2024 AICPA & CIMA Conference on Current SEC and PCAOB Developments

Highlights

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The 2024 American Institute of CPAs (AICPA) & Chartered Institute of Management Accountants (CIMA) Conference on Current SEC and PCAOB Developments was held Dec. 9 through Dec. 11 at the Washington Hilton in Washington, D.C. Stakeholders from across the financial reporting spectrum provided key insights on how to navigate tomorrow's challenges with confidence, which was this year's conference theme as Wesley Bricker, board member of the AICPA, announced in his opening message. The following covers important messages from the conference from the U.S. Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board (PCAOB), the Financial Accounting Standards Board (FASB), and stakeholders from the audit and accounting profession.

From the SEC

Remarks from SEC Commissioner Mark Uyeda and Chief Accountant Paul Munter

The first session of the conference began with two fireside chats featuring Commissioner Uyeda and Chief Accountant Munter.

Commissioner Uyeda

Uyeda, who will be part of the commission's 3-2 Republican majority after the change in presidential administration, outlined a potential path for future rulemaking, highlighting the importance of practical and implementable regulation, and called for the need to return to an environment that fosters capital formation with a focus on financial materiality. In addressing questions regarding the SEC exercising oversight of standard-setters, Uyeda remarked that there is a need to reduce regulatory frictions to ensure efficient and effective rules. Uyeda also shared perspectives about Paul Atkins being identified as the potential next SEC chair, subject to formal nomination and confirmation, and the need to listen to foreign investor perspectives, among other considerations.

Chief Accountant Munter

Munter's message focused on the responsibilities of those in the accounting profession, highlighting that:

- Accountants are important gatekeepers necessary to protect the integrity of the capital markets and their value proposition depends upon their credibility and trustworthiness
- Independence is foundational to auditor trust and members of audit firms should set a tone of championing auditor independence rather than merely a compliance exercise
- Financial reporting is a communication activity, requiring cooperative efforts of many stakeholders, to provide investors with high-quality financial information to make investment decisions

In his published remarks, Munter also highlighted the importance of stakeholder participation in the standard-setting process (for example, the FASB's upcoming agenda consultation project), attracting and retaining talent in the accounting profession, and other select topics.

SEC Office of the Chief Accountant – current projects panel

During a panel discussion, staff from the SEC's Office of the Chief Accountant (OCA) shared insights on various accounting and auditing matters. The staff also provided an overview of OCA's activities and engagement related to domestic and international standard-setting. The panel featured Gaurav Hiranandani, Anita Doutt, and Nigel James, senior associate chief accountants; Shehzad Niazi, deputy chief counsel; and Jonathan Perdue, professional accounting fellow.

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Accounting matters

The panelists provided observations related to accounting topics and consultations recently considered by OCA, including the classification of financial instruments as liabilities versus equity, the application of derecognition guidance to the sale of a subsidiary, the disposition of a subsidiary reported on a lag, and the scope of recent FASB Accounting Standards Updates (ASUs).

Classification of financial instruments as liabilities versus equity

OCA staff noted that they regularly consider fact patterns related to the classification of financial instruments as liabilities versus equity, including the evaluation of whether an instrument is indexed to an entity's own stock in accordance with Accounting Standards Codification (ASC) 815-40.

As an example of the complexity of these analyses, the staff observed that it is common for warrant agreements to stipulate that upon the occurrence of a fundamental transaction (such as an all-cash acquisition of the registrant), the warrant holder is entitled to settle the warrant at an amount calculated based on a Black-Scholes option pricing model that uses certain prespecified inputs, such as the greater of certain volatility inputs or the greater of certain share price inputs. The staff noted that it is also common for warrant agreements to include a participation feature that provides the warrant holder with the right to participate in dividends to common shareholders based on the number of shares into which the warrant is exercisable, but without regard to the strike price of the warrant.

OCA staff highlighted that significant judgment is often required to evaluate these types of warrant provisions under the indexation guidance in ASC 815-40, and the staff further observed that diversity in practice exists with respect to whether these types of warrants should be classified as liabilities or equity. As a result of this complexity and diversity, OCA staff voiced support for considering this as an area for potential future standard-setting and encouraged stakeholders to engage with the FASB on this, and other matters, during the FASB's next agenda consultation.

Application of derecognition guidance to the sale of a subsidiary

OCA staff discussed a consultation that involved a sale of a subsidiary to a third party, where the subsidiary did not meet the definition of a business in ASC 805. In this fact pattern, the subsidiary included significant assets that are typically sold by the entity in its ordinary activities, along with other significant assets. The question OCA considered was whether the sale of this subsidiary was within the scope of ASC 606, "Revenue From Contracts With Customers," or ASC 810, "Consolidation."

