Grant Thornton

# New Developments Summary

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## Israel-Hamas War

Accounting and financial reporting considerations

### Contents



The recently rekindled conflict between Israel and Hamas has introduced volatility into the global economy as the potential for a more widespread war looms in addition to the unfolding humanitarian tragedy. While the economic effects of the Israel-Hamas War are uncertain and evolving, entities with operations, suppliers, or customers in Israel, Palestinian-occupied territories, and the larger Middle Eastern region could potentially be impacted as the war unfolds. Additionally, many entities may be indirectly impacted by the war, especially in the global energy, petrochemical, and capital markets, among others. This publication summarizes certain accounting and financial reporting considerations under U.S. GAAP that could apply for entities impacted by the Israel-Hamas War.

# A. Estimates and subsequent events

Entities are often required by U.S. GAAP to make assumptions about the economic consequences of disruptive biological, environmental, social, and political events when determining a variety of accounting estimates. However, forecasting the magnitude and duration of the economic impact of such events is often challenging.

## Accounting estimates

Accounting estimates rely on an entity's judgmental assumptions, which must be based on a reasonable interpretation of conditions or events that are either known or knowable as of the measurement date. In other words, the assumptions used by an entity in its estimates must be both reasonable and supportable.

Determining what constitutes a "reasonable and supportable" assumption during times of economic uncertainty requires an entity to exercise professional judgment grounded in a well-controlled and supported estimation process. In our experience, a well-controlled and supported estimation process includes the following steps.

**Step 1**
Identify information relevant to the estimate that is reasonably known or knowable as of the measurement date. Information discovered after the measurement date, but before the financial statements are issued, may confirm such information.

**Step 2**
Use the relevant information identified in Step 1 to develop a reasonable and supportable forecast of future conditions.

**Step 3**
Use the reasonable and supportable forecast from Step 2 in the estimation approach to arrive at a quantitative estimate. The estimation approach used should be consistent with the relevant accounting framework.

**Step 4**
Produce transparent and robust disclosures describing the key inputs and assumptions used in the entity's estimation approach.

## Subsequent events

Entities may become aware of events related to the Israel-Hamas War after the balance-sheet date, but before the financial statements are either issued or made available to be issued. Such events may include government actions, such as sanctions levied against various countries; disruptions to the entity's supply chains or the supply chains of their customers; or the bankruptcy of customers. The guidance in ASC 855-10-25-1, *Subsequent Events*, requires an entity to evaluate whether those events provide evidence about conditions that existed at the balance-sheet date, and to consider all information that becomes available before the financial statements are either issued or made available to be issued.

To the extent that the identified events provide evidence about conditions that existed as of the balance-sheet date, an entity needs to adjust its financial statements to reflect the impact of such events. On the other hand, to the extent that events related to the Israel-Hamas War do not provide evidence about conditions that existed at the balance-sheet date, entities should consider whether it is necessary to disclose the nature of the event and an estimate of its impact in the financial statements (or a statement indicating that such estimate cannot be made) in order to prevent the financial statements from being misleading.

**Grant Thornton insight: Subsequent events and the Israel-Hamas War**

Entities need to carefully consider whether to provide disclosures about the impact of the Israel-Hamas War on their business in the financial statements given the widespread impact of the war on the global and U.S. economies.

Entities should carefully evaluate whether events occurring after the balance-sheet date, but before the financial statements are issued or made available to be issued, provide evidence about conditions that existed as of the balance-sheet date. The attacks that rekindled the Israel-Hamas War did not occur until October 7, 2023, when Hamas launched surprise attacks from Gaza at neighboring Israeli areas. Accordingly, we believe that in most cases, the Israel-Hamas War constitutes a non-recognized subsequent event for financial statements with balance-sheet dates prior to October 7, 2023.

## B. Asset impairment

The impact of the Israel-Hamas War on entities could manifest in a variety of ways, including reduced revenue; supply chain disruptions; exposure to volatile energy, petrochemical, and capital markets; increases in customers' credit risk; the cessation of operations in foreign jurisdictions; or increased costs. These events could be indicators of asset impairment even over a relatively short duration, which entities need to consider in preparing the financial statements. The following is a high-level discussion of impairment considerations in connection with the Israel-Hamas War

### Goodwill and other indefinite-lived intangibles impairment

The guidance in ASC 350-20, *Intangibles – Goodwill and Other: Goodwill*, requires entities to test goodwill for impairment if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount (the "triggering event"). Similarly, the guidance in ASC 350-30, *General Intangibles Other Than Goodwill*, requires entities to test other indefinite-lived intangibles for impairment if events or changes in circumstances indicate that it is more likely than not that the fair value of the intangible asset is less than its carrying amount (also a "triggering event"). As a result, an entity should consider the direct and indirect impact of the Israel-Hamas War to determine whether a triggering event has occurred for goodwill or other indefinite-lived intangible assets by evaluating all relevant facts and circumstances, including, but not limited to, all of the factors in ASC 350-20-35-3C for goodwill and in ASC 350-30-35-18B and 35-18C for other indefinite-lived intangible assets. See Grant Thornton's Viewpoint, *Impairment: Indefinite-lived intangibles and goodwill*, for more information.

**ASC 350-20-35-3C**

In evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, an entity shall assess relevant events and circumstances. Examples of such events and circumstances include the following:

a. Macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets

b. Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (consider in both absolute terms and relative to peers), a change in the market for an entity's products or services, or a regulatory or political development

c. Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows

d. Overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods

e. Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation

f. Events affecting a reporting unit such as a change in the composition or carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing of all, or a portion, of a reporting unit, the testing for recoverability of a significant asset group within a reporting unit, or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of the reporting unit

g. If applicable, a sustained decrease in share price (consider in both absolute terms and relative to peers).

**ASC 350-30-35-18B**

In assessing whether it is more likely than not that an indefinite-lived intangible asset is impaired, an entity shall assess all relevant events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset. Examples of such events and circumstances include the following:

a. Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on future expected earnings and cash flows that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset

b. Financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset

c. Legal, regulatory, contractual, political, business, or other factors, including asset-specific factors that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset

d. Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset

e. Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (in both absolute terms and relative to peers), or a change in the market for an entity's products or services due to the effects of obsolescence, demand, competition, or other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing business environment, and expected changes in distribution channels) that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset

f. Macroeconomic conditions such as deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset.

### ASC 350-30-35-18C

The examples included in the preceding paragraph are not all-inclusive, and an entity shall consider other relevant events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset. An entity shall consider the extent to which each of the adverse events and circumstances identified could affect the significant inputs used to determine the fair value of an indefinite-lived intangible asset. An entity also shall consider the following to determine whether it is more likely than not that the indefinite-lived intangible asset is impaired:

a. Positive and mitigating events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset

b. If an entity has made a recent fair value calculation for an indefinite-lived intangible asset, the difference between that fair value and the then carrying amount

c. Whether there have been any changes to the carrying amount of the indefinite-lived intangible asset.

