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TODAY'S CPA

Texas Society of Certified Public Accountants

ATTRACTING AND RETAINING TALENT:

How Ignoring Organizational Culture and Employee Wellness Can Cost Your Business

TXCPA's Annual Meeting of Members

A Pragmatic CPA's Guide to ESG Reporting

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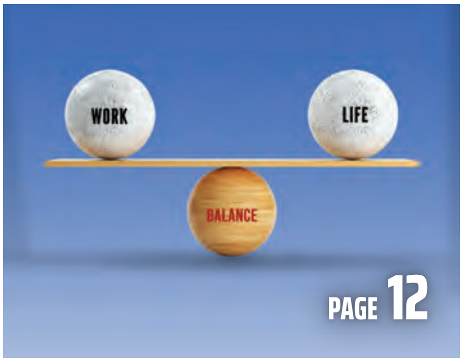

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HELP WANTED

By TXCPA President and CEO Jodi Ann Ray, CAE

Let's Connect

I'd love to hear your feedback and answer your questions. Drop me a note at jray@tx.cpa or connect with me on LinkedIn at https://www.linkedin.com/in/jodiannlafreniereray/.

If you're looking for new hires, you are not alone. We hear from members across the state that staffing continues to be their top challenge. And while staffing has long been near the top of the list of challenges for members, demographic changes and a declining student population make the race for new talent even tighter.

TXCPA is committed to helping our members lead and succeed. We are focused on growing the CPA pipeline and equipping you with the resources and support you need for the staffing challenges today and in the years to come. Here are just a few related programs that I want to be sure you know are available to you.

CPA Pipeline Strategy: In June 2022, TXCPA launched our statewide pipeline strategy aimed at attracting more Texas students to the profession, providing support to CPA candidates, and strengthening relationships with educators from middle school to college levels. You can learn more about the strategy and how you can get involved in building a legacy for your profession here.

TXCPA Career Center: Use the TXCPA Career Center to publicize your open positions – from internships and part-time roles to full-time jobs with experience requirements. Not only do you receive a discount on your posts (internships are FREE), but you also receive access to hundreds of job seeker profiles once you add a post.

Get Involved: Volunteers are at the heart of our work at TXCPA. Participating in a committee, signing up for local community service events, and attending state and chapter meetings and programs are great ways to meet new people. You never know if your next new hire will be someone you get to know through your member experience at TXCPA!

Sometimes just knowing you aren't alone helps make a challenge a little less daunting. That's what membership is all about – leveraging the strength and influence of your professional community. If you need personal assistance accessing the programs above or any of your membership benefits, please reach out to us (800-428-0272 or membership@tx.cpa). We'd love to hear from you!

SEC Finally Issues Long Overdue Rules Requiring Extraction Companies to Report Payments to Governmental Entities for Resource Development

By Don Carpenter, MSAcc/CPA

After two previously unsuccessful attempts to promulgate reporting requirements for extraction companies laid out in Dodd-Frank, the SEC has issued rules that require disclosure of payments made to commercially develop oil, natural gas or other minerals. After a first attempt was vacated by a U.S. District Court and a second by a joint resolution of Congress, the third attempt may just be the charm.

The requirement in the Dodd-Frank Act was enacted to address perceived corruption in the extractive industries. It has long asserted that payments made to governmental entities, especially in less-developed countries, are routinely misappropriated by the ruling elite and become little more than thinly veiled bribes. The rule was intended to bring accountability through transparency.

But even this latest version is not without its critics. Two SEC commissioners issued separate dissenting opinions, with one of those opinions claiming the new rules fail to meet the intent of Dodd-Frank. Industry watchdogs also assert that the disclosure requirements fall well short of similar reporting requirements of other developed countries.

Since the reporting requirements are under the auspices of the SEC, they apply only to registrants. Private companies are not required to make similar disclosures, opening a loophole for projects intent on avoiding disclosure. Further, the disclosures apply only to reporting entities involved in the commercial "extraction" or "processing" of natural resources. Companies providing equipment such as offshore drilling platforms or services such as geological support would not be included in the requirements. Registrants are required to include payments made by any "controlled" entity that follows the GAAP or IFRS standards of entities requiring full consolidation.

Disclosure must be made at the project level. But the definition of "project" in these most recent rules has been the subject of some criticism due to its failure to enhance the stated goal of transparency. Earlier versions required disclosure at a granular level determined by individual contract, license, lease or concession.

The new rules allow for significant aggregation of payments. Reporting is determined at a major subnational governmental jurisdiction by type of resource and method of extraction. Under this definition of a project, payments made to a national government for the extraction of petroleum could be reported in one lump sum, although they may cover multiple distinct contracts.

Payments that qualify for reporting are broadly defined to include not only the standard rents, royalties, taxes and lease payments but also dividends and payments for infrastructure. In addition, any community and social responsibility (CSR) expenditures fall within the definition of reportable payments. Payments-in-kind from production are also included. Payments of less than $100,000 to a foreign or federal government are excluded as de minimis; however, a series of related payments are aggregated for purposes of the de minimis test.

Reporting is not required where it would conflict with foreign law or terms of pre-existing contracts. Although the SEC did not specifically agree with the conclusion, the background discussion of the new rules noted that one commentor stated that Qatar and China prohibit such disclosure. It was also noted that similar Canadian and EU disclosure requirements do not have a similar conflict exemption. The rules also allow reporting entities to apply for specific exemptions on a case-by-case basis.

Smaller reporting companies and emerging growth companies are exempt from the reporting requirements. Likewise, companies are given a one-year grace period for reporting after completing an initial public offering (IPO).

Qualified payments will be reported on Form SD, which will be modified to provide for such reporting. Form SD is an SEC form already in use to satisfy special disclosure requirements implemented under Dodd-Frank relating to conflict minerals contained in products of reporting companies. The filing must be on EDGAR and available in XBRL format to allow readers to extract and analyze the data. In a rather unusual step, the SEC also determined that the required information is being "furnished" to the Commission rather than being "filed." The distinction could have significant implications because information "filed" with the Commission is subject to personal liability for any false or misleading statements of material fact under Sec. 18 of the Exchange Act.

This limitation of liability arguably could have significant ramifications regarding the effectiveness of the reporting requirement. The SEC justified this limitation on the basis that the disclosures are not motivated as much to protect investors as to increase accountability of governments for proceeds they receive for natural resources.

The new requirements were published in the Federal Register on March 16, 2021, and became effective 60 days thereafter. However, the first Form SD is due within 270 days of the reporting entities' fiscal year end. This means that for a calendar year registrant, the first report is due September 30, 2024.

About the Author: Don Carpenter is clinical professor of accounting at Baylor University. Contact him at Don_Carpenter@baylor.edu.

2022-2023 Outstanding Chapter Awards

To inspire chapters in their continuing work to elevate member service, TXCPA bestows Outstanding Chapter Awards to the small and medium-sized chapters. Here are a few highlights about the chapters honored for the 2022-2023 year.

Small Chapter – TXCPA San Angelo
Adam Hallmark, President

TXCPA San Angelo was recognized for exceeding their CPE goal, as well as their membership retention and recruitment efforts, and their member and student engagement. The chapter exceeded their CPE goal by offering 75 hours, hosting eight one-hour events along with 52 hours of seminar programming, and 15 hours in collaboration with the Chamber of Commerce and Howard College Nonprofit Initiative.

They also surpassed their goal to expand their reach and grow their membership! They focused on reaching out to non-member CPAs who attended CPE events and added 33 new CPAs to the roster!

To help develop the next generation of CPAs, TXCPA San Angelo maintained a strong relationship with their local university, Angelo State University. Outreach to students included hosting a CPA2B Bootcamp and participating in Meet the Firms. The chapter also visited Concho Valley Council of Governments Preschool Kinder bound students to give them financial literacy kits. Congratulations, TXCPA San Angelo!

Medium Chapter – TXCPA Permian Basin
Derby Gallo, President

TXCPA Permian Basin implemented a number of projects to accomplish their goal of attracting and engaging students, including Meet the CPAs, CPA Chats, CPA2B Bootcamp and the chapter's 35th annual Shrimp Boil. These events provided students with the opportunity to meet and interact with local CPAs.

The chapter also presented $21,500 in scholarships to students at UTPB and three local junior colleges.

A new Pipeline Committee was created to engage the next generation of CPAs and work to provide student outreach and support accounting career education. The committee worked all year to create a Pathway to CPA guide for local accounting students to help them be CPA Exam ready when graduating. The guide included a course schedule that provides a breakdown of how to reach 150 hours, a road map for applying to sit for the Exam, where to get photos and fingerprinting, CPA Exam Review courses and the discounts available through TXCPA membership, and more. Congratulations, TXCPA Permian Basin!

TXCPA Month of Service and Accounting Opportunities Month Coming this November!

Your unique career story can help make a difference and fuel the CPA pipeline during Accounting Opportunities Month this November. In partnership with AICPA and more than 30 state CPA societies, and in conjunction with TXCPA's annual Month of Service, this initiative is shining a spotlight on the world of accounting careers. Here's how you can make an impact:

Volunteer to visit a Texas classroom – Volunteer for a classroom career presentation to share your firsthand experience and insights about the accounting profession. Complete the volunteer interest form to tell us more about your interests and availability.

Share your story on social media – Use the hashtags ***#CPAMonth* and *#TXCPAService*** to share your story, words of wisdom or message of gratitude on social media. You can also follow us on Facebook, Instagram, Twitter and LinkedIn to share our posts. Click here for more inspiration on showcasing your CPA journey.

Spread the word – Share this opportunity with educators in your network! They can visit this link to request a classroom or virtual visit.

Questions about Accounting Opportunities Month or any of our student recruitment efforts can be directed to cpapipeline@tx.cpa.

TXCPA Chapter Officers List Revision

In the July/August 2023 issue of *Today's CPA*, we included the 2023-2024 TXCPA chapter officers. The listing for **TXCPA Austin** changed prior to publication. Following is the revised list.