Because the assets and liabilities were held in a legal entity, the staff first considered ASC 810-10-40-3A(c), which states that the derecognition and deconsolidation guidance in ASC 810 applies to a subsidiary that is not a business or a nonprofit activity if the substance of the transaction is not addressed directly by other ASC topics, including, but not limited to, ASC 606.

When determining whether the substance of the transaction was addressed by ASC 606, the staff observed that the assets and liabilities held by the legal entity included multiple items that are not typically accounted for under the scope of ASC 606, such as lease contracts, contract receivables, trade payables, derivative contracts, and other liabilities. While the staff did not find any one of the individual underlying assets or liabilities to be determinative when evaluating the substance of the transaction, the staff considered the total mix of assets and liabilities held by the subsidiary and concluded that the substance of the transaction was not directly addressed by ASC 606. As a result, for this particular fact pattern, the staff did not object to the sale of the subsidiary being accounted for in accordance with ASC 810.

Disposition of a subsidiary reported on a lag

OCA staff highlighted another fact pattern in which a registrant was winding down a subsidiary by selling its assets and liabilities to a third party. The registrant had reported the results of the subsidiary on a three-month lag, as permitted by ASC 810-10-45-12.

The registrant believed it should eliminate the lag reporting by recording 1) the income statement activity for the subsidiary's three-month lag period directly to shareholders' equity and 2) a corresponding adjustment to the subsidiary's assets and liabilities to reflect the carrying value without a lag as of the

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date of the sale. As a result, the net gain or loss over the lag period associated with the sold assets and liabilities would be recorded directly against the registrant's shareholders' equity balance, with the registrant's income statement reflecting only the net gain or loss on the sale based on the adjusted carrying values. Ultimately, the staff objected to the registrant's proposal to record the elimination of the lag directly to shareholders' equity.

Scope of recent FASB ASUs

OCA staff observed that various industry groups have questioned whether certain recent FASB ASUs are applicable to entities that apply industry-specific GAAP. The staff observed that unless 1) an entity is specifically scoped out of an ASU or an existing accounting standard or 2) there is applicable industry-specific guidance that would preclude certain accounting, the broad requirements of the FASB's ASC would apply to an entity.

Auditing matters

With respect to auditing matters, OCA staff discussed observations related to the evaluation of accounting errors, auditor independence, audit firm culture and governance, and fraud risk assessment.

Evaluation of accounting errors

OCA staff highlighted that auditing consultations frequently focus on implications to internal control over financial reporting (ICFR) related to accounting errors in previously issued financial statements. The staff emphasized the importance of remaining objective when performing both a materiality assessment and an ICFR severity assessment. In addition, the staff discussed several reminders, including:

- The existence of a material error is a strong indicator of a material weakness, but the staff believes, in certain facts and circumstances, a material weakness could exist even when there is not a material error.
- The ICFR severity assessment should start with, but not solely be limited to, an assessment of the materiality of the error. In addition, the assessment should also consider other factors, such as risk assessment, monitoring, and entity-level controls.
- The staff referenced Chief Accountant Munter's statement from March 2022, titled "Assessing Materiality: Focusing on the Reasonable Investor When Evaluating Errors," and reminded stakeholders that the objective materiality analysis discussed in that statement would also apply to disclosure errors in the notes to the financial statements.

Auditor independence

Building on Munter's earlier comments, OCA staff continued to discuss the importance of auditor independence. The staff reminded stakeholders that auditor independence is a shared responsibility among the audit firm, the audit committee, and management.

The staff also highlighted the importance of performing a robust and timely independence assessment, as well as establishing controls and procedures to perform reassessments of independence when necessary, such as when an entity under audit is planning an initial public offering.

Audit firm culture and governance

Several of the panelists discussed themes related to firm culture and governance, including the importance of professional integrity and ethical behavior. In this regard, the staff reiterated Munter's May 2024 statement, noting that it will always be important for audit firms to foster a healthy tone at the top.

Expanding on that messaging, OCA staff introduced concepts of "mood in the middle" and "buzz at the bottom," highlighting that academic research indicates immediate supervisors have a significant impact on influencing staff behavior. Accordingly, the staff suggested that audit firms should focus on ensuring their culture and tone at the top are effectively operationalized and mirrored at all levels throughout the firm to reinforce professional skepticism and ethical behavior by all personnel.