If an entity concludes that a triggering event has occurred, it must test the intangible asset for impairment as of the date of the triggering event by comparing the fair value of the reporting unit for goodwill, or the individual intangible asset for other indefinite-lived intangible assets, to its carrying amount. However, private and not-for-profit entities that are eligible for and have adopted the accounting alternative in ASU 2021-03, *Accounting Alternative for Evaluating Triggering Events,* are only required to analyze whether a triggering event for goodwill has occurred as of a financial reporting date (see Snapshot 2021-06, "Accounting alternative for evaluating triggering events"). Given the potential impact of the Israel-Hamas War on the regional and global economy, many entities, even those without direct exposure to Israel or Palestinian-controlled areas, could experience a triggering event in the current environment. Because goodwill is evaluated for impairment at the reporting unit level, an impairment loss must be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit, if the reporting unit's carrying amount exceeds its fair value  as of the date of the triggering event.

For further information related to impairment, see *Impairment: Indefinite-lived Intangibles and Goodwill*.

### Grant Thornton insight: Market capitalization reconciliations

For public entities, the SEC staff has expressed a view that it is prudent, even in volatile markets, to reconcile the combined fair value of an entity's reporting units to its market capitalization, which is determined by multiplying the entity's share price by the number of outstanding public shares. An entity may conclude that its current market capitalization does not reflect the fair value of the entity as a whole, which is the amount at which the entity as a whole could be sold in a current transaction between willing market participants. For example, the fair value of the entity as a whole may reflect a "control premium" (that is, the value derived from the ability to take advantage of synergies and other benefits as a result of controlling the entity's activities), whereas the entity's public share price would not include a control premium because a single share does not provide a market participant with control over the entity.

Management should support its assertion that all, or a portion, of the difference between an entity's market capitalization and the fair value of the entity as a whole results from a control premium. For instance, when evaluating a control premium, an entity may consider control premiums identifiable in comparable transactions or the cash flows associated with obtaining control of a reporting unit. The SEC staff has noted that they expect the strength of evidence used to support a control premium to increase as the control premium increases.

Additionally, in volatile markets, it may be reasonable to look at market capitalization over a reasonable period of time leading up to the impairment testing date. What constitutes a “reasonable” period of time is a matter of judgment, and an entity should consider relevant recent events and trends in its share price when determining a reasonable period. For instance, in the current environment, it may be challenging to support the use of share prices prior to October 7, 2023, the date of the attacks that precipitated the war. Entities need to support the range of dates used to determine market capitalization.

Finally, if an entity determines that a triggering event has occurred, it must complete its impairment test before issuing the financial statements that contain the period including the triggering event. Only disclosing that a triggering event has occurred is not sufficient.

## Long-lived assets and finite-lived intangible assets

The guidance in ASC 360-10-35-31, *Property, Plant, and Equipment*, requires entities to evaluate long-lived assets for recoverability whenever events or changes in circumstances indicate that the asset’s carrying amount may not be recovered. The guidance in ASC 350-30-35-14 requires the same analysis for intangible assets with finite lives. Entities should consider whether the direct and indirect impact of the Israel-Hamas War constitutes an event that would require testing long-lived assets for recoverability, such as (a) a significant decrease in the market price of the long-lived assets, (b) a significant adverse change in the extent or manner in which long-lived assets are being used or in their physical condition, or (c) a significant adverse change in the business climate that could affect the value of the long-lived assets.

The impairment requirements in ASC 360 also apply to right-of-use assets recognized by lessees on leasing transactions accounted for under ASC 842, *Leases*.

## Inventory

The Israel-Hamas War could also affect the value of an entity’s inventory. For example, entities with direct exposure to markets in the Middle East may have inventory that cannot be feasibly redirected to other markets. The guidance in ASC 330, *Inventory*, specifies two approaches for remeasuring inventory, depending on the cost method applied. In the first approach, inventory is remeasured using the lower of cost or net realizable value. This approach is used for all cost methods other than the last-in, first-out (LIFO) method or the retail method, and is widely applicable because many entities use the first-in, first-out (FIFO) or average cost methods. The second approach is the lower of cost or market method that applies only when using LIFO or the retail method.

ASC 270, *Interim Reporting,* specifies that any loss resulting from remeasuring inventory in an interim period should be recognized in the interim period in which the decline occurs. Recoveries that occur in later interim periods within the same fiscal year are recognized as gains in the interim period in which they occur, not to exceed previously recognized losses. In addition, if a decline in an interim period can be reasonably expected to be restored within the same fiscal year, the temporary decline does not need to be recognized at the interim date. However, entities may not recognize recoveries related to impairments recognized in previous fiscal years.

Production capacity issues may result from temporary plant closings or supply chain disruptions. If inventory production levels drop below normal capacity, fixed overhead costs allocations to individual units of production generally should not increase in order to capitalize most or all of the costs in inventory. Instead, the unallocated overhead costs resulting from this “excess capacity” should be expensed in the period incurred. Judgment is required to determine both the range of normal capacity based on business and industry factors and when actual production levels fall below a reasonable range.

Entities should review firm purchase commitments with inventory suppliers for losses in the same manner as other inventory losses. In addition, if a loss is indicated, there might not be any impairment if an entity has firm sales commitments with customers at prices that would support realizing the cost of future inventory. Often, firm purchase commitments relate to inventory similar to that already on hand. If, for example, an entity concludes that the carrying amount of the inventory on hand purchased at similar price levels is not realizable, there could also be a loss on the related firm purchase commitment.

### Order of impairment testing

When testing multiple classes of assets for impairment, the order in which the assets are tested is important, because some assets are tested individually for impairment while others are tested as part of a group of assets. For instance, the model for testing goodwill impairment under ASC 350 compares the fair value of a reporting unit to its carrying amount, while the model in ASC 360 for certain tangible long-lived assets and finite-lived intangible assets calls for testing these assets for impairment as part of an asset group. Under ASC 360, an asset group may be comprised solely of an individual asset. The order of testing when evaluating goodwill and asset groups for impairment is important because the impairment assessment for both classes of assets depends on the carrying amount of the reporting unit or asset group. In turn, the carrying amount of the reporting unit or asset group depends on the individual assets within the group being appropriately adjusted for impairment before an entity can assess goodwill or an asset group for impairment. Overall, individual assets are tested before asset groups, and asset groups are tested before reporting units.