Lara Akinboye, President
Larry Stephens, President-elect
Angie Hardy, Vice President, Community Involvement
Kara Hamann, Vice President, Member Services
Jason Lucio, Vice President, Education & Leadership
Debra Watkins, Treasurer
Jan Keeling, Treasurer-elect
Diane Joiner, Secretary

2023-2024 Employer Guide

TXCPA's Employer Guide is a powerful resource for students. The 2023-2024 edition will be released soon! Watch your TXCPA communications and be sure to share it with students in your network.

TXCPA's Annual Meeting of Members

TXCPA members and their guests traveled to the historic downtown Worthington Renaissance Fort Worth Hotel for the 2023 Annual Meeting of Members on June 23-24. It was an opportunity for members to connect and network with each other and with TXCPA leaders from across the state, while also learning about key issues in the profession and having some fun. The program included a social event for members and guests at the Fort Worth Stockyards.

Year in Review and a Look Ahead

Chair Tim Pike, CPA-Dallas, CFE, Immediate Past Chair Sheila Enriquez, JD, CPA-Houston, CFF, CVA, and TXCPA President and CEO Jodi Ann Ray, CAE, started the meeting with a review of the work completed in 2022-2023 and goals for 2023-2024.

Legislative Successes

TXCPA and the profession celebrated successes from the 88th Texas Legislative Session. SB 159, which went into effect on September 1, allows students who have completed 120 semester hours and 21 hours of upper-level accounting to begin to take the CPA Exam. SB 159 places Texas in line with 48 other states. TXCPA was instrumental in helping to pass this legislation that will give students the opportunity to begin testing earlier and help them on the road to CPA licensure.

TXCPA's members worked closely with the bill's authors, Senator Charles Perry, CPA, and Rep. Angie Chen Button, CPA, and the Texas Legislature to pass the legislation and get it to the Governor for his signature. We are also working with the Texas State Board of Public Accountancy to draft and implement the rules so that students and educators will have a good understanding and clear path as to what is needed to begin taking the CPA Exam after 120 semester hours.

The Governor also signed HB 2217, which will expand the scope and reach of TSBPA's accounting scholarship program. These accounting scholarships will now be available to eligible accounting students who have obtained at least 15 hours of upper-level accounting. Prior to HB 2217, the TSBPA accounting scholarship program was limited to accounting students in their 5th year of education.

Both of these bills were priority bills for TXCPA this session and had wide support in the House and Senate, and both were important to our CPA pipeline strategy work.

CPA Pipeline Strategy

After just one year of work on our statewide CPA pipeline strategy, we have already affected much change. The pipeline strategy was launched in June 2022. It is aimed at attracting more Texas students to the profession, providing support to CPA candidates, and strengthening relationships with educators at all grade levels.

In the 2022-2023 year, we had a goal to reach 10,000 students statewide – we reached almost 12,000 Texas students! Our thanks to the volunteers and chapters for their support of this important work.

We hosted CPA Weeks in the fall and the spring, which helped us focus our outreach as a community and reach even more students.

This coming November, TXCPA is hosting BOTH Month of Service and Accounting Opportunities Month. Members, chapters and organizations are encouraged to give back through community service and outreach to schools and students to share resources about careers in accounting. Watch your TXCPA communications for details on how you can volunteer.

We also added more faculty and student ambassadors to better connect with more campuses in Texas. We have opportunities to grow these programs even more and welcome your recommendations for any professors or students you know who would be excellent connections.

For this year, an organizational goal has been set to reach at least 12,000 students. There are opportunities for every member to impact the CPA pipeline work being done at TXCPA and in your chapter. You can:

- Visit a school or classroom;
- Tell your story with a video testimonial;

ADVOCACY FOR THE PROFESSION – FEDERAL TAX POLICY COMMITTEE AND PROFESSIONAL STANDARDS COMMITTEE

In the 2022-2023 year, TXCPA's Federal Tax Policy Committee and Professional Standards Committee submitted comment letters and responded to exposure drafts on a number of important issues impacting the accounting profession.

- Support future CPAs in your firm or company as they prepare for the CPA Exam;
- Help promote the classroom resources, scholarships and connections available from TXCPA.

CPA-PAC

CPA-PAC Chair Terri Hornberger, CPA-Dallas, shared important PAC updates. She said the CPA-PAC's work in 2022 during the election season helped lay the groundwork for TXCPA's very successful legislative session in 2023, leading to the very substantial wins for the accounting profession.

Leadership Council Provides Guidance for the Future

This was the first meeting of the Leadership Council following the governance model changes approved in January 2023. Input from TXCPA leadership ensures that the Society continues to provide the value and benefits our members need. To that end, the Leadership Council was engaged at the Annual Meeting to provide input for TXCPA's strategic planning process.

Before participating in roundtable discussions, the Leadership Council heard three keynote presentations.

Bill Voegeli from Association Insights discussed member data and feedback from TXCPA's continuous research. Eric Curtis from Curtis Strategy discussed trends in the association industry. Allan Koltin, CPA, CGMA, from Koltin Consulting Group, Inc. gave an update on trends in the accounting profession.

Strategic Planning Committee Chair Lei Testa, CPA-Fort Worth, asked the Leadership Council to use what they learned from these keynote presentations to provide their thoughts about the future of TXCPA to the Strategic Planning Committee.

Small group discussions provided the following feedback:

- What they want to see for TXCPA in five to 10 years;
- Top three major issues impacting members, the profession and the Society;
- Major strategic moves TXCPA needs to take over the next five years to be relevant and fulfill the vision.

2023-2024 TXCPA LEADERSHIP

BOARD OF DIRECTORS
Go to the TXCPA website

LEADERSHIP COUNCIL
Go to the TXCPA website

Business Matters

In other important updates and reports:

- TXCPA Treasurer Angela Ragan, CPA-Central Texas; Investments Committee Chair Chris Lucas, CPA-Fort Worth, CFA, ABV; and TXCPA CFO Edie Cogdell, CPA-Dallas, CGMA, gave the Annual Financial Report;
- Accounting Education Foundation Chair Gary McIntosh, CPA-Austin, provided an AEF update;
- TXCPA Secretary Josh LeBlanc, CPA-Southeast Texas, covered the quorum call and approval of the minutes from TXCPA's Midyear Board of Directors (now Leadership Council) and Members Meeting held on January 25, 2023.

Mark Your Calendar Now

TXCPA's Midyear Leadership Council Meeting is planned for January 25-26, 2024, at the Omni Corpus Christi. Reserve your room now! Watch the weekly *Viewpoint* e-newsletter for meeting registration information.

Omni Frisco Hotel in Frisco will be the site for the 2024-2025 Annual Meeting of Members, June 28-29, 2024. We look forward to seeing you there!

2022-2023 AWARDS

Please see the Take Note section of this *Today's CPA* issue for the Outstanding Chapter Awards and the Take Note section of the July/August *Today's CPA* issue for the names of award recipients recognized at the Annual Meeting.

2022-23 CPA-PAC CHAPTER AWARDS

Large Chapter Award Closest to 2022-23 Fundraising Goal

TXCPA DALLAS

President: Kenny Broom
PAC Chair: Terri Hornberger

Highest Percentage of Members Contributing

TXCPA CORPUS CHRISTI WITH 6.6%

President: Brittin Stange
PAC Chair: Susie Sullivan

Highest Percentage of Fundraising Goal

TXCPA PERMIAN BASIN WITH 120%

President: Catherine Speer
PAC Chair: Jimmy Hudson

Attracting and Retaining Talent:

How Ignoring Organizational Culture and Employee Wellness Can Cost Your Business

By: Lee Frederiksen, Ph.D.

In the world of accounting, the focus on financials often overshadows the critical role corporate culture plays in business performance. In the first year of the pandemic (2020), over 60% of job seekers in a Hinge Research Institute (HRI) study cited company culture and pay as "top criteria" for joining a company. At that same time, the Lone Star State saw an influx of college graduates, young working parents and mid-career professionals suddenly offered the flexibility to work remotely in a warmer area with more affordable housing and free of state income tax.

These same factors, according to researchers at Southern Methodist University, may have caused Texans to stay in the state instead of moving elsewhere during this time. However, it's beginning to lose its luster.

Burnout in the Accounting Profession

In December 2022, *The Wall Street Journal* noted more than 300,000 U.S. accountants and auditors have left their jobs in the past two years, a 17% decline. The stress of a "never ending busy season," hierarchical structure and dated mindsets may have contributed to "The

...the accounting profession has begun shifting towards accommodating employees' personal lives and well-being.

Great Resignation," a term coined by Anthony Klotz, an associate professor of management at Texas A&M University.

To identify ways to strengthen company culture, attract talent in a perennially tight labor market and retrain the top talent necessary to grow the business, the HRI 2023

High Growth Study compared firms with a minimum of 20% compound annual growth rate over a three-year evaluation period with average peers posting 10% growth and no-growth peers experiencing 8% revenue declines.

The high-growth group earned average profits of almost 25%, while the no-growth group managed less than 10%. Clearly, whatever the high-growth group did was working.
Employees at high-growth firms in the HRI study were more satisfied with their company cultures than employees at slower growing firms, an advantage associated with lower turnover.

Tips on Recruiting and Retaining Top Talent

Because imitation is the best form of flattery, the 2023-24 Association for Accounting Marketing (AAM) Accounting Marketing Budget Benchmark Study specifically asked about techniques used to recruit and retain employees. Here are a few key findings and lessons learned.

1. Harness the power of recognition to boost morale, productivity and overall firm success; 82% of high-growth firms regularly give shout-outs to employees for work and/or personal accomplishments.

Recognizing the value of employee recognition is another vital component of fostering a positive work environment. The lack of recognition has been identified as the second-largest factor for psychological distress in the workplace, according to a study in the *International Journal of Human Resource Management*. To create a culture of appreciation, leaders must prioritize recognition as a basic human need, intertwined with human dignity and social justice.