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Fraud risk assessment

OCA staff emphasized the critical role of conducting thorough fraud risk assessments by both management and auditors. The staff observed several best practices, including the implementation of whistleblower hotlines to aid in these assessments. Additionally, the staff underscored the significance of comprehensive fraud inquiries, noting that these are most effective when conducted by personnel whose position or level is commensurate with that of the individual being inquired.

Domestic and international standard-setting engagement

Throughout the panel discussion, the staff summarized the nature and extent of OCA's activities to support the commission's oversight of the FASB and PCAOB, as well as the staff's engagement on international accounting and auditing standard-setting, regulation, and sustainability matters.

On the international front, the staff also highlighted recent progress made by the International Accounting Standards Board (IASB) on its standard-setting agenda, including the issuance of IFRS 18, "Presentation and Disclosure in Financial Statements."

Division of Corporation Finance

On day two of the conference, new Division of Corporation Finance (Corp Fin) Chief Accountant Heather Rosenberger was joined by Corp Fin staff members Sarah Lowe, deputy chief accountant; Melissa Rocha, deputy chief accountant; and Cicely LaMothe, deputy director of disclosure operations, to discuss recent Corp Fin developments and disclosure review observations including the implementation of final rules, segment reporting, non-GAAP measures, management's discussion and analysis (MD&A), emerging risks, and other matters.

Recently issued final rules

LaMothe observed Corp Fin's approach to new rulemaking is to seek to understand practice in year one after adoption and then to provide additional guidance in year two. Corp Fin stated the disclosure review program focused on the following in the past year:

Pay versus performance

- **Net income.** Net income is required to be disclosed in the pay versus performance (PVP) table. The staff remarked that this amount should equal the amount in the audited financial statements, which should include amounts attributable to any noncontrolling interest.
- **Company-selected measure.** The PVP table requires disclosure of the company-selected measure, which can be a non-GAAP measure. While the PVP rules provide an exemption from the non-GAAP rules in Regulation G and Item 10(e) of Regulation S-K, PVP disclosure must clearly describe how the company-selected measure is calculated from the registrant's audited financial statements.
- **Compensation actually paid.** Retirement eligibility might impact the compensation actually paid disclosure. If retirement is the sole vesting condition for a share-based payment award, an award would be considered vested in the year the holder becomes retirement eligible. However, if an award has other substantive vesting conditions, the registrant should consider those conditions in determining if an award should be included in compensation actually paid. In essence, the disclosure should follow the legal form of the award. The staff also discussed a best practice to use the terminology and steps defined in the final rule when computing and disclosing matters related to compensation actually paid.
- **XBRL.** PVP disclosures are required to be XBRL tagged.

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Erroneously awarded incentive-based compensation

- **Checkboxes.** Corp Fin addressed various issues relating to the erroneously awarded incentive-based compensation related checkboxes on the front of Form 10-K:
  - The first checkbox:
    - Should be checked when the prior period financial statements in the filing include the correction of an error as that term is defined in ASC 250 (for example, a "Big R," "little r," or voluntary correction of an error). Out of period adjustments recorded in the current period, retrospective adoption of new accounting standards, or reclassifications to conform to the current period presentation do not require the first checkbox to be checked.
    - Is important to signal to stakeholders that a restatement has occurred. If a restatement is reported in a filing other than Form 10-K, the registrant should mark the first checkbox in the next Form 10-K that includes the restated financial statements.
  - Notwithstanding a simple analysis, the second checkbox is marked when a clawback analysis is required due to a "Big R" or "little r" restatement:
    - Even if no incentive compensation was received by the executive officers.
    - When incentive compensation is received by executive officers during the relevant period, even if the incentive compensation is not impacted by the error being restated.
  - Outside of the checkboxes, the rules also require disclosure explaining the recovery analysis conclusion, which should expand beyond simply stating that no recovery was required.
  - Error corrections in Form 10-Q might not affect the checkboxes. For example, if an error that impacts any quarter of the current year was corrected via a Form 10-Q/A before the filing of the next Form 10-K, the registrant would not need to check either checkbox in the next Form 10-K. However, the recovery analysis disclosures required in Item 402(w) of Regulation S-K might still be required in the 10-K filing.
- **XBRL.** Certain disclosures in this final rule are required to be XBRL tagged.

Special purpose acquisition companies (SPACs)

- The staff highlighted that the final SPAC rule largely aligns the financial statement requirements in a de-SPAC transaction to those in a traditional IPO transaction. Specific observations included:
  - Target businesses need not look to the SPAC eligibility as an emerging growth company (EGC) to determine their own EGC eligibility in the de-SPAC registration statement.
  - Certain de-SPAC structures will require audited financial statements of an entity formed to merge with the SPAC and the target business.
  - The registrant should report the net tangible book value per share as adjusted for the transaction and the difference to the offering price.