Because the goodwill impairment model in ASC 350-20 compares a reporting unit's fair value to its carrying amount, the impairment tests for other types of assets, such as inventory, long-lived assets, indefinite-lived intangible assets (except goodwill), and finite-lived intangible assets, should be completed first, with the carrying amount for those assets and asset groups adjusted for any impairment before conducting the goodwill impairment test, which should be performed last. If impairment testing is not performed in the appropriate order, the impairment testing results for assets tested earlier or later may not be appropriate. For instance, if impairments related to other classes of assets that are included within a reporting unit are not appropriately recognized, then the carrying value of the reporting unit used to measure goodwill impairment may be an inappropriately greater amount; the reporting unit's carrying value would be higher compared to its fair value because the other asset classes were not first reduced for impairment.

According to the guidance in both ASC 350-20-35-31 and ASC 360-10-35-27, entities should evaluate for impairment assets that are held-for-use based on the unit of account in the following order:

1. *Individual assets* – First, an entity should individually test for impairment assets that must be tested under guidance other than ASC 360, excluding goodwill, as well as tangible long-lived assets tested individually under ASC 360. Those assets tested individually for impairment include indefinite-lived intangible assets, financial assets, deferred tax assets, servicing assets, long-lived assets held-for sale, and inventory. (Note that in this publication, "indefinite-lived intangible assets" refers to indefinite-lived intangible assets other than goodwill.)

2. *Asset groups* – Next, an entity should test asset groups for impairment using the model in ASC 360, including long-lived assets held-for-use, finite-lived intangible assets, and right-of-use assets recognized under ASC 842.

3. *Reporting unit* – Finally, after an entity performs all other impairment tests, goodwill should be tested based on the reporting unit model in ASC 350.

## C. Consolidation and the equity method of accounting

Reporting entities should consider the impact of the Israel-Hamas War when evaluating whether (a) any of their subsidiaries should be deconsolidated, or (b) any entities should be consolidated because the reporting entity has obtained control. In addition, entities should consider whether these events indicate that applying the equity method of accounting to an investment is no longer appropriate.

### Consolidation

The guidance in ASC 810, *Consolidation,* requires a reporting entity to consolidate a legal entity if it has a controlling financial interest in that entity. A controlling financial interest consists of two components: (1) the ability to direct the activities that most significantly impact the economic performance of the legal entity, and (2) a variable interest in the legal entity that is potentially significant to that legal entity. Determining whether a reporting entity has a controlling financial interest is an ongoing assessment, and changes in facts and circumstances may indicate that the reporting entity has lost or gained control of an entity in which it has a variable interest.

Reporting entities should carefully assess whether a consolidated subsidiary should be deconsolidated when events and circumstances cast doubt on the reporting entity's ability to control the subsidiary. For instance, ASC 810-10-15-10 states that certain foreign-exchange restrictions, controls, or other government-imposed uncertainties could be so severe as to cast significant doubt on the reporting entity's ability to control the subsidiary.

Reporting entities should also consider whether an entity that was not previously subject to the variable-interest entity guidance in ASC 810-10 is now subject to that guidance due to the changes in facts and circumstances caused by the war. For example, governmental restrictions on shareholder rights might indicate that the holders of an equity investment, as a group, have lost the power to direct the activities that most significantly impact the economic performance of an entity through their equity voting rights or similar rights in the investment. If an entity in which the reporting entity holds a variable interest becomes subject to the variable-interest entity guidance, the reporting entity would need to assess whether it should consolidate the variable-interest entity as its primary beneficiary. Additionally, if the reporting entity concludes that it is not the primary beneficiary of the variable-interest entity, the reporting entity should assess whether the disclosure requirements related to variable interests held in unconsolidated variable-interest entities apply.

### Equity method of accounting

Under the guidance in ASC 323, *Investments – Equity Method and Joint Ventures,* a reporting entity is required to apply the equity method of accounting to investments in both common stock and in-substance common stock of unconsolidated investees when the reporting entity has significant influence over the investee. The assessment of whether a reporting entity has significant influence over an investee is continuous, and the reporting entity should consider the effect of changes in facts and circumstances on its conclusion.

Government actions could restrict an investor's ability to exercise significant influence over an investee. For example, changes in laws and regulations might restrict an investor's voting rights; limit an investor's ability to obtain additional, or dispose of existing, investments in the investee; prevent the investor from obtaining information about the investee and its performance; or restrict the investor's rights with regard to the investee's board. The investor should consider the guidance in ASC 323-10-15-6 through 15-11 in its entirety when assessing whether the reporting entity continues to have significant influence over the investee.

## D. Fair value measurement, impairment of financial assets, and hedging

### Fair value

ASC 820, *Fair Value Measurement*, defines "fair value" for purposes of U.S. GAAP and provides a principles-based framework to estimate fair value. The objective of the fair value framework is to estimate the price at which an orderly transaction to sell an asset or transfer a liability would take place between market participants at the measurement date under current market conditions. Fair value is a market-based measurement, not an entity-specific measurement. Accordingly, an assertion that a current market price is not fair value because the entity would not choose to transact at the current market price is not appropriate, because an entity's intention to hold an asset or liability is not relevant to the measurement of fair value.

As the Israel-Hamas War progresses, the war has the potential to cause volatility in a variety of markets, including the energy, petrochemical, and capital markets, which could make it difficult for entities to assess whether transactions in those markets are "orderly" under ASC 820. However, it is not appropriate to conclude that all transactions in a given market are not orderly, because the determination of whether a transaction is orderly is made at the individual transaction level after considering the factors in ASC 820-10-35-54. A transaction is not orderly if one or more of the market participants are compelled (not merely motivated) to transact. If an entity does not have sufficient information to conclude whether an observable transaction is orderly, it must take into account the transaction price when estimating fair value. However, the entity may place less weight on such transactions compared to transactions that it knows to be orderly.

In addition to assessing whether observable transactions are orderly, entities need to consider other direct and indirect impacts of the Israel-Hamas War on the fair value of their investments, including changing credit spreads, implied volatility, and market liquidity.

## Impairment on investments in debt and equity securities

Financial assets that are not carried at fair value, with changes in fair value recognized in earnings, are generally subject to one of several impairment models. Entities need to carefully identify the appropriate impairment model and determine whether the Israel-Hamas War has triggered an impairment of assets that should be recognized and, if so, the extent of the impairment.

### *Debt securities*

Under ASC 320, *Investments – Debt and Equity Securities,* debt securities may either be classified as trading, held-to-maturity (HTM), or available-for-sale (AFS). Trading securities are measured at fair value, with changes in fair value recognized in earnings.