It's time to rewrite the rules and celebrate your employees' accomplishments loudly and proudly. Public recognition for exceptional performance, career milestones and notable contributions is a significant differentiator between high-performing and low-performing firms, according to the HRI study.

So, step into the spotlight. Shine a light on your team and colleagues. Publicly acknowledging exceptional performance, career milestones and notable accomplishments can boost your employees' self-esteem and motivation. Whether it's through staff meetings, company-wide newsletters, team emails, or professional

TXCPA PEER ASSISTANCE

Accountants Confidential Assistance Network

For 30 years, the Accountants Confidential Assistance Network has provided support for CPAs struggling with alcohol, substance abuse and/or mental health issues. In that time, they've convened over 3,500 confidential support groups and provided a pathway for hundreds of candidates to enter the accounting profession. To learn more and/or talk about your wellness concerns, call 866-766-2226 or visit **tx.cpa/resources/acan**.

Positive physical health habits can help decrease your stress, lower your risk of disease, and increase your energy. Check out this printable physical wellness checklist from the National Institutes of Health (NIH) for some tips on improving your physical health

social media platforms like LinkedIn, a simple shout-out can go a long way in fostering a positive work environment.

2. Elevate your work-life balance game with digital technologies. High-growth firms are more digitally mature, offering more opportunities to increase productivity and flexibility.

Mid-career employees, typically between the ages of 30 and 45, shoulder significant responsibilities, both in terms of achieving senior management's objectives and ensuring their staff meets those goals. This delicate balancing act places them under immense pressure. Recognizing the changing attitudes and increased awareness around the importance of work-life balance, the accounting profession has begun shifting towards accommodating employees' personal lives and well-being.

Embracing flexible work arrangements can alleviate stress and anxiety, allowing employees to maintain balance in their lives. *The Journal of Accountancy*, for example, suggests options such as flex time, reduced workloads, compressed workweeks, job sharing, and telecommuting. By continuing to offer these programs, you can significantly reduce the stress and anxiety experienced by mid-career employees if and when their ability to maintain balance is suddenly altered.

3. Embrace "mental health days" to fuel employee engagement and turbocharge performance; 36% of mid-career employees value them as a way to improve company culture yet only 19% of leadership and 9% of senior executives recognized the significance of such initiatives.

Recovering after a stressful period with excessive overtime (read: audit and/or tax season) can sometimes take more than a standard weekend. And while it may seem like a novel concept, given the data and news rhetoric, the reality is employees across demographics and seniority levels have always been taking "mental health days." They have just been hiding them under the guise of "feeling sick" or "having a family emergency."

When you start normalizing and transparently supporting mental health at the top, you create a more inclusive culture. As you may have experienced yourself, the CPA workplace is both a venue where mental health issues can be identified and one that will suffer if mental health issues remain unaddressed. Left untreated, anxiety and/or depression can become debilitating and can lead to reduced quality of life and workplace productivity.

Implementing a "no questions asked" policy for mental health days, for instance, can play a pivotal role in reducing employee guilt and encouraging individuals to prioritize their well-being. This policy also sends a powerful message from the top leadership that mental health is valued and that employees should take the necessary time off to recover and recharge.

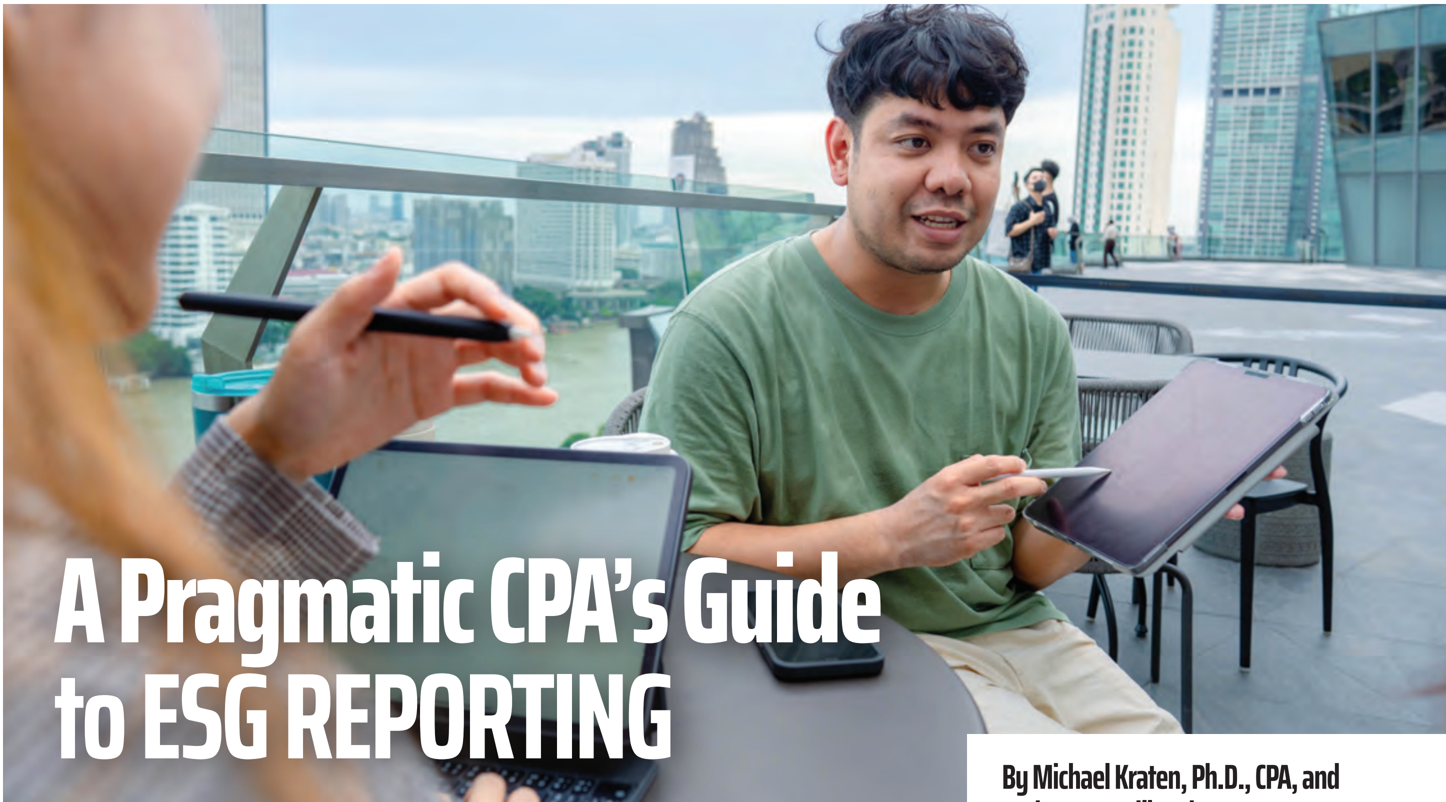
At the same time, pay attention to detail, exercise skepticism and notice what others don't when it comes to the well-being of your colleagues. Encourage those who are struggling to seek help and offer them a trusted (and free) resource such as the Accountants Confidential Assistance Network (ACAN), a peer assistance program that offers confidential support to Texas CPAs, accounting students and CPA candidates struggling with alcohol or substance use, depression or mental health issues. By promoting this valuable resource, you demonstrate your commitment to the well-being of your employees and contribute to a healthier and more productive work environment.

4. Offer health and wellness credits. High-growth firms support everything from gym memberships to teletherapy subscriptions, workout equipment and sleep aids.

For a relatively small investment, your firm can generate the goodwill that comes from employees knowing their workplace is invested in their health and well-being. Incentives, similar to recognition, are powerful motivators for getting and staying healthy. When you reduce any financial excuse through company programs, you also reduce sick time that comes from having an overall healthier workforce.

Remember, it's not just about financials; it's about unlocking the true potential of your most valuable asset: your people. Together, let's build a future where accounting firms in Texas thrive by valuing employee well-being and creating a culture that breeds success.

About the Author: Lee W. Frederiksen, Ph.D., is Managing Partner at Hinge, the leading research-based branding and marketing firm for professional services. Earlier in his career, he was a tenured professor in clinical psychology at Virginia Polytechnic University.



A Pragmatic CPA's Guide to ESG REPORTING

By Michael Kraten, Ph.D., CPA, and
Mohan Kuruvilla, Ph.D., CPA

The May/June 2023 issue of *Today's CPA* includes an article entitled "Is GHG Scope 3 Emissions Reporting a Step Too Early or Too Far?" On the one hand, the author reasonably justifies his decision to "beg the question" by describing the current unresolved debates over the costs and benefits of requiring such disclosures. Until such debates are resolved, companies must decide for themselves if the benefits of voluntary Environmental, Social and Governance (ESG) reporting exceed the costs.

Some companies may assume a traditional "don't disclose anything unless required to do so" stance. Increasingly, though, such a stance is out of step with the modern economy. ESG reporting systems now occupy a prominent position in our global financial system. Trillions of dollars are invested in organizations that publish positive ESG performance metrics.

CPAs differ widely about the wisdom of placing significant reliance on ESG measurements. Most, however, agree on a simple fact: the sector has grown to a size that can no longer be ignored.

So what do practical-minded CPAs need to know about the field? This article reviews the history, the standard-setting entities, the report categories, and the laws and regulations that impact the accounting profession. For illustrative purposes, it then reviews the ESG reporting strategies of four publicly traded energy companies.

History of the Sector

Many business historians trace the origins of ESG reporting to the founding of the U.S. Environmental Protection Agency in the 1970s. Others mark its emergence with the issuance of Social and Environmental Assessment Reports (SEARs) by Ben & Jerry's during the 1980s.

The sector entered the accounting mainstream in the 1990s with the conceptual development of the Triple Bottom Line (TBL), featuring the principle that stakeholders are focused on more than just the "bottom line" of the traditional income statement. Advocates of TBL lobbied for the disclosure of environmental, social and economic metrics that address long-term sustainability considerations.