Segment reporting

Public companies will adopt ASU 2023-07 in upcoming calendar year-end Form 10-K filings, and Corp Fin provided detailed remarks on their expectations for new segment disclosures. We previously communicated SEC staff views on presentation of multiple measures of segment profit or loss and single reportable segment entities, among other reminders, in our Take Into Account article on the new segment reporting requirements. The following provides incremental staff views not previously communicated:

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- The staff provided an example to illustrate what might constitute a GAAP vs. non-GAAP measure for an additional measure of segment profit or loss. For example, if the additional measure of segment profit or loss is presented as gross profit and consistent with the measurement principles in the consolidated financial statements, such presentation would be a GAAP measure and therefore not subject to the non-GAAP rules and regulations. If, however, the gross profit measure excludes an amount (for example, depreciation expense) that is otherwise required by GAAP, the gross profit measure would be considered non-GAAP and subject to non-GAAP rules and regulations (for example, Regulation G and Item 10(e) of Regulation S-K).
- Corp Fin outlined the differences between the scope of ICFR and disclosure controls and procedures (DCP). The staff stated any *required* disclosure under ASC Topic 280 is subject to ICFR and DCP considerations. Disclosures not required under ASC 280 (for example, non-GAAP disclosures if a registrant elects to present an additional non-GAAP segment measure of profit or loss either in the financial statement footnotes or outside of the financial statements) would be subject to DCP.
- Disclosures required by ASC 280 must be audited; however, if a registrant elects to present an additional non-GAAP segment measure of profit or loss along with SEC required non-GAAP disclosures to satisfy Regulation G and Item 10(e) of Regulation S-K in the financial statement footnotes, the non-GAAP disclosures are not required to be audited and can be labeled unaudited.
- Corp Fin also discussed whether the removal of an additional measure of profit of loss from the segment footnote would represent the correction of an error under ASC 250. The staff indicated that removing the measure because it did not comply with ASC 280 (for example, because the chief operating decision-maker does not use the measure to assess performance or allocate resources) would likely represent an error correction. However, removal of an additional measure of segment profit or loss because it did not comply with non-GAAP rules and regulations would not constitute an error correction.
- The staff shared that registrants should assess if significant segment expenses disclosed under ASU 2023-07 are significant to understanding the registrant's business. The staff observed that this analysis would inform whether a registrant should discuss those expenses in MD&A.

MD&A

Corp Fin noted that MD&A under Item 303 of Regulation S-K continues to be a leading area of staff comment and shared the following:

- MD&A requires quantitative and qualitative disclosure, which extends beyond merely stating that a financial statement line item changed by an amount period-over-period. The staff remarked that a best practice is to describe the *why* behind such changes.
- Registrants should consider enhanced liquidity and capital resource disclosures when the entity has experienced negative operating cash flows or prolonged significant declines in liquidity. For example, when a registrant concludes there is substantial doubt about the entity's ability to continue as a going concern (that is, a material deficiency in liquidity), Item 303 of Regulation S-K requires disclosure of a course of action to be taken to remedy the deficiency.
- Certain tax matters (for example, Pillar 2) might require careful disclosure consideration in MD&A. For example, disclosure indicating that tax law changes "may" have a material impact should evolve over time to more precisely quantify the impact the change in tax has had, or is reasonably likely to have, on the entity's results of operations or financial condition. The quantification might include a range of reasonably likely outcomes.

Non-GAAP

Corp Fin observed that non-GAAP continues to be a leading comment letter topic and noted the following:

- **Prominence.** Non-GAAP prominence rules extend to any related discussion and analysis of the non-GAAP measure (for example, ratios, tables, or charts, among others).

- **Labeling.** It is important for non-GAAP disclosures to provide investors with clear, transparent information to understand the nature of the measures presented and why adjustments are included in the reconciliation to the corresponding GAAP measure, particularly when a line item labeled “other adjustments” includes multiple items.
- **Normal recurring operating expenses.** Measures that exclude recurring items from a performance measure (for example, a performance measure that excludes rent expense when leased assets are integral to a company’s operations) are likely to elicit staff comment. See SEC non-GAAP C&DI Question 100.01.
- **Tailored accounting principles.** The staff provided examples of measures that might reflect tailored accounting principles and not be acceptable (for example, an adjustment to change the accounting for a lease from a sales type to operating lease, removal of accelerated depreciation measures from EBITDA, and reversing the effects of purchase accounting in results of operations after an acquisition). See SEC non-GAAP C&DI Question 100.04.
- **Debt covenants.** Non-GAAP measures included in debt covenants might be required to be disclosed under the liquidity and capital resource requirements of MD&A (see SEC non-GAAP C&DI Question 102.09) and are therefore excluded from non-GAAP rules and regulations. However, if the debt covenant measure is presented as a performance measure rather than a liquidity measure, the staff would likely object to the presentation as a performance measure if the debt covenant measure excludes items that create a misleading measure (for example, altering the entity’s pattern of revenue recognition).