Prior to the adoption of the amendments in ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* which introduced the current expected credit loss (CECL) model into U.S. GAAP, both an HTM and AFS security are considered to be impaired when the fair value is less than its amortized cost basis. If an entity concludes that it intends to sell the impaired security or it is more likely than not that it will be required to sell the impaired security, then the security should be written down to its fair value through earnings under the legacy guidance. If, however, the entity does not intend to sell the security and it is not more likely than not that it will be required to sell the security, then only the amount of impairment representing the credit loss is recognized in earnings. In addition, when evaluating whether an impairment represents an other-than-temporary impairment related to credit losses, an entity should consider all relevant factors under the legacy guidance, including asset-specific and issuer-specific credit indicators, economic factors impacting the issuer, as well as the duration and magnitude of impairment.

After the adoption of ASU 2016-13, HTM debt securities are subject to the CECL model, and an other-than-temporary impairment analysis is no longer applied. (The CECL model is discussed in greater detail below.)

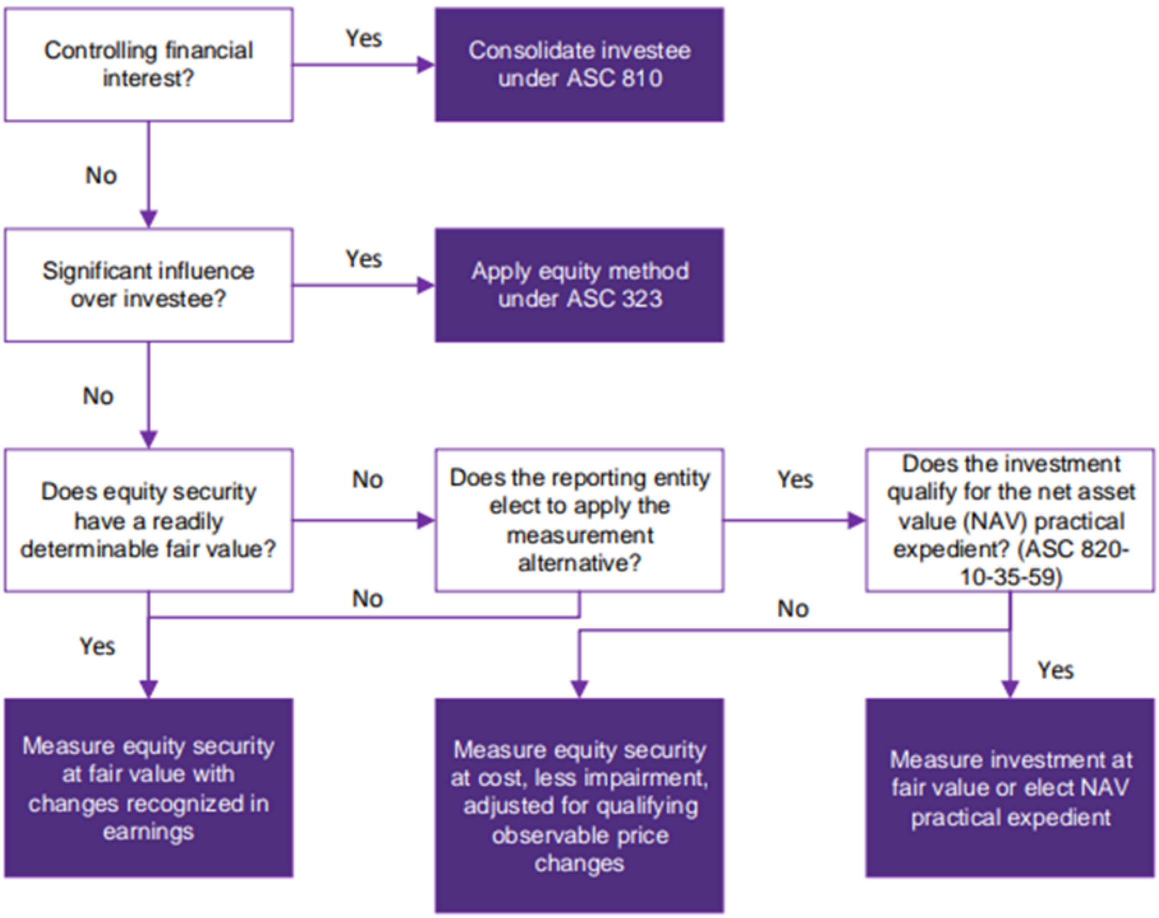
For HTM securities under the amendments in ASU 2016-03, if an entity concludes that it may be required to sell or may intend to sell—or in fact does sell—HTM securities, it should carefully scrutinize whether it can continue to support that it has the affirmative intent and ability to hold debt securities to maturity after considering the guidance in ASC 320-10-25-4 through 25-18 and in ASC 320-10-35-8 and 35-9.

For AFS securities under the amendments, an impairment model that is similar to the other-than-temporary model in legacy U.S. GAAP is applied. Under the new guidance in ASC 326-30, *Financial Instruments – Credit Losses: Available-for-Sale Debt Securities*, if an entity intends to sell an impaired security or it is more likely than not that it will be required to sell the security, then the security should be written down to its fair value through earnings. If, however, the entity does not intend to sell the security and it is not more likely than not that it will be required to sell the security, the amount of impairment representing the credit loss is recognized in earnings, limited to the difference between the amortized cost basis and the security's fair value. Any remaining impairment is recognized in other comprehensive income.

### *Equity securities without a readily determinable fair value*

Under ASC 321, *Investments – Equity Securities,* equity securities in investees that are not consolidated or accounted for under the equity method are generally measured at fair value, with changes in fair value recognized in earnings. However, equity investments without a readily determinable fair value may be eligible for a measurement alternative in ASC 321. The measurement alternative allows those investments to be measured at their cost, minus impairment if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or a similar investment of the same issuer.

The following flowchart depicts how an entity should assess whether it may apply the measurement alternative to an investment in an equity security under ASC 321-10-35-2.




Equity investments that are measured using the measurement alternative should be qualitatively evaluated for impairment at each reporting period. The impairment indicators include

- A significant deterioration in the earnings performance, credit rating, asset quality, or business prospects of the investee
- A significant adverse change in the regulatory, economic, or technological environment of the investee
- A significant adverse change in the general market condition of either the geographical area or the industry in which the investee operates

- Factors that raise significant concerns about the investee's ability to continue as a going concern

Given the potential economic impact of the Israel-Hamas War, it is possible that some equity securities accounted for using the measurement alternative will exhibit qualitative indicators of impairment.

If a qualitative assessment indicates that an equity investment is impaired, the entity should measure the equity investment's fair value and record the difference between that fair value and the carrying value of the equity investment as an impairment loss in earnings.

See NDS 2016-03, "Accounting for financial instruments," for more information on accounting for equity securities under the measurement alternative.