Governance concerns during the Enron era added a fourth dimension to the three core TBL metrics. The subsequent integration of social and economic dimensions into a single socio-economic category completed the evolution of the TBL paradigm into an ESG model.

Integrated Reports briefly appeared in mainstream accounting policy discussions 10 years ago; they were designed as annual financial reports that were expanded to accommodate non-financial ESG data. Given the bloated nature of such reports, the accounting profession pivoted to the current system of multiple annual reports, with one or more ESG report(s) published "side by side" with separate financial reports.

CPAs differ widely about the wisdom of placing significant reliance on ESG measurements.

Standard-Setting Entities

Whereas the Financial Accounting Standards Board and the International

Accounting Standards Board publish financial accounting standards, a number of nonprofit entities publish ESG accounting standards. Some of these entities issue comprehensive sets of standards, while others focus on relatively narrow specialty topics.

The Sustainability Accounting Standards Board (SASB), for instance, promulgates comprehensive standards on an industry-by-industry basis. The Global Reporting Initiative (GRI), meanwhile, defines its standards on a business function-by-function basis. The United Nations defines indicators from a public interest perspective, metrics that are categorized within 17 Sustainable Development Goals (SDGs).

Specialty organizations, meanwhile, publish standards that focus on single topics. Some, like the Taskforce on Climate-related Financial Disclosures (TCFD), emphasize specific public concerns. Others, like the International Petroleum Industry Environmental Conservation Association (IPIECA), are industry trade associations. And others, like the Global Impact Investing Networking (GIIN), represent specific capital investment sectors or global interest groups.

Most CPAs with interests in ESG reporting become familiar with the SASB, GRI and SDG standards. If necessitated by their fields of practice, they also acquire a passing knowledge of the standards of one or two specialty entities.

The sector, though, is inexorably becoming more standardized on a global basis. In 2021, for instance, the IFRS Foundation announced the creation of the International Sustainability Standards Board (ISSB). Standards S1 General Requirements and S2 Climate-related Disclosures were issued in June 2023, although individual jurisdictions maintain the authority to determine whether the standards will remain optional or will become mandatory.

In other words, the two standards are not necessarily mandatory in jurisdictions that require IFRS adoption for financial reporting purposes. Nevertheless, the establishment of global standards by an IFRS Foundation entity represented a major step forward in the standardization of sustainability disclosures.

Report Categories

Impressively, Ben & Jerry's has continued to publish annual SEAR Reports since the 1980s. Instead of following their pioneering approach, though, most firms now disclose data in a number of newer formats.

The most common ESG reports present data in accordance with selected SASB, GRI, SDG and specialty standards. Exxon Mobil's report, for instance, refers to the IPIECA, GRI and SDG standards, while Valero's report utilizes the SASB and TCFD standards.

Many companies also publish assurance letters that they receive from public accounting or non-accounting firms. NRG Energy, for example, publishes a Greenhouse Gas Emissions Report that is issued by KPMG; it refers to a "limited assurance" basis in accordance with "attestation standards established by the American Institute of Certified Public Accountants." However, ExxonMobil and Valero contract with an entity called Lloyd's Register Quality Assurance Limited to perform attestation procedures. This is an area where CPAs in public practice can develop the in-house skill sets to provide assurance services for such reports.

Income tax planning engagements must consider the availability of carbon tax credits.

Laws and Regulations

All government jurisdictions possess the right to issue regulations related to ESG considerations. When businesses develop or join supply chains that extend beyond jurisdictional borders, they often find it necessary to comply with multiple (and, at times, conflicting) legal requirements.

The European Union (EU), for instance, has extended its supply chain regulations to encompass the concept of the Value Chain. Just as Value Added Tax laws adopt relatively broad approaches to identifying organizations that are subject to taxation, Value Chain disclosure laws impact a

similarly broad array of organizations that must report ESG metrics.

One example of such global regulations is the EU's Corporate Sustainability Reporting Directive (CSRD). This directive became effective in January 2023; it extends the current reporting requirements of the EU's Non-Financial Reporting Directive (NFRD). The first of approximately 50,000 large companies to be covered by the CSRD will need to comply for the first time in 2024, mandating ESG reports to be published for the first time in 2025.

Corporations based outside of the EU, but with a significant presence within the bloc, may need to comply with the disclosure requirements. Thus, American companies that do business in the EU may need to measure and report ESG metrics in accordance with EU policies.

In the United States, the Securities and Exchange Commission (SEC) has issued draft regulations for publicly traded companies regarding the mandatory disclosure of carbon emissions. These regulations are expected to be issued in final format later this year.

Energy Company Reports

For illustrative purposes, this section reviews the sustainability reports of Chesapeake Energy Corporation (chk.com), Diamondback Energy (diamondbackenergy.com), Occidental Petroleum (oxy.com) and Pioneer Natural Resources (pxd.com). All are publicly traded corporations, with three headquartered in Texas and one in Oklahoma. All are engaged in oil production in the United States.

Chesapeake. Chesapeake's home page features a "Sustainability" link with six sustainability menus that are dedicated to the primary ESG sections (Environment, Social and Governance) and to supplemental sections (Climate, Safety and Approach).

The six menus encompass a total of 28 sub-menus. The central focus, though, is a 74-page 2022 Sustainability Report with Data Tables and Content Indices. Chesapeake utilizes the standards and metrics of SASB and GRI, along with several industry trade associations.

Chesapeake also publishes an assurance opinion on certain environmental metrics, a letter that was issued by a consulting firm named Spirit Environmental. There are no other assurance letters in the report.

Diamondback. The "Sustainability" link on Diamondback's home page leads to a single web page with links to three formal reports. The primary document is a 48-page 2022 Corporate Sustainability Report with an Appendix of data tables. Diamondback utilizes the standards and metrics of SASB, while presenting a limited assurance opinion letter by Grant Thornton on certain metrics.

The two secondary documents are, respectively, a 17-page document that discloses metrics and information about water security and a 46-page document with disclosures regarding climate change. The reports comply with the dictates of the Carbon Disclosure Project (CDP), a specialty nonprofit entity that defines environmental standards and metrics.

Occidental. Occidental's "Sustainability" link leads to a broad array of disclosures that are presented under each Triple Bottom Line category (labeled Planet, People and Prosperity) and under the Governance category. Eleven PDF documents are available for download, including a Sustainability Report, an Annual ESG Performance Indicators document and an Independent Assurance Statement document.

The Sustainability Report is a 67-page PDF document that is "informed by" the SASB standards and the guidelines of several other industry trade associations and global interest groups. The report also refers to the United Nations SDGs, while containing a limited assurance letter by a consulting firm called Environmental Resources Management.

Pioneer. Pioneer's "Sustainability" link on its home page features two sub-links: Safety and Environmental. Its web pages contain links to a 2022 Sustainability Report, as well as documents entitled Performance Data Table, Sustainability Content Index, Methodologies and Definitions, Climate Risk Report, and TCFD Index.

The 75-page Sustainability Report is a PDF document that covers a full array of ESG criteria, including Governance and Social Value. It concludes with a four-page section entitled Our Reporting Approach, a section that explicitly cites the SASB, GRI, SDG, and TCFD guidance, along with the standards of other trade association and global interest groups.

As is true of the Occidental report, there is a limited assurance letter by the consultancy Environmental Resources Management.

Company	Standards	Assurance Letter
Chesapeake	SASB, GRI, industry trades	Spirit Environmental
Diamondback	SASB, CDP	Grant Thornton
Occidental	SASB, SDGs, industry trades, interest groups	Environmental Resources Management
Pioneer	SASB, GRI, SDGs, TCFD, industry trades, interest groups	Environmental Resources Management

Summary Table

Comparative Observations. Chesapeake, Diamondback, Occidental and Pioneer have each chosen to present a different set of standards, metrics and presentation options. All, however, have similarly decided to present detailed and voluminous sustainability reports that can be easily accessed by clicking on a Sustainability menu link on each company's home page. In addition, all have chosen to rely on the standards and metrics of the SASB.

To varying extents, three out of four also rely on the guidance of the GRI, SDG and TCFD. In addition, all four utilize the frameworks of various industry trade associations and global interest groups.

The dominant presence of consultancy assurance letters in this set of four sustainability reports may be attributable to a small sample size.

However, given the professional environmental credentials of these consulting firms, and given our society's current preoccupation with climate change, their dominance may also be attributable to the emphasis on technical carbon emission data within the ESG reports of oil and gas firms.

The Public Accounting Profession

Many service units of multi-disciplinary public accounting firms already address ESG considerations. For instance, financial statement audit engagements must assess environmental lawsuit risks while evaluating the adequacy of contingent liability accruals.

Income taxation planning engagements must consider the availability of carbon tax credits. Financial feasibility consulting engagements must address the risks of outsourcing manufacturing processes to nations with weak human labor standards.

CPAs who grapple with such issues, but who are not familiar with the ESG standards, reports and regulations that are defining these fields, may not be fully prepared to meet their current responsibilities to their clients.

The information in this article can help them identify appropriate guidance to bring themselves up to speed with such content. For instance, CPAs may choose to identify three to five standard setting entities, one to three competitor organizations, and one to three legal authorities to follow for ESG reporting guidance. By focusing on the guidance of such organizations, CPAs can empower themselves to develop pragmatic recommendations regarding ESG reporting.

Furthermore, because the issue of climate change represents a dominant concern among government regulators, corporations and investors, CPAs may wish to become particularly proficient at carbon emission data collection, reporting and assurance work. To achieve such proficiency, CPAs should:

- Become familiar with the carbon emission standards of the universal standard-setting entities, such as GRI 305 Emissions, TCFD Metrics and Targets – Recommended Disclosures, and SDG 13 Climate Action;
- Become familiar with the climate-specific emission guidance of relevant nonprofit groups like the Carbon Disclosure Project (CDP) and the World Business Council for Sustainable Development (WBCSD);
- Become familiar with the most recent developments in the sector, such as the ISSB's new standards and the EU's new CSRD directive;
- Develop professional relationships with environmental consulting organizations that can serve as external specialists for limited assurance engagements involving carbon emission data.

