

November 2023

Follow [@Paul_Hastings](#)



Public Company Update¹

Things to Keep in Mind for the 2024 10-K Season

By [Sean Donahue](#) & [Spencer Young](#)

As we head into year-end, annual reporting season is just around the corner. Over the past twelve months, the U.S. Securities and Exchange Commission (the “SEC”) has been active on the rulemaking front, resulting in numerous new disclosure obligations for issuers during the 2024 annual reporting season. Public companies should be aware of the new disclosures required and should build time into their reporting calendars to prepare, review and tag the disclosures.

Applicable Deadlines

The below Form 10-K filing deadlines are applicable for calendar year-end companies:

Filer Status	Due Date
Large Accelerated Filer	Thursday, February 29, 2024
Accelerated Filer	Friday, March 15, 2024
Non-Accelerated Filer	Monday, April 1, 2024

New Disclosures

The new disclosure obligations implicated in 2024 Form 10-K season are as follows:

Topic	Relevant Rule	Form 10-K Section Impacted
Cybersecurity and Risk Governance	Item 106 of Regulation S-K	Part I, Item 1C
Insider Trading	Item 408(a) of Regulation S-K	Part II, Item 9B
Compensation Clawbacks	Item 402(w) of Regulation S-K Item 601(b)(97) of Regulation S-K Nasdaq Rule 5608 NYSE Listed Company Manual Section 303A.14	Cover Page Part IV, Item 15 – New Exhibit 97

¹ This Public Company Update was last updated on December 20, 2023 to take into account the Fifth Circuit vacating the share repurchase rules on December 19, 2023.

Cybersecurity and Risk Governance

The new rules enhancing and standardizing disclosure regarding cybersecurity risk management, strategy, governance and incident-reporting, include new Item 106 of Regulation S-K. All Form 10-Ks for fiscal years ending on or after December 15, 2023 will be required to provide Item 106 disclosures in response to Part I Item 1C. Cybersecurity.

Pursuant to Item 106, issuers will need to provide disclosure regarding their (1) risk management and strategy related to cybersecurity risk and (2) governance related to cybersecurity risk-oversight.

Governance

Issuers must provide (1) a description of their board of director's role in the oversight of risk stemming from cybersecurity threats, including whether the responsibility has been delegated to a committee or sub-committee, and (2) a description of management's role and expertise in handling material cybersecurity risks. Item 106(c)(2) includes a non-exhaustive list of items issuers should include in their disclosures regarding management's role, namely a description of (1) management's reporting procedures to the board or committee, (2) the overall risk identification, monitoring, mitigation and remediation process and (3) the positions or committees within management responsible for managing cybersecurity threats and the relevant individuals' applicable experience.

Risk Management and Strategy

Issuers must disclose their processes for identifying, assessing and managing material risks from cybersecurity threats, including how their process is integrated into the issuer's overall risk management system, whether any third-parties are utilized and, if so, what processes are in place to oversee cybersecurity risk stemming from the use of a third-party provider.

Furthermore, issuers must describe the material affects or reasonably likely material affects prior cybersecurity incidents have had on the issuer, including its financial condition, business strategy and results of operations.

Structured Data Requirement

Item 106 disclosure must be tagged in Inline XBRL; however, issuers need not comply with this requirement until their Form 10-Ks for fiscal years ending on or after December 15, 2024 (i.e., next year's Form 10-K).

Insider Trading

Quarterly Director / Officer Disclosure

By now, most calendar year-end issuers should be accustomed to including new Item 408(a) of Regulation S-K disclosure in their Form 10-Qs, regarding whether any of their officers or directors have adopted, terminated or modified any trading arrangements intending to qualify for the affirmative defense conditions of Rule 10b5-1(c) (i.e., Rule 10b5-1 plans) or "non-Rule 10b5-1 trading arrangements" (as defined by new Item 408(c)) of Regulation S-K during the last quarter. Disclosure pursuant to Item 408(a) is required in an issuer's Form 10-K regarding adoptions, modifications and terminations made during the fourth quarter. This will be the first filing smaller reporting companies are required to include the disclosure because the delayed compliance period has now passed.