### *Equity method investments*

The guidance in ASC 323 requires an entity to recognize impairment losses on equity method investments when a decline in fair value to an amount that is below the investment's carrying amount is other than temporary. Note that "other than temporary" does not mean permanent.

An entity is required to evaluate whether such a decline in the fair value of an equity method investment is other than temporary when it becomes aware of evidence that an impairment may exist (that is, when a triggering event occurs). Such evidence includes

- The investee incurs a series of operating losses.
- The investor cannot recover the carrying amount of the investment.
- The investee cannot sustain its historical level of earnings.
- The current fair value of the investment is less than its carrying amount.
- Other investors have ceased providing support to the investee or have otherwise reduced their financial commitment to the investee.
- The investee has recognized impairment losses on its assets.

Entities with equity method investments must have a process in place to identify whether such evidence exists, and this process should consider the impact of the Israel-Hamas War on these factors. An entity that concludes the impairment of its equity method investment is other than temporary should write the investment down to its fair value. The unit of account for evaluating impairment on an equity method investment is the investment as a whole. An equity method investor does not separately test the investee's underlying assets for impairment. However, the investor does recognize its proportionate share of any impairment recognized by the investee in the investor's equity method earnings, including adjustments for basis differences.

**Grant Thornton insight: Impact of OTTI on equity method basis differences**

Entities that recognize an other-than-temporary loss on equity method investments with basis differences must consider how such an impairment charge affects the investor's basis differences. ASC 323 does not provide guidance in this regard, and there may be diversity in practice on this subject. We believe one acceptable method is to allocate an other-than-temporary impairment (OTTI) to the investee's underlying assets based on their relative fair values.

In accordance with ASC 323-10-35-6, some entities may recognize equity method earnings on a lag, typically no longer than one quarter. However, an entity must evaluate an equity method investment for impairment as of the investor's balance-sheet date.

## Impairment of financial assets measured at amortized cost

ASU 2016-13 introduced a new topic to the FASB Codification, ASC 326, *Credit Losses*, and the CECL model to U.S. GAAP. The amendments in ASU 2016-13 are already effective for public companies that are SEC filers (except for small reporting companies) and are effective for all other entities in fiscal years, and in interim periods within those fiscal years, beginning after December 15, 2022.

### *Impairment prior to adoption of CECL*

Prior to adoption of the amendments in ASU 2016-13, entities should apply other impairment guidance to financial instruments measured at amortized cost. For instance, debt securities classified as held-to-maturity would be subject to the other-than-temporary impairment model in ASC 320, while trade accounts receivable and loans receivable would be subject to the impairment guidance in ASC 310, *Receivables*.

Entities should consider information related to the Israel-Hamas War that was known or knowable as of the measurement date when evaluating whether to recognize impairment.

### *Impairment under CECL*

The CECL model under ASC 326 requires entities to recognize an allowance for credit losses on financial assets measured at amortized cost (such as debt securities classified as held-to-maturity, loans receivable, trade accounts receivable, and net investments in sales-type or direct-financing leases) as the difference between the amortized cost basis of the financial asset and the amount the entity expects to collect. The CECL model can be thought of as having five components:

- Group financial assets with similar risk characteristics into estimation pools.
- Select a method for measuring credit losses for each estimation pool.
- Determine historical losses relevant to each estimation pool.
- Adjust historical losses for current conditions and reasonable and supportable forecasts.
- Revert to historical loss experience for any portion of an asset's contractual term that extends beyond the reasonable and supportable forecast period.

See NDS 2016-10, "Measuring credit losses on financial instruments," for more information about the requirements under ASC 326.

#### Considering the impact of the Israel-Hamas War on CECL

Entities estimating expected credit losses should consider information related to the Israel-Hamas War that was known or knowable as of the measurement date. Such information may be included in the entity's forecasting assumptions used in estimating expected credit losses.

In light of the information on the Israel-Hamas War that is known or knowable as of a measurement date, entities need to evaluate the length of their reasonable and supportable forecast period. For instance, an entity may determine that the period over which it can reasonably and supportably forecast future conditions might be shorter due to the economic instability resulting from the Israel-Hamas War.

Additionally, entities also need to evaluate the pattern of reversion used in their estimation approach for financial assets whose contractual lives exceed the entity's reasonable and supportable forecast period. An entity should use a pattern of reversion that results in its best overall estimate of expected credit losses.

#### Subsequent events and CECL

ASC 855-10-55-2(e) identifies changes in estimated credit losses on receivables arising after the balance-sheet date, but before the financial statements are issued or made available to be issued, as a non-recognized subsequent event.

The SEC staff in a speech delivered at the 2018 AICPA Conference on Current SEC and PCAOB Developments further clarified how to apply this guidance in certain circumstances. The SEC staff clarified that loan-specific information about factual conditions that existed at the balance-sheet date should be included in an entity's estimate of expected credit losses. Examples of such information include

- Servicer reports that show the effects of payment experience (including delinquencies and prepayments) that occurred on or before the measurement date
- Appraisals that show information about the fair value of loan collateral as of or before the measurement date

With regard to information related to forecast assumptions used in estimating expected credit losses, the SEC staff clarified that information received before an entity has completed an appropriate estimation process could be included in the entity's estimate of expected credit losses. That is, an entity may include information relating to forecasting assumptions used in estimating expected credit losses that is known or knowable as of the measurement date.

For instance, if, after the balance-sheet date but before the entity's financial statements are issued or made available to be issued, the U.S. government announces unemployment rates for a period that includes the measurement date, an entity may include such information in its estimation process for expected credit losses. While the unemployment rates may not have been available to the entity at the measurement date, the rates are known or knowable since the underlying economic condition (the rate of unemployment) exists and the U.S. government had access to the information.

However, an entity may not include in its estimate of expected credit losses any information relating to forecasting assumptions used in estimating expected credit losses that is received before an entity has completed an appropriate estimation process, if that information does not relate to the measurement date. To include such information would violate the guidance in ASC 855-10-55-2(e), which precludes recognizing changes in expected credit losses arising after the measurement date.

As noted by the SEC staff, an entity may, but is not required to, include information relating to forecasting assumptions used in estimating expected credit losses that is known or knowable as of the measurement date. Therefore, an entity must develop a clear and consistent policy for assessing whether information related to forecasting assumptions received before the completion of an appropriate expected credit loss estimation process is known or knowable as of the measurement date.

If information related to forecasting assumptions received after the entity has completed an appropriate estimation process, but before the financial statements are issued or available to be issued, indicates a weakness or deficiency in the entity's estimation process, the entity should recognize that information in its CECL estimation process.