Once CPAs master this material, they will be prepared to pursue new business opportunities in the ESG field. Even though it can be daunting (and a bit distressing) to accept that our environmental, socio-economic and governance problems will not be solved in the near future, it can be heartening to embrace the crucial role the accounting profession will play in the continuing evolution of this sector.

Indeed, by taking a few proactive steps to educate yourself about these opportunities, you can prepare to enter this emerging market.

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CORPORATE TRANSPARENCY ACT:
Are You Prepared?

By Nathan George, CPA, and Ken Horwitz, CPA, JD, LLM

Congress has enacted a new, significant and pervasive compliance program: the Corporate Transparency Act (CTA). The CTA requires reports of beneficial ownership information (BOI) and is estimated to affect more than 32 million existing entities (even after exemptions). Initial reporting for existing entities will commence January 1, 2024, and must be completed before January 1, 2025.

This statute was enacted to combat "dirty money" issues such as tax evasion, money laundering and other financial crimes. Reporting will also be required for entities newly formed after January 1, 2024, within 30 days of formation.

It may be anticipated that lawyers who form entities after January 1, 2024, will file the initial reports for these entities. Any changes in the reported information (for existing entities or for entities formed after January 1, 2024) will require supplemental reporting within 30 days of such changes. Many, if not most, of the entities subject to these requirements will be clients of CPAs and will likely rely on their CPAs to prepare the initial and supplemental reporting for filing.

It seems clear that clients with non-exempt entities will need someone to monitor changes. Do not assume compliance will be simple. Reports will be filed with the Financial Crimes Enforcement Network (FinCEN), which is a bureau of the Department of Treasury. This is the same agency with which foreign bank account reports (FBAR) are filed. While the final rules for compliance and reporting obligations have been issued and timelines set, there are still many uncertainties, concerns and potential pitfalls regarding these new requirements. Penalties for failure to comply are onerous.

Clients will, for the most part, not be aware of these rules. In many cases, the lawyers who formed the entities may no longer be in contact with these entities, but CPAs will know who is required to report (or will know to whom inquiry should be addressed), if only because of preparation of tax returns and public information reports. Now is the time for CPAs to start communicating with and preparing clients!

Summary of Provisions

What is a Reporting Company?

Reporting companies are those required to file reports with FinCEN and include two types:

- **Domestic reporting company**: a corporation, limited liability company or other entity created by the filing of document with the secretary of state (or similar office) within the United States.
- **Foreign reporting company**: a corporation, limited liability or other entity formed under the law of a foreign jurisdiction and registered to do business in the United States.[1]

Good News (for Some): Exclusions

Thankfully, there are many exceptions and categorical exemptions for entities that would otherwise meet the basic definition. These types of entities include (but are not limited to[2]):

- Large operating companies with at least 20 full-time employees, more than $5,000,000 in gross receipts or sales, and an operating presence at a physical office within the United States. (Note that there are many limitations and open questions

regarding the scope of this and other exemptions; as one example, a subsidiary's exemption does not imply that a parent or brother/sister company is also exempt);

- Banks or bank holding companies;
- Federal or state credit unions;
- Government entities;
- Entities with publicly traded securities or that already have reporting requirements with FinCEN;
- Insurance companies;
- Public accounting firms;
- Section 501(c) tax-exempt entities; and
- Certain types of inactive entities that were in existence on or before January 1, 2020 (date CTA was enacted)[3].

Beneficial Owners and Company Applicants

If deemed to meet the reporting requirements, the company[4] is obliged to identify and report its beneficial owners. Notably, guidelines provide a broad definition and require owners to be a natural person/human being.

Thus, if a company is owned by another company, one must look through to the person owning the parent company.

Overall, beneficial owners include those with:

- Substantial control;
- Indirect or direct ownership equal to or greater than 25%; or
- Company applicants.

What is Substantial Control?

Substantial control is based on a facts and circumstances analysis and is established regardless of ownership. This may take the form of board representation, ownership or control of the majority of voting rights or power of the reporting company, or by any contract, arrangement, relationship or otherwise. Per specific guidance, substantial control is established if the individual:

- Serves as a senior officer of the reporting company;
- Has authority to appoint or remove senior officers or board members;
- Had substantial influence over important decisions such as ability to merge or dissolve the company, control over major expenditures, or entry into or termination of contracts[5].

What is a Company Applicant?

For domestic entities, the company applicant would be the person who directly files entity-creation documents with the secretary of state (or similar office). For foreign entities, this would be the individual who first registers the entity to do business in any state.

Whether domestic or foreign, if more than one individual is involved, the applicant is "the individual who is primary responsible for directing or controlling such filing."[8]

Required Information

Be advised: this will not be a quick "yes or no" type filing; a draft includes 50+ questions, including details about both the reporting company, as well

This statute was enacted to combat "dirty money" issues such as tax evasion, money laundering and other financial crimes.

Ownership Interest: 25% or Greater

Per the Final Rule, ownership interest includes (but is not limited to): equity, capital and profit interests, and "any other instrument contract, arrangement, understanding, relationship, or mechanism used to establish ownership[6]." This may include joint ownership of an undivided interest in such ownership interest, through another individual acting as a nominee or agent, director ownership of stock, or ownership of membership interest[7].

as the beneficial owners and company applicants. FinCEN is developing a secure filing system by which information will be electronically reported via the organization's website.

Regarding the company, required information will include:

- Legal name;
- Trade names or "doing business as" (d/b/a) names;
- Current street address for principal place of business (if foreign, current address from which U.S. business is primarily conducted);

- Jurisdiction of formation or registration; and
- Taxpayer identification number.

For beneficial owners and company applicants, the reporting company will have to provide:
- Individual's name, date of birth, and address (which must be a residential address);
- Unique identifying number from an acceptable identification document, limited to:
    - Non-expired driver's license issued by a U.S. state;
    - Non-expired identification document issued by a U.S. state or local government that is issued for the purpose of identifying the individual;
    - Non-expired passport; or
    - If the individual does not have any of the above, the identifying number from a non-expired passport issued by a foreign government.
- Name of state or jurisdiction where identification document was issued.

After the initial reporting, any changes to previously submitted information will require a follow-up report to be submitted in an egregiously short time (within 30 days of the date on which the change occurred). In the case of deceased beneficial owners, an updated report will be required within 30 days of the settlement of the decedent's estate.

Penalties

The Final Rule provides both civil and criminal penalties for reporting violations, which may include:
- Willfully providing, or attempting to provide, false or fraudulent BOI, including a false or fraudulent identifying photograph or document;
- Willfully failing to report complete or updated BOI to FinCEN.

Civil penalties for such violations may include $500 for each day the violation continues, with criminal fines of up to $10,000 and imprisonment of up to two years.

to have access to resources and information), the regulatory burden will largely fall on small business owners.

AICPA recently highlighted a number of major concerns, the least of which was the large lack of awareness of the new requirements, especially in the small business community.[9] Despite the issuance of the Final Rule, there are (and will continue to be) questions regarding a number of issues.

Whose Responsibility?

Primary responsibility for reporting seems to provide a clear standard, but the business reality is often quite different. While new entities (post-01/01/2024) should be less of a concern for initial reporting, due to the opportunity to streamline the requirements into the current entity-creation process, the path for existing entities and follow-up changes is more complicated.

Table 1. Initial and Follow-up Reports

FinCEN Estimated Compliance Burden: Initial and Follow-up Reporting			
	Initial Reports	**Updated Reports**	**Total**
Year 1	**32,552,929**	**6,578,732**	**39,131,661**
Annual Average (2025 and beyond)	**4,998,468**	**14,456,452**	**19,454,920**

Effective Date: January 1, 2024

The effective date for the reporting program is January 1, 2024, but its impact will differentiate between existing versus new company. As noted, existing companies (i.e., those formed before January 1, 2024) will have from January 1, 2024, through January 1, 2025, to file a report but new companies (i.e., those formed on or after January 1, 2024), must file a report within 30 days of formation.

Uncertainties and Considerations

An Aggressive Timeline and Lack of Awareness

First and foremost, an effective date of January 1, 2024, provides a minimal timeline for practitioners and reporting entities to plan. As noted in the exclusions above, with large operating companies (but not necessarily related companies) exempted (i.e., those more likely

Often, legal teams file the initial setup paperwork with the secretary of state and over time, tax practitioners will file changes and updates. In such cases, you have different practitioners from different firms managing BOI information. Thus, potential areas of concern include:
- Who would be responsible for meeting reporting requirements?
- If a CPA signs or provides services, could it be considered unauthorized practice of law?

- Based on existing agreements, would such services fall within the scope of work?

Attribution and Constructive Ownership

Another concern is the potential lack of clarity with the attribution and constructive ownership rules in community property states. Per the final rule, direct or indirect ownership can exist "through any … arrangement … (or) relationship." Thus, in the case of a married couple in a community property state, could a 100% interest by one spouse be interpreted as 50% ownership for each spouse? Or what if ownership is 40% by one spouse – does that mean each spouse is the beneficial owner of only 20% and falls below the reporting threshold?

Unfortunately, the guidance may not be as clear as the interpretation in the Final Rule: "… FinCEN considered whether further clarity is needed with respect to constructive ownership, or attribution – for example, by spouses, children or other relatives, by reference to other statutory or regulatory authorities such as the Internal Revenue Code or Office of Government Ethics rules – but determined that the terms 'ownership interest' and 'substantial control' are sufficiently comprehensive and other references were likely to be over-inclusive and create significant burdens on reporting companies."[10]

Time and Cost Burden

In addition to adapting to the still-evolving details of the program, the time required to comply will be substantial.

As shown in Table 1 and Table 2, one cannot understate the compliance burden for initial and updated reports (Table 1) and based on entity structure (Table 2).

