# GAAP Updates as of January 15, 2025

Below is a list of finalized upcoming significant GAAP guidance that are not yet in effect as of January 15, 2025, or are in the process of adoption by Companies. It does not contain all Accounting Standard Updates (ASUs) that have been issued. If you have any questions about these upcoming pronouncements, please contact your CPA at Larson & Company.

| Upcoming Significant GAAP Accounting Pronouncements | | | |
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| **ASU** | **Area** | **Description** | **Date of Effectiveness** |
| **ASU 2018-12, ASU 2019-09, and ASU 2020-11** | **Financial Services - Insurance (Topic 944)** | In August 2018, FASB issued Accounting Standards Update 2018-12, Financial Services - Insurance (Topic 944), which provides new updates to accounting treatment of the benefit liability estimate, amortization of deferred acquisition costs, and disclosure requirements of long-duration insurance contracts for insurance carriers. In November 2019, FASB issued ASU 2019-09 which effectively defers the date of implementation for this guidance. These updates include the following:<br>1. **Assumptions used to measure liability for future policy benefits** for traditional limited-payment contracts were previously locked at contract inception. New guidance would require insurance entities to (1) review and, if there is a change, update the assumptions used to measure cash flows at least annually and (2) update the discount rate assumption at each reporting date. The provision for risk of adverse deviation and premium deficiency (or loss recognition) testing are eliminated. Changes of the liability due to updated cash flow assumptions vs. updating discount rate assumption is required to be either in net income or other comprehensive income, respectively. The amendments also requires than an insurance entity discount expected future cash flows at an upper-medium grade (low-credit-risk) fixed-income instrument yield that maximizes the use of observable market inputs instead of using an unobservable discount rate (a rate based on an insurance entity's expected yield on its invested assets.<br>2. **Measurement of market risk benefits** associated with deposits contracts is now required to be measured at fair value instead of a potential | **Public - for fiscal years beginning after December 15, 2021. Private - for fiscal years beginning after December 15, 2024.** |

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| | | alternative option of using an insurance accrual model. The portion of any change in fair value attributable to a change in the instrument-specific credit risk is required to be recognized in other comprehensive income.<br>3. **Amortization methods of deferred acquisition costs** is now simplified to be amortized on a constant level basis over the expected term of the related contracts. Deferred acquisition costs are required to be written off for unexpected contract terminations but are not subject to an impairment test.<br>4. **Disclosures** now require than an insurance entity provide disaggregated rollforwards of beginning to ending balances of the liability for future policy benefits, policyholder account balances, market risk benefits, separate account liabilities, and deferred acquisition costs. The amendment also requires that an insurance entity disclose information about significant inputs, judgments, assumptions, and methods used in measurement, including changes in those inputs, judgements, and assumptions, and the effect of those changes on measurement. | |
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| **ASU 2020-06** | **Debt -- Debt with Conversion and Other Options (Subtopic 470-20) and Derivates and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)** | In August 2020, FASB issued ASU 2020-06 *Debt -- Debt with Conversion and Other Options (Subtopic 470-20) and Derivates and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40),* to help simplify and eliminate complexities related to the accounting for convertible debt instruments, derivatives for contracts in an entity's own equity, and current EPS guidance surrounding such embedded instruments. The standard effectively eliminates certain separation models from Subtopic 470-20, Debt - Debt with Conversion and Other Options, for convertible instruments. Instead, the embedded conversion features no longer are separated from the host contract for convertible instruments with conversion features that are not required to be accounted for as derivatives under Topic 815, Derivatives and Hedging, or that do not result in substantial premiums accounted for as paid-in capital. This amendment also eliminates derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions. | **Public - for fiscal years beginning after December 15, 2021.<br>Private - for fiscal years beginning after December 15, 2023.** |
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| **ASU 2021-08** | **Business Combinations (Topic 805)** | In October 2021, FASB issued ASU 2021-08, *Business Combinations (Topic 805*). The amendments in this Update require that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. At the acquisition date, an acquirer should account for the related revenue contracts in accordance with Topic 606 as if it had originated the contracts. | **Public - for fiscal years beginning after December 15, 2022. Private - for fiscal years beginning after December 15, 2023.** |
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| **ASU 2022-01** | **Derivatives and Hedging (Topic 815): Fair Value Hedging - Portfolio Layer Method** | In March 2022, FASB issued ASU 2022-01, D*erivatives and Hedging (Topic 815): Fair Value Hedging - Portfolio Layer Method.* Current GAAP permits only prepayable financial assets and one or more beneficial interests secured by a portfolio of prepayable financial instruments to be included in a last-of-layer closed portfolio. The amendments in this Update allow nonprepayable financial assets also to be included in a closed portfolio hedged using the portfolio layer method. That expanded scope permits an entity to apply the same portfolio hedging method to both prepayable and nonprepayable financial assets, thereby allowing consistent accounting for similar hedges. | **Public - for fiscal years beginning after December 15, 2022. Private - for fiscal years beginning after December 15, 2023.** |
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| **ASU 2022-03** | **Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions** | In June2022, FASB issued ASU 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions.* The amendments clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. When such arrangements exist, additional disclosure is also required. | **Public - for fiscal years beginning after December 15, 2023. Private - for fiscal years beginning after December 15, 2024.** |
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| **ASU 2023-01** | **Leases (Topic 842): Common Control Arrangements** | In March 2023, FASB issued ASU 2023-01, *Leases (Topic 842): Common Control Arrangements.* The amendment provides updates to 2 areas.<br><br>1) The amendment introduces a practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement to determine:<br>a. Whether a lease exists and, if so,<br>b. The classification of and accounting for that lease.<br><br>2) This amendment require that leasehold improvements associated with common control leases be:<br>a. Amortized by the lessee over the useful life of the leasehold improvements to the common control group (regardless of the lease term) as long as the lessee controls the use of the underlying asset (the leased asset) through a lease. However, if the lessor obtained the right to control the use of the underlying asset through a lease with another entity not within the same common control group, the amortization period may not exceed the amortization period of the common control group.<br>b. Accounted for as a transfer between entities under common control through an adjustment to equity (or net assets for not-for-profit entities) if, and when, the lessee no longer controls the use of the underlying asset. | **All - for fiscal years beginning after December 15, 2023.** |
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| **ASU 2023-02** | **Investments - Equity Method and Joint Ventures (Topic 323)** | In March 2023, FASB issued ASU 2023-02, *Investments - Equity Method and Joint Ventures (Topic 323).* The amendment permit reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the income tax credits and other income tax benefits received and recognizes the net amortization and income tax credits and other income tax benefits in the income statement as a component of income tax expense (benefit). Additional disclosures are also required. | **Public - for fiscal years beginning after December 15, 2023.<br>Private - for fiscal years beginning after December 15, 2024.** |