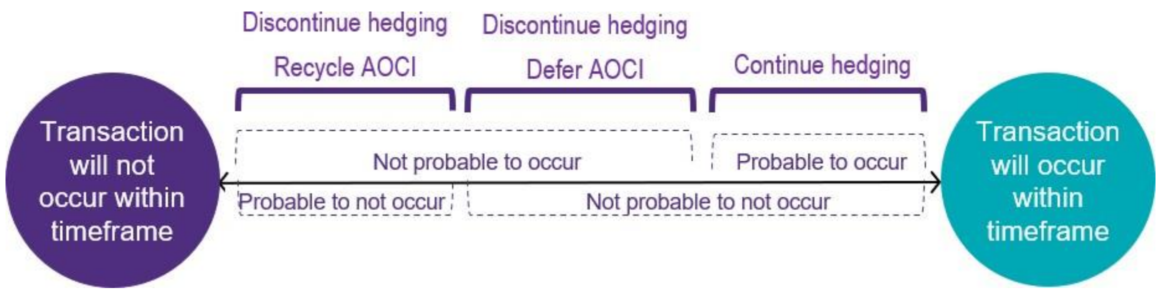
## Hedge accounting

Entities that have hedged forecasted transactions in a cash flow hedge under the guidance in ASC 815, *Derivatives and Hedging*, should consider whether the forecasted transactions are still probable of occurring in light of the impact of the Israel-Hamas War.

The accounting impact of a change in an entity's assessment of the likelihood of a forecasted transaction occurring, or a change in the anticipated timing of such occurrence, depends upon whether the forecasted transaction is likely to occur within two months of the originally specified time period, as explained in the following bullets and illustration:

- If an entity determines that a hedged forecasted transaction is no longer probable of occurring, ASC 815 requires the entity to discontinue cash flow hedge accounting for that forecasted transaction prospectively.
- If an entity determines that it is not probable that the forecasted transaction will not occur within two months of the originally specified time period, then any derivative gains or losses deferred in accumulated other comprehensive income (AOCI) prior to the change in likelihood should remain in AOCI until the forecasted transaction either impacts earnings or becomes probable of not occurring.

- If an entity determines that it is probable that the forecasted transaction will not occur by the end of the originally specified time period or within a two-month period thereafter, then the entity must immediately reclassify to earnings ("recycle") any amounts previously recognized in AOCI.




## E. Leases

Lessees may be entitled to rent concessions on account of the Israel-Hamas War. A concession may take the form of free or reduced rent for a period, the deferral of rent, or some other type of relief.

Under ASC 842, *Leases*, the accounting for a concession depends on whether the lessee has an enforceable right to the concession. A lease contract may provide a lessee with an enforceable right to a concession, such as a "force majeure" clause, or the laws in the jurisdiction governing the lease may create an enforceable right when a concession is legally required. Whether or not an enforceable right to a concession exists related to the Israel-Hamas War is ultimately a legal determination.

If the concession is based on an enforceable right and no other terms of the lease have changed, then the concession is generally not accounted for as a lease modification. If the concession is not based on an enforceable right, or if other changes are made to the terms of the lease, then the concession is generally accounted for as a lease modification.

See our comprehensive guide on lease accounting, *Leases: Navigating the guidance in ASC 842*, for further information about accounting for leases under ASC 842.

## F. Loan restructurings

### Creditor accounting for loan restructurings

The economic impact of the Israel-Hamas War may result in creditors and borrowers amending loan agreements. The accounting for loan restructurings differs for creditors and borrowers. While both creditors and borrowers must evaluate whether a restructuring should be accounted for as a new loan or a continuation of the existing loan, the borrower must first evaluate whether the restructuring is a troubled debt restructuring; however, following the issuance of ASU 2022-02, *Troubled Debt Restructurings and Vintage Disclosures,* creditors are no longer required to determine whether modified loans are troubled debt restructurings.

#### *Determining whether a restructuring is a modification or an extinguishment of the original loan*

For entities that have adopted CECL, the amendments in ASU 2022-02 eliminated the requirement for creditors to follow the troubled debt restructuring guidance to evaluate the accounting treatment for restructured loans. Instead, creditors must now follow the new guidance under ASC 310-20-35-9 through 35-11 to determine whether a restructuring results in a new loan or a continuation of an existing loan.

Under this new guidance, a creditor must first review the terms of the new loan and determine if they are at least as favorable to the creditor as the terms of the creditor's loans to other customers who are not restructuring loans with a similar collection risk. The creditor would typically make this determination by comparing the effective yield of the restructured loan to the effective yield of the creditor's loans to other customers. If the terms of the restructured loan are at least as favorable to the creditor as the terms for the creditor's loans to other customers with similar risk profiles, and if the loan modifications are more than "minor" as defined by ASC 310-20-35-11, the creditor would account for the restructured loan as a new loan. If a restructured loan is considered a new loan, any unamortized net fees or costs, as well as any prepayment penalties from the original loan, should be recognized in interest income when the new loan is granted.

For restructured loans with terms below market or with only "minor" modifications made to the original loan terms, the creditor would account for these loans as a continuation of an existing loan. Accordingly, the unamortized net fees or costs from the original loan and any prepayment penalties should be carried forward as part of the net investment in the new loan. The net investment in the restructured loan consists of the remaining net investment in the original loan, any additional amounts loaned under the restructuring, any fees received, and direct loan origination costs associated with the refinancing or restructuring.

That being said, it is unlikely that loan restructurings that would have been considered troubled debt restructurings prior to the adoption of the amendments in ASU 2022-02 would result in the recognition of a new loan under the guidance in ASC 310-20-35-9 through 35-11 because, to be a new loan, the terms of the restructured loan must be at least as favorable to the creditor as the terms for comparable loans made to other customers with similar collection risks who are not restructuring a loan. In other words, a restructuring that contains a concession when compared to market terms does not constitute a new loan.

### *Disclosures for loans to borrowers experiencing financial difficulty*

The amendments in ASU 2022-02 also enhance existing disclosures and introduce new disclosure requirements for loan restructurings when borrowers are experiencing financial difficulty. For a description of the additional required disclosures related to troubled debt restructurings (TDRs), see Snapshot 2022-09, "FASB eliminates TDR accounting for lenders while enhancing disclosures."

#### Evaluating financial difficulty

The criteria previously listed in ASC 310-40-15-20 was removed from U.S. GAAP by the amendments in ASU 2022-02. However, these criteria, outlined below, may continue to be relevant when forming a conclusion as to whether or not a borrower is experiencing financial difficulty at the time of a loan restructuring:

- The debtor is currently in payment default on any of its debt, or it is probable that the debtor will be in default in the foreseeable future without the loan restructuring.
- The debtor has declared or is in the process of declaring bankruptcy.
- There is substantial doubt about the debtor's ability to continue as a going concern.
- The debtor's securities have been, or are under threat of being, delisted.
- Based on the debtor's current capabilities, it will be unable to service all of its contractual debt payments.
- Without the loan restructuring, the debtor could not obtain other financing on terms equal to those available to non-troubled debtors.