Table 2. Time Burden Based on Entity Structure

FinCEN Estimated Time Burden Based on Entity Structure			
	Estimated Distribution of Companies	**Est. Time Burden - Initial (Per Report)**	**Est. Time Burden – Follow-up (Per Report)**
Simple[11]	**59%**	**1 hour, 30 minutes**	**40 minutes**
Intermediate[12]	**36.1%**	**6 hours, 10 minutes**[13]	**1 hour, 45 minutes**[14]
Complex[15]	**4.9%**	**10 hours, 50 minutes**	**2 hours, 50 minutes**

FinCEN estimates more than 32.5 million companies will be required to submit reports in Year 1. Importantly, and as noted above, any changes to BOI will require a follow-up report, an estimated 6.5 million in year 1 and 14.5 million annually for 2025 and beyond.

In Conclusion: Act Now!

The CTA reporting is a statutory requirement that is not going away. Given the reporting company obligations, practitioners should get up to speed and start planning at the soonest.

Many current clients and their business structures will be affected and the reporting time (and resource) burden will be significant.

Ultimately, having the conversation and ironing out the details now will maximize the potential for success when the January 1, 2024, effective date arrives.

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Footnotes:

[1] 31 U.S. Code §5336
[2] A full list of the 23 types of entities can be found at: https://www.fincen.gov/boi-faqs.
[3] 31 CFR 1010.380(c)(2)(xxiii).
[4] Note that the reporting obligation falls on the company itself (e.g., via one or more of its officers).
[5] 31 CFR 1010.380(f)(8).
[6] 31 CFR 1010.380(d)(2)(i).
[7] 31 CFR 1010.380(d)(2)(ii).
[8] 31 CFR 1010.380(e)
[9] https://www.aicpa-cima.com/news/article/coalition-calls-attention-to-new-beneficial-ownership-information-reporting.
[10] 31 CFR 1010.380. (https://www.federalregister.gov/documents/2022/09/30/2022-21020/beneficial-ownership-information-reporting-requirements)
[11] Entities with one beneficial owner who is also the applicant.
[12] Entities with four beneficial owners and two company applicants.
[13] Per Notice, based on average of simple and complex totals.
[14] Ibid.
[15] Companies with eight beneficial owners, two company applicants.

CPE ARTICLE

Share Repurchase Programs

By Josef Rashty

Curriculum: Accounting and auditing; management

Level: Intermediate

Designed For: CPAs in industry and public practice

Objectives: To provide an overview of the technical accounting issues that companies may deal with in their share repurchase programs and expound on the considerations surrounding the process.

Key Topics: Arguments for share repurchase programs; share repurchase program alternatives; forward contracts and warrants; puts, calls and hybrid instruments; developments with the *Inflation Reduction Act* and SEC disclosure requirements; and stock compensation awards

Prerequisites: None

Advanced Preparation: None

Share repurchases have become commonplace in the modern economy. The popularity of share buybacks is easy to understand: companies reduce the number of shares outstanding without affecting their reported earnings by purchasing their stock. That increases the company's earnings per share (EPS), so the argument goes that the price of shares should rise accordingly. And in most cases, buybacks seem to pay off – historically, companies that bought back their shares have posted an expeditious improvement in their EPS.

The *WSJ* on May 25, 2023, reported that Apple, Alphabet, Meta and Microsoft were mostly responsible for a disproportionate portion of total share repurchases in the first quarter of 2023. Meta shares have more than doubled in 2023 and the shares of the other three companies have risen at least 30%.

However, not all share repurchases go according to companies' wishes – other factors outside of management's control may impact the EPS. There are also instances that the public has viewed share buybacks negatively and underscored it as a sign of the company's fragility and weakness.

This article does not deliberate on merits or pitfalls of share repurchase programs, but rather to focus on a compendium of the accounting issues that companies may deal with in their share repurchase programs. Furthermore, it expounds on two recent developments in share repurchase accounting: the *Inflation Reduction Act* of 2022 and the Securities and Exchange Commission (SEC) disclosure requirements effective on October 1, 2023.

Arguments for Share Repurchase Programs

Companies may repurchase their outstanding common shares for a variety of reasons and reflect them as "treasury stock" or "treasury shares" or retire them (ASC 505-30-05-02). Companies record the cost of treasury shares as a reduction of shareholder's equity unless they immediately retire the repurchased shares – they typically present the treasury shares as a separate caption and a deduction from equity.

The popularity of share buybacks is easy to understand: companies reduce the number of shares outstanding without affecting their reported earnings by purchasing their stock.

ASC 505, *Equity*, states that companies do not record treasury shares as assets or recognize dividends and report them as income because companies cannot pay themselves dividends. Companies may also decide to retire the treasury shares or reissue them at a later date.

There are several reasons why an issuer may consider repurchasing its shares. A share repurchase:

- Signals that the market has undervalued its shares;
- Provides tax-efficient benefits to shareholders, compared to the distribution of dividends, if it increases the price of the stock;
- Offsets the anti-dilutive effect of stock-based compensation awards;
- Returns capital to shareholders in a more tax-efficient manner than declaring dividends; and
- Improves a company's metrics, such as EPS.

Share Repurchase Program Alternatives

There are various alternatives for companies to repurchase their own shares and each has its merits and pitfalls.

Open Market Repurchase (OMR) Programs

OMR programs typically involve a company engaging an investment banker to make spot purchases of its shares on its behalf over an extended period. The investment banker may act based on the company's specific instructions or according to an established schedule or formula.

For example, the investment banker may repurchase a company's shares on a given trading day based on the share price range of that day.

Tender Offer (TO) Programs

Companies embark on solicitation to repurchase a substantial percentage of their shares for a limited period. TOs are typically for a fixed price and contingent on shareholders' tendering of their shareholdings. They allow companies to retire more shares than OMR in a shorter time frame.

The market often views TOs as a robust signal that the company believes its stock is worth more. However, TOs require higher transaction costs and demand a premium over the current market price (e.g., 10%).

Accelerated Share Repurchase (ASR) Programs

Companies can arrange for an investment banker to repurchase their common shares in the open market. This arrangement often results in an immediate effect on companies' EPS; however, it settles the economics of the acquisition in the future based on the subsequent share prices.

In an ASR arrangement, the issuer makes an upfront payment and receives a specific number of shares from an investment banker through a forward purchase contract. When the contract matures (usually in three to six months), the ASR program settles based on the Volume Weighted Average Price (VWAP) of the shares during the contract. Changes in the share price after the initial share purchase increase or decrease the overall cost of the ASR.

A complete discussion of the ASR programs is not within the scope of this article. In summary, an ASR program is a combination of transactions that allow a company to repurchase a targeted number of shares immediately, with the final repurchase price determined through VWAP over a fixed period.

ASC 505-30-25-5 and 25-06 (and implementation guidance in ASC 505-30-55-1 through 55-7 and 60-2) depict the ASR programs as the following two separate transactions:

- Acquisition of common stock in a treasury stock transaction;
- Execution of a forward contract indexed to companies' stocks.

The merits of an ASR program are as follows:

- An immediate benefit of a tender offer with the acquisition of shares;
- Pricing benefits due to a disciplined daily open market transaction.

TOs are typically for a fixed price and contingent on shareholders' tendering of their shareholdings.

Forward Contracts

The Financial Accounting Standards Board (FASB) requires companies to account for ASR as two different transactions: acquisition of common stock and execution of a forward contract.

The first transaction (i.e., the spot repurchase of treasury shares) results in a reduction in equity and the number of shares in the denominator of EPS on the trade date. The second transaction is a forward contract, and the issuer provides the investment banker additional consideration (cash or shares) and reflect it as the cost of share repurchase programs.

Companies should evaluate the forward contracts under ASC 480, *Distinguishing Liabilities from Equity*, and analyze them further as derivatives under ASC 815, *Derivatives and Hedging*.

Generally, a forward sale contract meets the definition of a derivative that has the following characteristics:

- The issuer's share price is underlying;
- The number of shares received is notional;
- There is no minimal initial investment;
- The forward contract contractually provides for net settlement.

Furthermore, according to the indexation guidance (ASC 815-40-15) and equity classification guidance (ASC 815-40-25), companies should evaluate the forward contract for its equity classification.

FASB requires that companies reflect the derivative forward contracts at fair value with changes reflected in earnings.

Warrants

Warrants give the holder the right, but not the obligation, to purchase equity shares for a specified price (the exercise or strike price) during a specified period. For example, a debtor issues a two-year $1,000 par value bond with equity warrants that mature at the end of the second year and have a strike price of $10.

Redeemable Warrants

Redeemable warrants are the warrants the issuer can redeem for cash or other securities rather than being exercised by the holder. Thus, if the issuer redeems the redeemable warrant, the holder will receive either cash or other securities in exchange for surrendering the warrants rather than exercising their rights to exercise the warrants.

The redemption feature is not a term in the warrant but a feature of the underlying shares. The redemption attribute can be either mandatory or optional (at the option of the holder) at any time or only upon the occurrence of certain designated events (e.g., change of control).

Detachable (Freestanding) Warrants

Companies may issue debts with detachable warrants. ASC 480 defines a detachable (freestanding) financial instrument as follows: (1) it is separate and apart from any of the entity's other financial

instruments or equity transactions, or (2) it is in conjunction with some other transaction and is legally detachable and separately exercisable.

Embedded Warrants

Debts may have embedded features (e.g., embedded warrants) that introduce variability into a fixed contract and are part of a conversion function. An issuer may issue multiple instruments to the same counterparty in one transaction (e.g., debts and warrants). ASC 815 requires that companies initially identify all freestanding financial instruments, then account for their embedded features, if any, and bifurcate them and account for them separately.

Companies can classify warrants as equity, liability or derivative. FASB requires that companies reflect the liability and derivative classified contracts at fair value with changes reflected in earnings.

If an issuer redeems the warrants, it reflects it as a debit in the warrant account rather than the treasury stock account. In this scenario, the issuers have not issued any shares to repurchase them. However, if the issuer repurchases shares that the holder has acquired after the exercise of warrants, it reflects them as treasury stock.

