed requirements are likely to evolve as a result of the rule-making process, there are several actions companies can, and should, take

now to prepare for adoption. [Read](#) or [listen](#) to our In the loop, *The SEC wants me to disclose what?* for PwC's insights on the proposal and steps companies should take today.

In the meantime, the SEC continues to enforce the current requirements for climate-related disclosures through comment letters—and [enforcement actions](#). Revisit our In the loop, [Don't wait until the SEC staff asks you about climate change](#), for reminders and example SEC comments.

Global regulators make progress on ESG proposals

In addition to the SEC's climate disclosure proposal, the International Sustainability Standards Board (ISSB) and European Financial Reporting Advisory Group (EFRAG) have issued key ESG disclosure proposals.

ISSB proposes two sustainability standards

In March, the ISSB issued its first two proposals for new sustainability standards, addressing general and climate-related disclosures. The ISSB sits alongside the IASB and works in close cooperation to establish complementary standards. The standards are intended to provide a global baseline for ESG reporting, and the ISSB will work with other international organizations and jurisdictions to support the inclusion of the global baseline into jurisdictional requirements. Each country will determine whether and when ISSB standards should be adopted locally. Comments on the proposals are due by July 29, and final standards are expected before the end of the year. For more information, read our In brief, [ISSB proposes two sustainability standards](#).

EFrag begins public consultation on its draft sustainability reporting standards

In April, the EFRAG announced the start of public consultation on its first set of exposure drafts developed under the Corporate Sustainability Reporting Directive (CSRD). The exposure drafts cover the full spectrum of sustainability matters: environment, social, and governance. As currently proposed, the CSRD would require certain companies in the EU, including EU subsidiaries of US companies, to report in granular detail on: (1) how sustainability issues affect their business and (2) the impact of their activities on people and the environment; this is referred to as “double materiality” and differs from the SEC’s and ISSB’s definitions of materiality that are viewed through an investor lens. Comments on the proposals are due by August 8. For more information, including the impact of the CSRD on US companies, read our In the loop, [*Why US companies should not ignore Europe’s ESG proposals*](#).

Listen to our podcast, [*ESG disclosures: what matters to investors*](#), to hear PwC’s investor engagement specialists discuss the “big three” disclosure proposals from the SEC, ISSB, and EFRAG.

Comment period ends for cyber proposal

The comment period closed in early May for the SEC’s cybersecurity disclosure proposal. As a reminder, the proposed amendments would require reporting of material cybersecurity incidents within four business days of determining the incident is material. The proposed amendments would also require disclosure of policies and procedures for managing cyber risk, along with information on board oversight of cybersecurity risks and board expertise on cybersecurity. Further highlighting the SEC’s focus on the topic, the SEC [*announced*](#) in May that it nearly doubled its Crypto Assets and Cyber Unit, the unit in charge of identifying cyber-related disclosure and controls issues.

Feedback on the proposal—numbering around 135 responses—generally supported enhanced and standardized disclosures about cybersecurity; however, many respondents asked for clarification or changes to key areas of the proposal, most notably requests to clarify which incidents are in scope and to coordinate disclosure requirements with other agencies or law enforcement when applicable.

Although final rules are still pending, companies shouldn’t put off assessing their controls over cybersecurity risks and ensuring coordination across the organization—including the finance, information technology, legal, and reporting functions—on this important topic. For more details on the SEC’s proposal, read our In brief, [*SEC proposes new cybersecurity disclosure requirements*](#), and listen to our podcast, [*New SEC cyber proposal: How could it change current reporting?*](#)

SEC proposes rules for SPAC and de-SPAC transactions

After the recent surge in special purpose acquisition company (SPAC) activity, the SEC has proposed new rules and amendments that would impact SPAC IPOs and the subsequent merger between a SPAC and private operating company (de-SPAC). The proposed rules seek to provide SPAC investors with the same level of protection as traditional IPOs and would require enhanced disclosures. Comments on the proposal were due June 13. For more information, read our In brief, [*SEC proposes new rules related to SPAC and de-SPAC transactions*](#).

TMT SEC comment letter trends

The SEC Division of Corporate Finance's filing review process is a key function used by the SEC staff to monitor critical accounting and disclosure decisions applied by registrants. Our analysis of SEC comment letters identifies the frequent topical areas addressed by the SEC staff and how their focus areas have changed over time. Read more on [SEC comment letter trends for TMT companies](#), in which we provide insights on the nature of the SEC staff comments, sample text from the comments and provide links to sites where you can learn more about the accounting and disclosure requirements addressed in each area. Within the TMT sector, the top three areas of focus for the 12 months ended March 31, 2022 are:

- Non-GAAP measures — compliance with Item 10(e) of Regulation S-K and the related compliance and disclosure interpretations
- Management's discussion and analysis — emphasizing the requirements in Item 303 of Regulation S-K and the related disclosure objectives
- Segment reporting — how registrants have identified operating segments and aggregated them into reportable segments

“Dear CFO” letter spotlights disclosures related to the war in Ukraine

The Russian government's invasion of Ukraine continues to have a profound impact on business operations within the conflict zone as well as on markets worldwide. In May, the SEC's Division of Corporation Finance issued an [illustrative letter](#) with sample comments the Division may issue to registrants, reinforcing disclosure obligations related to matters that directly or indirectly impact a company's business. The letter provides a useful reminder of the SEC's disclosure expectations as companies prepare their quarterly disclosures and could be relevant more broadly to matters such as supply chain disruptions, inflation, and market volatility.

While not an exhaustive list, topics addressed in the letter include:

- Direct and indirect impact of the Russian government's invasion on a company's business, such as government actions (including expropriation), reaction of investors, employees, and/or other stakeholders
- The extent and nature of the board of directors' role in overseeing risks
- Cybersecurity
- Disclosure of known trends or uncertainties, including impairment of tangible and intangible assets, contract modifications, and recoverability and collectability issues
- Enhancements needed to critical accounting estimates disclosures
- Disclosure of any material import or export bans
- Supply chain impacts, including by segments, products, lines of service, projects, or operations
- Use of Non-GAAP measures
- Disclosure controls and procedures and internal control over financial reporting

For more information on the potential accounting and reporting impacts, read our In depth, [Implications of the Russian government's invasion of Ukraine](#), and listen to our four-part [podcast series](#).

The SEC also continues to issue comments on climate-related disclosures, highlighted in the staff's September 2021 [“Dear CFO” letter](#).

About PwC's TMT industry practice

At PwC, our purpose is to build trust in society and solve important problems. Our TMT practice is dedicated to helping business leaders in the technology, media and telecommunications industries manage their complex businesses while delivering sustained outcomes. In doing so, we provide professional services across two segments: Trust Solutions and Consulting Solutions. Within these segments we bring a range of capabilities, including risk, transformation, cloud and digital, deals, ESG, cybersecurity and privacy, governance/boards, tax services and much more. Across our global network of more than 295,000 professionals in 156 countries, we are committed to advancing quality in everything we do.

Let's talk

For deeper insights on the content included in this edition of our TMT Accounting & Financial Reporting Insights, or to discuss other challenges, please reach out to any of our TMT leaders to discuss. We're here to help.

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