### *Interest income recognition*

During the April 8, 2020 FASB meeting, the FASB staff provided feedback on a technical inquiry regarding the recognition of interest income on a restructured loan that provided a "loan payment holiday" by increasing the term of the loan by six months. In the fact pattern discussed by the FASB staff, the restructured loan did not accrue interest during the payment holiday and could be prepaid by the borrower by paying the unpaid principal balance plus accrued interest. The restructured loan was not considered a TDR and was accounted for as a continuation of the original loan, not as a new loan, in accordance with the guidance in ASC 310-20.

The FASB staff said they believe that a creditor may elect to either (a) recognize interest income in accordance with the contractual terms by suspending the recognition of interest income during the payment holiday period and resuming interest recognition when the payment holiday ends, or (b) determine a new effective interest rate that equates the revised contractual cash flows with the net carrying amount of the loan at the restructuring date in accordance with ASC 310-20-35-9 through 35-12. If an entity elects to apply the second approach and recognize interest during the payment holiday, the entity must still consider whether it has concerns about the realization of loan principal or interest. If such concerns exist, the entity should consider whether the recognition of interest income approach is appropriate.

### Borrower accounting for loan restructurings

Entities significantly impacted by the Israel-Hamas War may request accommodations from their lenders, including temporary payment deferrals, modifications to or waivers of violations of debt covenants, or changes to other terms of their debt agreements. Such accommodations are debt modifications and should be carefully evaluated to determine the appropriate accounting treatment.

When evaluating the accounting for modifying a liability, an entity should first consider whether the modification is a TDR. ASC 470-60, *Debt: Troubled Debt Restructurings by Debtors*, specifies that a restructuring is a TDR if two conditions are met:

- The borrower is experiencing financial difficulty.
- The lender grants a concession.

A lender “grants a concession” if the borrower’s effective interest rate on the restructured debt is less than the effective interest rate of the debt immediately before the restructuring. If the restructuring results in a TDR, the borrower should perform the following steps:

- Determine the contractual cash flows of the restructured debt.
- If the total cash flows on the restructured debt are less than the carrying amount of the debt, reduce the carrying amount of the debt to the total contractual cash flows and recognize the reduction in the debt’s carrying amount as a gain.
- If the total cash flows on the restructured debt are greater than the carrying amount of the debt, determine a new effective interest rate that equates the total contractual cash flows to the carrying amount of the debt.

If the restructuring is not a TDR, then entities should consider the modification and extinguishment guidance in ASC 470-50, *Modifications and Extinguishments*. Generally, a liability associated with term debt is considered extinguished if the present value of the cash flows on the restructured debt differs by 10 percent or more from the present value of the cash flows on the original debt, with each set of cash flows discounted using the effective borrowing rate associated with the original debt. If the restructuring does not result in an extinguishment of the original debt, then the entity should determine a new effective borrowing rate on the restructured debt and apply that new rate prospectively.

## G. Unusual items

Entities whose operations are directly affected by the Israel-Hamas War should consider whether these events require application of the guidance in ASC 220-20, *Income Statement – Unusual or Infrequently Occurring Items*. If material events or transactions are marked by an “unusual nature” or an “infrequency of occurrence,” as defined, ASC 220-20 requires entities to either report their impact as a separate component of income from continuing operations or to disclose them in the notes to the financial statements.

**Unusual nature:** The underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates (see paragraph 220-20-60-1).

**Infrequency of Occurrence:** The underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates (see paragraph 220-20-60-1).

Determining whether the war and related events, such as the imposition of economic sanctions, satisfy the criteria in ASC 220-20 may require significant judgment. If a reporting entity determines that an event meets either the "unusual nature" or the "infrequency of occurrence" definition, then the financial effects of the event should either be a separate component of income from continuing operations presented in the statement of comprehensive income or be disclosed in the notes to the financial statements. However, such amounts should not be presented net of tax, nor should an entity present the earnings-per-share effects of those items on the face of the statement of comprehensive income.

## H. Exit or disposal activities

Entities may sell or dispose of various assets or a subsidiary in response to the Israel-Hamas War, or they may restructure the entity. The guidance in ASC 420, *Exit or Disposal Cost Obligations*, should be followed in these circumstances.

Events that may constitute an exit or disposal activity under ASC 420 include

- One-time termination benefits to current employees that are involuntarily terminated under the terms of a benefit arrangement that is not an ongoing benefit arrangement (or plan) or an individual deferred compensation plan
- Costs to consolidate facilities or relocate employees
- Costs associated with a disposal activity
- Costs associated with an exit activity, including exit activities related to a newly acquired business combination or an acquisition by a not-for-profit entity

A liability for the costs associated with these exit or disposal activities should be recognized at fair value in the period the liability is incurred. ASC 420 specifies that the costs and liability associated with one-time termination benefits should be recognized either on the "communication date" or, if future services are required before termination, over the service period. When closing a facility or relocating employees, however, a liability is not recorded until costs are incurred.

For entities that have adopted the new leasing guidance in ASC 842, the guidance in ASC 420 excludes costs to terminate a contract that is a lease. Instead, when an entity ceases to use a leased asset that is accounted for under ASC 842, the entity should follow the impairment guidance for right-of-use assets under ASC 360.

## I. Insurance recoveries

Entities may be entitled to reimbursement for losses under various types of insurance policies as a result of the Israel-Hamas War. Generally, probable insurance recoveries are recognized in advance of their receipt only to the extent of the losses previously recognized, while business interruption insurance on lost revenue is generally not recognized until received.

Refer to our publication, "Accounting considerations for insurance recoveries," for further discussion.

## J. Revenue recognition

The following is a high-level discussion of various considerations that could impact revenue recognition due to the Israel-Hamas War. See our comprehensive guide on revenue recognition, *Revenue from Contracts with Customers: Navigating the guidance in ASC 606 and ASC 340-40*, for further information.

## Variable consideration

The Israel-Hamas War may impact estimates of variable consideration in contracts with customers. Under ASC 606, *Revenue from Contracts with Customers*, entities with customer contracts that include variable consideration (for example, rebates, discounts, or price concessions) are required to estimate the amount of consideration to which they will be entitled in exchange for transferring promised goods or services. Entities should include variable consideration in the contract transaction price only to the extent that it is probable that a significant reversal of cumulative revenue recognized will not occur when any related uncertainties are resolved. Variable consideration that is not included in the transaction price at contract inception (known as “constrained” revenue) is subsequently included when either (a) it becomes probable that a significant reversal will not occur, or (b) the uncertainty related to the variable consideration is resolved.