Puts, Calls and Hybrid Instruments

Put Options

Put options give the holder the right, but not the obligation, to sell an underlying at a specified price on or before a specific date. For example, a puttable warrant is an embedded put option that allows the holder to require the issuer to pay cash at a specified date for a fixed amount to either (1) repurchase the warrant itself or (2) purchase the shares that the holder has received due to the exercise of the warrant.

The warrants for puttable shares conditionally obligate the issuer to transfer assets since the holder must exercise the warrants and put them to the issuer for cash or other assets. If the issuers repurchase puttable warrants in the form of shares, they record it as treasury stock or retire them.

Call Options

Call options give the holder the right, but not the obligation, to buy an underlying at a specific price on or before a specified date. For example, companies may issue detachable warrants (call options) in conjunction with debt instruments as consideration in purchase transactions.

If the issuer buys an underlying in a call option, it reflects the transfer of cash or other assets in the relevant account rather than the treasury stock account. In this scenario, the issuers have not issued any shares to repurchase them.

Embedded Derivatives (Hybrid Instruments)

Hybrid instruments consist of a host contract and an embedded derivative. (These instruments are within the scope of ASC 815.)

In practice, companies evaluate first to determine whether an instrument is within the scope of ASC 470, *Debt*, and ASC 480 for recognition and measurement.

If the instrument is not within the scope of ASC 480, the company further evaluates it to determine if it is a derivative within the scope of ASC 815. If so, the instrument is subject to ASC 815-40 guidance for accounting and its required disclosures.

The SEC-adopted amendments require most registrants to disclose daily quantitative share repurchases quarterly.

EPS calculation

Contracts such as purchased put options and purchased call options are usually not included in the computation of dilutive EPS since they are antidilutive (ASC 260, *Earnings per Share*). That is, companies exercise the put options when the exercise price is higher than the market price and vice versa, they exercise their call options when the exercise price is lower than the market price (ASC 260-10-45-37).

New Developments

Inflation Reduction Act

The *Inflation Reduction Act of 2022* (IRA) added Section 4501, which imposes a 1% excise tax on the public business entities (PBEs) share repurchases starting in 2023.

The 1% tax may also apply to merger and acquisition transactions. Since this tax is not a measure of income, it is not an income tax and is within the scope of ASC 740, *Income Taxes*. However, many analysts believe that the tax has not had any impact on companies' share buyback decisions.

U.S. GAAP does not address the accounting for the taxes paid in share repurchases. However, AICPA Technical Questions and Answers (TPA) 4110.09 states that companies should add the direct and incremental legal and accounting costs associated with the acquisition of treasury shares to their cost basis.

Therefore, by analogy, companies have to account for any excise tax obligation as a cost of treasury shares transaction. Companies account for any reductions in excise tax obligations arising from share issuances as part of the original treasury share transactions.

SEC Disclosure Requirements

The SEC-adopted amendments require most registrants to disclose daily quantitative share repurchases quarterly. The guidance requires that issuers provide, for each repurchase day, the number of shares repurchased and the average price paid per share, among other information.

Registrants should indicate whether certain officers and directors traded shares within the four business days of the announcement of a repurchase plan. These disclosures must be filed quarterly as an exhibit to Forms 10-Q and 10-K.

The SEC promulgation expands existing narrative disclosure requirements in Regulation S-K to discuss share repurchase objectives, criteria used to determine the amount of the repurchase, and any policies and procedures related to the trading of securities by officers and directors during a repurchase program. Registrants should also include quarterly disclosure on Forms 10-Q and 10-K about an issuer's adoption and termination of Rule 10b5-1 trading arrangements.

The amendments require tabular disclosure of an issuer's repurchase activities aggregated daily and disclosed either quarterly or semi-annually, depending on the filer type.

The table must include the following information for daily share repurchases:

- Class of shares;
- Average price paid per share;
- The number of shares purchased, including the number of shares purchased according to a publicly announced plan or on the open market;
- The maximum number of shares (or approximate dollar value) that companies may have yet to purchase under a publicly announced plan;
- The number of shares purchased that qualify for the safe harbor in Rule 10b-18; and
- The number of shares purchased under a plan intended to satisfy the affirmative defense conditions of Rule 10b5-1(c).

Registrants, other than listed closed-end funds and foreign private issuers (FPIs), should comply with amendments beginning with the first Form 10-Q or 10-K that covers the first full fiscal quarter beginning on or after October 1, 2023.

FPIs should file the new Form F-SR that covers the first full fiscal quarter beginning on or after April 1, 2024 and include narrative disclosures in the first annual report filed after that.

Listed closed-end funds should comply with the SEC guidance beginning with the Form N-CSR that covers the first six-month period beginning on or after January 1, 2024.

Share repurchasing remains a technical and complicated accounting subject, and its implementation requires the exercise of management judgment.

Stock Compensation Awards

ASC 718, *Compensation – Stock Compensation*, provides guidance for shares that companies repurchase from an employee in a stock compensation arrangement (ASC 718-10-25-9 and 25-10). The classification of stock compensation awards as equity or liability impacts the compensation costs.

Companies remeasure the liability-classified awards to fair value at each balance sheet date until the settlement of the awards. ASC 718 requires that companies classify the awards that have cash-based settlement or repurchase features, such as share appreciation rights with a cash settlement feature, as liability.

Repurchases of cash-based settlement awards or awards with repurchase features are within the scope of ASC 718 and do not get reflected as treasury stock within the scope of ASC 505. Companies may also forfeit unvested and vested expired stock awards; they reflect these transactions in APIC and common stock according to ASC 718.

However, companies may also have a policy of repurchasing their shares on the open market to offset the stock-based awards exercises. If so, they should disclose that as their accounting policies and reflect the share repurchases as treasury stock under ASC 505.

Complicated Accounting Issues

Companies repurchase their stock whereby reducing the total number of shares outstanding and raise their per share earnings – a closely watched profitability metric. The process is highly controversial and has its proponents and critics. The opponents of share repurchase programs have long argued that companies should invest in their growth instead of boosting their immediate shareholders' profits.

The objective of this article was not to defend the merits of share buybacks or criticize its shortcomings but rather to expound on technical accounting issues surrounding the process.

Share repurchasing remains a technical and complicated accounting subject, and its implementation requires the exercise of management judgment. One of the implications of stock repurchases is the new SEC-adopted amendments, which require most registrants to disclose daily quantitative share repurchase information on their quarterly filings. PBEs should consult their attorneys and CPAs to implement the SEC's new promulgation and evaluate its disclosure requirements.

About the Author: Josef Rashty, CPA, Ph.D. (Candidate) is a member of the Texas Society of CPAs and provides consulting services in Silicon Valley, California. He can be reached at j_rashty@yahoo.com

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CPE ARTICLE: SHARE REPURCHASE PROGRAMS

By Josef Rashty

Today's CPA offers the self-study exam for readers to earn one hour of continuing professional education credit. The questions are based on technical information from the preceding article. If you score 70 or better, you will receive a certificate verifying you have earned one hour of CPE credit – granted as of the date the test arrived in the TXCPA office – in accordance with the rules of the Texas State Board of Public Accountancy (TSBPA). If you score below 70, you will receive a letter with your grade.

1. A share repurchase program:
- a. Decreases companies EPS
- b. Does not impact companies EPS
- c. Increases companies EPS
- d. None of the above

2. Tender offers require higher transaction costs and demand a premium over the current market price.
- a. True
- b. False

3. In an ASR program, companies can arrange for _________ to repurchase their common shares in the open market.
- a. The public
- b. An investment banker
- c. A Chinese company
- d. All of the above

4. Warrants give the holder __________ to purchase equity shares for a specified price (the exercise or strike price) during a specified period.
- a. The right, but not the obligation
- b. Only an obligation
- c. Only a right
- d. None of the above

5. Companies can classify warrants as:
- a. Derivative
- b. Equity
- c. Liability
- d. All of the above

6. Put options give the holder ______________ to sell an underlying at a specified price on or before a specific date.
- a. The right, but not the obligation
- b. Only the right
- c. Only the obligation
- d. All of the above

7. The *Inflation Reduction Act of 2022* added Section 4501, which imposes __________ on share repurchases.
- a. A 1% income tax
- b. A 1% excise tax
- c. A 10% income tax
- d. None of the above

8. The SEC-adopted amendments require most registrants to disclose:
- a. Quarterly quantitative share repurchases daily
- b. Daily quantitative share repurchases quarterly
- c. Quarterly quantitative share repurchases quarterly
- d. Quarterly quantitative share repurchases annually

9. Companies reflect forfeited unvested and vested expired stock awards:
- a. In accounts receivable
- b. As cash
- c. In APIC and common stock according to ASC 718
- d. In treasury stock

10. The article argues that the opponents of share repurchase programs have long argued that companies should invest in their:
- a. Employees' health programs
- b. Employees' pension programs
- c. Employees' welfare
- d. Growth instead of boosting their immediate shareholders' profits

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NE Dallas suburb gross $825k
Texas County, OK gross $390k (Reduced)

Contact Kathy Brents, CPA, CBI
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$889,000 gross. West Houston CPA practice. Service mix includes tax (76%), accounting (11%) and other (13%). Year-round cash flow from excellent fee structure and tenured staff in place. TXS1322

$354,500 gross. Corpus Christi area tax practice. Highly reputable firm with continued growth expected. 100% income from tax work, both individual and business. Staff and owner willing to transition sale of firm. TXS1318

$697,000 gross. SE of Houston CPA firm. Revenues comprised of individual and business tax (79%), accounting/write-up (16%) and other (5%) services. 2023 revenues expected to be $750,000. Tenured staff and owner assisted transition. TXS1320.

$330,000 gross. SE of Houston CPA firm. Great cash flow with knowledgeable staff in place ready to support buyer. Year-round service mix includes tax (88%), accounting (11%) and other (1%). Owner assisted transition. TXS1319.