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| **ASU 2023-05** | **Business Combinations - Joint Venture Formations (Subtopic 805-60)** | In August 2023, FASB issued ASU 2023-05, *Business Combinations - Joint Venture Formations (Subtopic 805-60).* The amendment provides new guidance requiring a joint venture to recognize and initially measure its assets and liabilities using a new basis of accounting upon formation. As a result, a newly formed joint venture should initially measure its assets and liabilities at fair value (with exceptions to fair value measurement that are consistent with the business combinations guidance). | **Effective prospectively for all joint venture formations with a formation date on or after January 1, 2025.** |
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| **ASU 2023-07** | **Segment Reporting (Topic 280) - Improvements to Reportable Segment Disclosures** | In November 2023, FASB issued ASU 2023-07, *Segment Reporting (Topic 280).* The amendments in this Update improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. | **Public only - for fiscal years beginning after December 15, 2023. Early adoption is permitted.** |
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| **ASU 2023-08** | **Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets** | In December 2023, FASB issued ASU 2023-08, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60).* The amendments in this update require an entity to subsequently measure certain intangible assets (e.g. crypto assets) at fair value with changes recognized in net income each reporting period. To qualify for such treatment, the assets must meet the following criteria:<br>1. Meet the definition of intangible assets as defined in the Codification<br>2. Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets<br>3. Are created or reside on a distributed ledger based on blockchain or similar technology<br>4. Are secured through cryptography<br>5. Are fungible<br>6. Are not created or issued by the reporting entity or its related parties<br>The amendments in this Update also require that an entity present (1) crypto assets measured at fair value separately from other intangible assets in the balance sheet and (2) changes from the remeasurement of crypto assets separately from changes in the carrying amounts of other intangible assets in the income statement (or statement of activities for not-for-profit | **All - for fiscal years beginning after December 15, 2024. Early adoption is permitted.** |