Entities that enter into contracts with variable consideration must update their estimates of variable consideration over the life of the contract based on facts and circumstances that are known or knowable at each reporting date. As a result, an entity may need to consider the impact of the Israel-Hamas War on its estimate of variable consideration.

## Modifications

Economic uncertainties that have resulted from the Israel-Hamas War may lead many vendors and customers to modify existing contracts. When there is a change in the scope, price, or both in a contract and the change is enforceable, a contract modification exists, and modification accounting under ASC 606 should be applied.

## Collectibility

The economic volatility stemming from the Israel-Hamas War may impact an entity’s ability to collect amounts resulting from contracts with customers. Entities may need to consider changes in collectibility with regard to existing account receivable balances.

In addition to evaluating credit losses, entities also need to reassess whether, due to changes in collectibility, a contract continues to exist for accounting purposes for the remaining goods or services to be provided under the contract. The probability of collection is Step 1 of the five-step process for determining whether a contract exists for accounting purposes in ASC 606. Once a contract meets the Step 1 criteria, an entity is precluded from reassessing whether it continues to pass Step 1, unless there is an indication of significant changes in facts and circumstances. When those significant changes occur, an entity should reassess collectibility in the context of future consideration for the remaining goods or services under the contract. If it is no longer probable that the entity will collect substantially all of this future consideration, ASC 606 generally requires the entity to stop recognizing further revenue and provides guidance on how to continue to assess Step 1 until either the criteria in Step 1 are subsequently met or the contract is terminated.

## Estimates in new contracts

In addition to reassessing ASC 606 estimates related to existing contracts, entities should similarly consider the impact of the Israel-Hamas War on estimates involved with accounting for new contracts with customers that are being executed during this time of uncertainty and volatility. An entity’s historical judgments and estimates may be impacted, including collectibility, stand-alone selling prices, potential price concessions, contract assets, and product returns, among other things. In the current business environment, the probability of collection of substantially all of the consideration might be less straightforward. A contract would not exist under Step 1 if collectibility is not probable.

## Costs to obtain and fulfill a contract

Costs to obtain and fulfill contracts are capitalized under the guidance in ASC 340-40, *Other Assets and Deferred Costs: Contracts with Customers*. Under that guidance, an entity should recognize an impairment loss in earnings if the consideration that the entity either expects to receive in the future or has received but has not yet recognized as revenue, minus the costs directly related to providing goods or services that have not yet been expensed, is less than the carrying amount of the capitalized costs. Entities should consider whether changes in estimates of either the amount of consideration the entity expects to receive or the costs directly related to providing the goods or services as a result of the Israel-Hamas War indicate that the carrying amount of costs to obtain and fulfill contracts is impaired.

However, prior to assessing whether capitalized costs to obtain and fulfill contracts are impaired, an entity should first perform an impairment assessment on assets related to the contract that are outside the scope of ASC 340 (for example, inventory accounted for under ASC 330). Next, an entity should apply the impairment guidance to assets related to the contract that are recognized in accordance with ASC 340.

Capitalized costs to obtain and fulfill contracts may also be considered for impairment under other accounting guidance. After applying the impairment guidance in ASC 340-40, an entity includes the resulting carrying amount of the asset in the carrying amount of the asset group or reporting unit to which that asset belongs for purposes of applying the impairment guidance in ASC 360 for long-lived assets or in ASC 350 for goodwill.

Finally, for any remaining amount of capitalized costs to obtain and fulfill a contract, an entity should consider whether the manner of amortization should be updated.

### Contract assets

Contract assets arising in situations where an entity has met the criteria to recognize revenue under ASC 606, but the entity's right to consideration is conditioned on something other than the passage of time, are subject to the guidance on credit losses in either ASC 310 or ASC 326, as applicable.

#### *Disclosures*

ASC 606 requires disclosures about changes in judgments and about other matters, such as the impairment of contract assets. Therefore, the impact of the Israel-Hamas War may trigger the need for incremental disclosures, including the methods, inputs, and assumptions used for estimating variable consideration and constrained amounts; the timing of satisfying performance obligations; and other aspects of revenue recognition.

## K. Disclosures

Entities affected by the Israel-Hamas War need to consider the implications on the disclosures included in their financial statements. The degree of disclosure required in an affected entity's financial reporting depends on the nature, duration, and extent of the impact of the Israel-Hamas War on the entity. Entities need to continue monitoring developments related to the war and to evaluate the appropriateness of their disclosures in light of changes caused by the war.

### Contingent losses

The guidance on contingencies in ASC 450-20-25-2, *Contingencies: Loss Contingencies*, requires an entity to recognize a contingent loss if (a) it is probable that the liability has been incurred as of the balance-sheet date, and (b) the amount of the loss is reasonably estimable (as either a point estimate or a range of loss). Additionally, ASC 450-20-50-2 requires entities to disclose contingent losses that are at least reasonably possible, even if the amount of the loss is not reasonably estimable.

Entities need to consider whether events related to the Israel-Hamas War indicate that it is reasonably possible they have incurred a contingent loss and to make disclosures as appropriate.

### Going concern

The guidance in ASC 205-40, *Presentation and Disclosure: Going Concern*, requires entities to evaluate their ability to continue as a going concern within one year after the financial statements are either issued or made available to be issued. An entity that concludes that there is substantial doubt about its ability to continue as a going concern or that its plans alleviate that doubt must provide disclosures to that effect.

An entity may need to re-evaluate its analysis of its ability to continue as a going concern for one year after the date of the financial statements (including consideration of management's plans to alleviate any substantial doubt, if any) as a result of the Israel-Hamas War.

## Risks and uncertainties

Under ASC 275, *Risks and Uncertainties*, entities are required to make qualitative disclosures about risks and uncertainties that could significantly impact the amounts reported in the financial statements in the near term (that is, within one year from the date of the financial statements). Entities may need to evaluate whether it is necessary to include specific disclosures related to risks and uncertainties introduced by the Israel-Hamas War, including disclosures for significant accounting estimates and vulnerabilities due to concentrations in vendors or customers.

## MD&A and Risk Factors

In addition to disclosures in their financial statements, entities may need to provide additional disclosures about the impact of the Israel-Hamas War in their SEC filings under Regulation S-X in both Management's Discussion and Analysis (MD&A) and Risk Factors.

### *MD&A*

Entities need to provide a clear and understandable discussion of known trends or uncertainties that either have or are expected to have a material impact on revenue, income, operations, financial condition, or liquidity in MD&A.

### *Risk Factors*

Entities also need to disclose significant risks that could impact their results and the securities they have issued. Entities should consider whether it is necessary to include specific risk factors related to the Israel-Hamas War and their possible impact on their business.

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## Contacts

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