$486,000 gross. Amarillo CPA practice. Single owner CPA in vibrant community. Desirably made up of 67% tax preparation and 33% bookkeeping for year-round income. Cash flow is over 61% gross revenues and has knowledgeable staff ready to assist in transition. TXW1302

$1,130,000 gross. Houston Beltway CPA firm. Motivated seller willing to assist in transition. Revenues 43% tax, 32% accounting, 25% other for year-round income. Knowledgeable staff in place ready to support. TXS1307

$202,000 gross. Plano, TX CPA practice. Located in a desirable community. Nice mix of revenues for year-round cash flow. 80% tax prep, 10% accounting services, 10% consulting/payroll/other services. Seller assisted transition. TXN1624

$162,000 gross. Allen, TX EA practice. Strong cash flow to owner of around 80%. Loyal client base with 93% tax work. No lease and minimal overhead make an exceptional opportunity for growth with referrals and expanding services. TXN1621

$215,000 gross. North Texas business appraisal firm. Full-service business valuation and consulting firm. Strong fee structure and minimal overhead yield almost 90% cash flow to owner. Reliable referral sources and great reputation in the community make this a fantastic opportunity. TXN1618

$135,000 gross. Greater Killeen area CPA practice. Loyal client base made up of 82% tax preparation and 18% bookkeeping for year-round income. Over 67% cash flow. Owner assist transition available. TXC1083

$506,000 gross. Northern San Antonio Metro CPA. 59% tax preparation (30% individual, 59% business, 11% other), 29% bookkeeping, 8% consulting, 4% Texas franchise returns. TXC1083

$190,000 gross. Virtual NE Houston CPA firm. Year-round revenue and excellent cash flow. Services composed of tax (57%), accounting (12%) and other (31%). TXS1304

$292,000 gross. Brazoria County CPA firm. Reputable practice with growth opportunities due to referrals from loyal clients. Owner transition available. Service mix tax (62%), accounting (29%) and other (9%). TXS1293

$1,285,000 gross. Allen, Texas CPA practice. Rapidly growing revenues and loyal client base. Services composed of tax (75%), accounting (17%) and tax planning services 8%. Strong staff in place ready for a smooth transition. TXN1614

$1,119,000 gross. Heart of Texas CPA practice. Tax prep is 85-90% of revenue yearly, 2/3 individuals. Business and trust make up remainder. Bookkeeping 10-15%. Tenured staff. TXC1077

$447,000 gross. Heart of Texas CPA firm. 80% tax, (78% inv., 13% bus., 9% other), 11% bkkpng, 9% audits/reviews, cash flow around 43%, staff in place, owner available to stay on as employee after sale if needed. TXC1078

$510,000 gross. NW of Dallas CPA firm. Tax 72%, accounting 28%, strong fees, solid cash flow, experienced staff in place, turn-key location in desirable DFW community. TXN1526

$307,000 gross. North Texas CPA practice. Tax 65%, accounting 35%, solid fee structure, experienced staff, and the perfect size starter or add-on practice. TXN1558

$730,000 gross. Northeast Texas CPA firm. Tax 55% and 45% accounting, solid fee structure, experienced staff, and exceptional client base. Lots of room for growth, 80% total revenues from businesses. TXN1587

$480,000 gross. Fort Worth, TX CPA tax practice. Strong cash flow to owner 55%, quality clientele, year-round income, and amazing expansion ability with individual and business referrals. TXN1588

$1,125,000 gross. W. Houston CPA firm. 66% tax, 22% audit/review, 12% bookkeeping. Excellent cash flow to owner, premium clientele and experienced staff in place. TXN1246

$283,000 gross. Southeast Texas CPA firm. 60% tax and 40% bookkeeping. Building available for lease or purchase. Friendly and loyal clients, growth opportunities and owner assisted transition available. TXS1232.

$1,700,000 gross. N. Houston CPA practice. Great service mix to provide year-round revenue with heavier workload during Sep/Oct deadlines. Strong, experienced staff in place. TXS1264

$116,000 gross. The Woodlands area CPA firm. Operates remotely from anywhere in Houston. Excellent cash flow, high-income clients. TXS1291

$567,000 gross. NE of Houston CPA firm. Owner looking to semi-retire and will assist buyer as agreed. Great service mix of tax, bookkeeping and payroll/consulting. Turn-key opportunity with experienced staff in place and office available for lease. TXS1283

$905,000 gross. Semi-virtual Texas based CPA firm. Multiple location firm with possibility to be completely virtual over time. 66% tax work and 27% accounting and 7% payroll. Year-round income with about 55% income derived from businesses. TXN1606

$255,000 gross. North Dallas CPA tax clients. Loyal clients from a variety of businesses and industries. About 80% of business done by portal, making it an easy acquisition for an existing firm. Option to maintain space for seamless transition. TXN1605

$3,560,000 gross. North Texas CPA practice. Well established and growing firm that is exceptionally profitable for a firm its size due to fee structure and high realization rate. 50% auditing services and 45% tax work. Complete with long-term staff and partners to aid in transition. TXN1597

$533,000 gross. Highly regarded firm offers bilingual services to businesses and business owners. Revenues 50/50 tax work and accounting services. Strong cash flow over 50% gross income. TXN1601

$834,000 gross. Irving, Texas tax practice. Well established firm with loyal, quality client base in the community. Revenues are 85% tax work for individuals and businesses and the remaining 15% are accounting, payroll and misc. Experienced staff in place and seller willing to stay on for smooth transition. TXN1608

$149,000 gross. North Collin County CPA practice. Growing, boutique CPA practice. Desirable client base made up of businesses and their owners. Structured to provide year-round income with over 70% income derived from monthly maintenance service agreements. Strong cash flow of over 65%. TXN1627

$228,000 gross. Midlothian, Texas CPA practice. Growing practice in desirable DFW suburb caters to loyal client base composed largely of businesses and business owners. Continued referral and expanding opportunities. Practice has solid fee structure and cash flow is over 50% gross income. TXN1628

$555,000 gross. Tyler-Longview Metro area CPA practice. Established and reputable firm caters to high quality, loyal clientele. Large business base offers opportunities for expansion. 70% tax work and 30% accounting. Over half of accounting work is derived from businesses and provides year-round income. TXN1629

$1,013,900 gross. SW Houston CPA firm. Desirable location and cash flow. Well-trained support staff already in place. Services desirably mixed 67% tax, 12% accounting, 15% reviews and 5% audits. Seller assisted transition. TXS1295

$477,000 gross. NW Houston CPA firm. Revenues made up of accounting 74%, tax 24% and other 2%. Year-round cash flow and knowledgeable staff. Owner willing to assist in smooth transition. TXS1300

$1,040,000 gross. South Texas CPA firm. Nicely mixed revenues 43% accounting, 38% tax and 19% other services. Year-round cash flow and knowledgeable staff. TXS1298

$354,000 gross. NW Houston CPA firm. Predominately made up of complex tax returns. Nice cash flow and high-income quality clients. Excellent staff ready and able to assist. TXS1296

$316,000 gross. Galveston County CPA. Service mix includes 67% tax, 14% audit/review and 6% other. Year-round work provides excellent cash flow. Prime location with loyal clients. TXS1287

$95,000 gross. Conroe CPA firm. Owner transition available. Service mix 75% tax and 25% other for year-round income. TXS1311

$296,000 gross. West Houston tax firm. Services mixed 93% tax and 7% other services. Year-round cash flow and knowledgeable bilingual staff in place to support transition. TXS1306

$115,000 gross. Matagorda County tax and accounting. 60% tax work and 40% accounting. Many referrals for growth. TXS1308

$172,000 gross. Houston Galleria area tax firm. Owner transition available. 83% tax and 17% accounting. Great reputation and constant referrals. TXS1310

$150,000 gross. Katy, TX CPA firm. Service mix tax (96%) and other (4%). Loyal, long-term clients with many referrals for growth. Owner transition available. TXS1305

$650,000 gross. West Houston accounting firm. Service mix 93% accounting and bookkeeping and 7% tax. Nice location for buyer with extra room to bring in additional staff. TXS1297

$2,201,000 gross. West Texas firm. Highly motivated multi-owner CPA firm. Revenue mix is 14% accounting services, 29% tax preparation (49% individual, 41% business, 10% other and 57% attest services). Large tenured staff and long assisted transition by owner. TXW1030

$480,000 gross. Houston CPA practice. Reputable firm with constant referrals provides year-round income made up of 57% tax work, 42% accounting and 1% other. TXS1315

$250,000 gross. Southwest Houston CPA practice. Wonderful, community centered firm composed of 71% tax work and 29% accounting. Firm has excellent cash flow to the owner and the owner is willing to assist in transition. TXS1314

$385,000 gross. San Antonio CPA and bookkeeping practice. Year-round income with 41% tax work (77% individual, 20% business, 3% other), 56% bookkeeping, 3% other. Tenured full-time staff and owner assisted transition. TXC1084

$750,000 gross. West of Houston CPA firm. Primarily tax 88% with desirable year-round income from accounting and other work 12%. Great cash flow and knowledgeable staff ready for an owner assisted transition. TXS1319

$339,000 gross. Richardson, TX CPA practice. Reputable and established firm in affluent area. Solid fee structure and strong cash flow to owner at approximately 60% of gross. Year-round income with nice services mix of 78% tax preparation and 22% accounting/other services. TXN1635

$1,200,000 gross. East Texas CPA practice. Loyal client base of individuals and businesses. High referral rate to generate additional business and nice mix of services for year-round income. Strong, tenured staff and owner assisted transition. TXN1633

$555,000 gross. Tyler-Longview Metro area CPA practice. Quality business clients provide opportunities for expansion. Revenues derived by 70% tax work and 30% accounting, half of which from businesses. TXN1631

$354,000. South Plains CPA practice. Single owner CPA firm with loyal clients. Revenues derived from 66% tax and 34% bookkeeping. Solid cash flow to owner of almost 60% gross. Full-time staff and leased office space available. TXW1033.

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