As a reminder, modified plans are treated as the termination of the existing plan and adoption of a new plan. If any officers or directors adopted, terminated or modified any such trading arrangements, then the issuer's Form 10-K must include disclosure (other than pricing information) regarding the material terms of the trading arrangement. Even if there were no trading arrangements triggering Form 10-K disclosure obligations during the quarter, we recommend issuers include language indicating as such in their Form 10-K filings as a best practice.

Next Year

Item 408(b) of Regulation S-K requires issuers to disclose whether they have adopted insider trading policies and procedures and to file their insider trading policy as new Exhibit 19. If the issuer has not adopted insider trading policies and procedures, it must provide disclosure explaining why it has not. This disclosure will not be required until next year's Form 10-K.

Structured Data Requirement

Item 408(a) disclosure must be tagged in Inline XBRL.

Compensation Clawbacks

Checkbox Disclosure

Issuers must include and respond to the two checkbox disclosures added to Form 10-K as part of the clawback rules. The first asks whether the Form 10-K contains financial statements reflecting a correction of an error to previously issued financial statements and the second asks whether any of the corrections are restatements requiring a recovery analysis of incentive-based compensation pursuant to the clawback rules.

Exhibit

Issuers must file as new Exhibit 97 their policy relating to recovery of erroneously awarded compensation that is compliant with the relevant NYSE / Nasdaq listing standards, as applicable.

Narrative

Item 402(w) of Regulation S-K requires narrative disclosure related to actions taken pursuant to an issuer's clawback policy if a recovery of compensation is triggered as a result of a restatement. This disclosure is required to be included in issuers' Form 10-K or incorporated by reference therein via a timely filed definitive proxy statement.

Generally, issuers will need to describe how they applied their policy, amounts of erroneously awarded compensation, any estimates utilized in the recovery analysis, outstanding amounts to be recovered, and any impracticability determinations. Notably, Item 402(w) disclosures will not be deemed incorporated by reference into Securities Act of 1933 filings unless expressly incorporated at the issuer's discretion. In addition, a new instruction has been added to the Summary Compensation Table regarding disclosure of any amount of erroneously paid compensation recovered.

Structured Data Requirement

Item 402(w) disclosure must be tagged in Inline XBRL.

Trending Disclosure Considerations

As part of their year-end review, issuers should be considering whether any updates to their risk factor disclosure, forward-looking statement disclaimer or other forward-looking disclosure, MD&A, or business section are needed.

For the fiscal year ending December 31, 2023, issuers should keep in mind the following pertinent matters, and flow any necessary changes in disclosure throughout their Form 10-K:

- Current geopolitical conditions, including the Israel-Hamas War, the ongoing Russia-Ukraine War and conflict between China and Taiwan;
- Effects of sustained high interest rates and inflation on the financial and capital markets and related implications on the issuer's ability to borrow funds or refinance existing indebtedness;
- Choppiness in the capital markets and potential impacts on the issuer's ability to raise funds in the public or private markets;
- Downgrading of the United States' credit rating, and the issuer's preparedness to manage the related political risk;
- Risks related to the upcoming U.S. presidential election;
- Lingering impacts of the turmoil in the banking and financial services sector;
- Continued evolution and use of machine learning and generative AI, including risks arising from insufficient human oversight of AI or a lack of controls and procedures monitoring the use of AI in day-to-day operations as well as from potential future competitive disadvantages related to a lack of investment in AI tools;
- Effects stemming from long-term reliance on hybrid work arrangements, including impacts on productivity and profitability, as well as on operating expenses and overhead costs and / or risks related to return to office programs, including their impact on workforce retention and issues stemming from non-compliance;
- Climate-related or natural disaster-related events like increases in the cost of insurance coverage for entities with operations in high fire, hurricane or flood risk areas;
- ESG-related matters, including the pending SEC rules on climate-related disclosures and the new International Financial Reporting Standards sustainability and climate-related disclosure standards;
- Effects of any potential federal government shutdown (if applicable); and
- Impacts on the issuer's supply or distribution chains related to the above factors or otherwise.