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| | | entities). Additional disclosures requirements are also necessary for entities that hold such assets. | |
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| **ASU 2023-09** | **Income Taxes (Topic 740)—Improvements to Income Tax Disclosures** | In December 2023, FASB issued ASU 2023-09, *Income Taxes (Topic 740).* The amendment aims to improve more transparency to investors regarding the disclosure of taxes in three areas:<br>1. Rate Reconciliation<br>2. Income Taxes Paid<br>3. Other Disclosures<br><br>For **Rate Reconciliation**, this update requires that public business entities on an annual basis (1) disclose specific categories in the rate reconciliation and (2) provide additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than 5 percent of the amount computed by multiplying pretax income [or loss] by the applicable statutory income tax rate). The specific categories as mentioned in (1) above includes:<br>a. State and local income tax, net of federal (national) income tax effect<br>b. Foreign tax effects<br>c. Effect of changes in tax laws or rates enacted in the current period.<br>d. Effect of cross-border tax laws<br>e. Tax credits<br>f. Changes in valuation allowances<br>g. Nontaxable or nondeductible items<br>h. Changes in unrecognized tax benefits<br>For entities other than public business entities, the amendments in this Update require qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate.<br><br>Regarding **Income Taxes Paid**, the amendment also requires that all entities disclose on an annual basis the following information about income taxes paid: | **Public - annual periods beginning after December 15, 2024. Private - annual periods beginning after December 15, 2025. Early adoption is permitted.** |

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| | | 1. The amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes<br>2. The amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5 percent of total income taxes paid (net of refunds received).<br><br>Lastly, for **Other Disclosures**, the amendments in this Update require that all entities disclose the following information:<br>1. Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign<br>2. Income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign | |
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| **ASU 2024-01** | **Compensation-Stock Compensation (Topic 718)- Scope Application of Profit Interest and Similar Awards** | In March 2024, FASB issued ASU 2024-01, *Compensation-Stock Compensation (Topic 718).* The amendment aims to GAAP by adding additional illustrative examples that includes four fact patters to demonstrate how and entity should apply the scope guidance in topic 718 to determine whether a profits interest award should be accounted for. Generally, Topic 718 will apply to all share-based payment transaction in which a grantor acquires goods or services to be used or consumed in the grantor's own operations or provides consideration payable to a customer by either of the following:<br>a. Issuing (or offering to issue) its shares, share options, or other equity instruments to an employee or a non-employee.<br>b. Incurring liabilities to an employee or a nonemployee that meet either of the following conditions:<br>1. The amounts are based, at least in part, on the price of the entity's shares or other equity instruments. (The phrase at least in part is used because an award of share-based compensation may be indexed to both the price of an entity's shares and | **Public - annual periods beginning after December 15, 2024. Private - annual periods beginning after December 15, 2025. Early adoption is permitted.** |

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| | | something else that is neither the price of the entity's shares nor a market, performance, or service condition.)<br>2. The awards require or may require settlement by issuing the entity's equity shares or other equity instruments. | |
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| **ASU 2024-04** | **Debt – Debt with Conversion and Other Options (Subtopic 470-20) – Induced Conversions of Convertible Debt Instruments** | In November 2024, FASB issued ASU 2024-04, *Debt-Debt with Conversion and Other Options (Subtopic 470-20).* The amendments in this update clarify the requirements for determining whether certain settlements of convertible debt instruments should be accounted for as an induced conversion vs an extinguishment guidance.<br><br>Under the amendments, to account for a settlement of a convertible debt instrument as an induced conversion, an inducement offer is required to provide the debt holder with, at a minimum, the consideration (in form and amount) issuable under the conversion privileges provided in the terms of the instrument. An entity should assess whether this criterion is satisfied as of the date the inducement offer is accepted by the holder. If, when applying this criterion, the convertible debt instrument had been exchanged or modified (without being deemed substantially different) within the one-year period leading up to the offer acceptance date, an entity should compare the terms provided in the inducement offer with the terms that existed one year before the offer acceptance date. The amendments do not change the other criteria that are required to be satisfied to account for a settlement transaction as an induced conversion.<br><br>The amendments in this update also make additional clarifications to assist stakeholders in applying the guidance. Under the amendments, the incorporation, elimination, or modification of a VWAP formula does not automatically cause a settlement to be accounted for as an extinguishment; an entity should instead assess whether the form and amount of conversion consideration are preserved (that is, provided for in the inducement offer) using the fair value of an entity's shares as of the offer acceptance date. | **All - for fiscal years beginning after December 15, 2025. Early adoption is permitted.** |

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| | | The amendments in this update also clarify that the induced conversion guidance applies to a convertible debt instrument that is not currently convertible as long as it had a substantive conversion feature as of both its issuance date and the date the inducement offer is accepted. | |
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