Issuers should also consider industry-specific and geography-specific developments, for example:

- Issuers in the entertainment and media space should consider the impacts related to the recently resolved SAG-AFTRA and WGA strikes;
- Issuers in the transportation industry should consider the financial and other impacts stemming from the United Auto Workers strike and related salary increases;
- Issuers in the residential real estate space should consider the impacts of the challenging housing market;
- Issuers that do business in California should consider the potential effects of recently adopted Senate Bill 253, the Climate Corporate Data Accountability Act and Senate Bill 261, Greenhouse Gases: Climate-Related Financial Risk and the issuer's ability to prepare the required disclosures; and
- Issuers in the banking industry should review their liquidity disclosures in their MD&A and their interest rate risk and sensitivity disclosures in their Quantitative and Qualitative Disclosures About Market Risk in light of the Division of Corporation Finance's focus on these disclosures coming out of the bank failures earlier this year.

Other Things to Keep in Mind

SEC Sample Comment Letter on XBRL Disclosures

In September 2023, the SEC’s Division of Corporation Finance issued a sample comment letter regarding issuers’ XBRL disclosures, which includes comments focused on Item 405 of Regulation S-T, the 10-K/10-Q cover page, pay v. performance disclosure and financial statements. The comment letter is not a complete list of the XBRL-related comments an issuer might anticipate, but highlights the importance of compliance with the technical aspects of the SEC rules and the SEC’s willingness to issue comment letters if disclosure is not properly tagged.

In their Form 10-Ks, issuers should rethink whether making period over period changes to the XBRL element used to tag a particular item are necessary as that could trigger an SEC comment. Any custom tags utilized in favor of the XBRL element consistent with US GAAP should be justifiable. Furthermore, issuers should be sure to consistently present the number of shares of common stock outstanding between its cover page and its balance sheet (i.e., presenting a whole amount in one place and the same amount in thousands in the second should be avoided). Since many of the new disclosures include structured data requirements, issuers should build in ample time into their filing calendars to tag their disclosures.

SEC Sample Comment Letter on China-Specific Disclosures

In July 2023, the SEC’s Division of Corporation Finance issued a sample comment letter regarding China-specific disclosures. In particular, to the extent that an issuer has operations, or works with third-parties who have operations, in the Xinjiang Uyghur Autonomous Region, the issuer should consider whether the Uyghur Forced Labor Prevention Act and its restriction on the importation of goods from the Xinjiang Uyghur Autonomous Region, has had a material impact on its operations, business segments, products or lines of services. If so, the material impacts should be described in the issuer’s MD&A. Also, companies based in China or that have a majority of their operations in China should consider whether any risk factor disclosure may be appropriate regarding any material impacts that “intervention” or “control by” the People’s Republic of China might have on the company or its securities.

SEC C&DIs

Over the past year, the SEC’s Division of Corporation Finance has posted a number of C&DIs related to the newly enacted rules.

Topic	Date	Question	Location
Insider Trading	May 25, 2023	120.26	Exchange Act
		120.27	
		120.28	
	August 25, 2023	120.29	Exchange Act
		120.30	
		120.31	
	August 25, 2023	133A.01 133A.02	Regulation S-K
Clawbacks	January 27, 2023	121H.01	Exchange Act
		121H.02	
		121H.03	
		121H.04	

Recent Form Changes Reminders

Part I, Item 1C. Cybersecurity has been added and requires the disclosure of the matters required by new Item 106 of Regulation S-K.

Part II, Item 6 has been retitled “[Reserved]” (it was formerly Selected Financial Data) and the disclosure under the item should read “Not applicable.”

Part II, Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections should be included, but given the Public Company Accounting Oversight Board’s announcement that it “has secured complete access to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong,” we anticipate all issuers will provide disclosure indicating “Not applicable.”

✧ ✧ ✧

If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings lawyers:

Sean Donahue

Washington, D.C. / New York
1.202.551.1704 / 1.212.318.6764
seandonahue@paulhastings.com

Spencer Young

San Diego
1.858.458.3026
spenceryoung@paulhastings.com