Emerging risks

The staff encouraged registrants to consider how emerging risks might impact their year-end disclosure documents (for example, in the business section, risk factors, and MD&A). The staff enumerated some of the emerging risks they have been monitoring for disclosures including artificial intelligence (AI), commercial real estate and banking considerations, supply chain disruptions, and China-based issuer risks. The staff observed that registrants should tailor MD&A and risk factor disclosures to their own unique facts and circumstances for material risks and avoid using boilerplate language. On the topic of AI, the staff provided examples of how a disclosure might be tailored to avoid boilerplate disclosure language including the discussion of the following when applicable and material:

- Operational and market dynamics
- Cybersecurity and data privacy
- Intellectual property issues
- Costs and burden of complying with federal and state AI regulations
- Consumer protection concerns
- Labor market effects

To the extent that AI is deemed material, the staff observed that a registrant should consider specific disclosure about AI risk management and corporate governance policies.

Other matters

Corp Fin rounded out their comments with best practices for waiver requests under Rule 3-13 of Regulation S-X and certain foreign private issuer observations, among other matters.

Cybersecurity final rules

In a separate panel, Sebastian Gomez Abero, Corp Fin associate director, Disclosure Review Program, led a panel to discuss perspectives relating to the SEC’s cybersecurity reporting requirements. The panel:

- Observed that the most valuable risk management, strategy, and governance disclosures in Form 10-K focused on the entity’s process.

- Reminded attendees that the four-day disclosure requirement under Item 1.05 of Form 8-K is triggered once the issuer determines that a cyber event is material, rather than four days after the incident occurs. In addition, when assessing materiality, the evaluation should consider both quantitative and qualitative perspectives.
- Identified best practices, including the importance of establishing a cybersecurity incident assessment policy, having an individual with cybersecurity expertise (for example, a registrant's chief information security officer) on the registrant's disclosure committee, and maintaining effective disclosure controls and procedures.
- Discussed the potential need to update risk factors after an incident occurs. For example, if an entity previous disclosed that a material cyber event might occur, the entity might need to revise the disclosure to state that an incident had occurred.
- Conveyed the importance of effective governance and oversight relating to cyber, including the need to ensure potential weaknesses are identified and communicated to the appropriate personnel.
- Reminded attendees that Form 10-K and 8-K disclosures must be XBRL tagged.

Division of Enforcement

Chief Accountant Ryan Wolfe led a discussion relating to SEC enforcement matters. The panel spoke about recent enforcement actions involving registrants and auditors and holding individuals accountable when they do not act in good faith. The panel discussed best practices during enforcement proceedings, including the importance of transparency and process. The panel also emphasized the importance of ensuring a registrant's external communications are complete, accurate, and consistent with internal communications.

From the FASB

The FASB panel, featuring Chair Rich Jones, Technical Director Jack Day, and Assistant Technical Director Nellie Debbeler, emphasized the FASB's ongoing commitment to stakeholder engagement in shaping the future of its standard-setting agenda. Notably, the FASB plans to issue an Invitation to Comment document later this year and seeks input from all stakeholders on the projects and priorities the FASB should focus on over the next few years.

Panelists also provided an overview of both recently finalized accounting standards and ongoing standard-setting activities, including:

- **Disaggregation of income statement expenses (DISE).** ASU 2024-03 will require public companies to disclose certain key expense components, such as employee compensation, depreciation, amortization, and inventory purchases.
- **Derivative scope refinements.** This project would introduce a scope exception from Topic 815 that would limit the types of contracts that would be required to be accounted for as a derivative. It would also address the accounting for share-based consideration received by a vendor in a revenue contract.
- **Hedge accounting.** This project would amend hedging guidance to address several practice issues.
- **Software costs.** This project would make targeted improvements to guidance on internal-use software costs, including eliminating project stages and more closely aligning SaaS cost capitalization with external-use software guidance.
- **Government grants.** This project would provide guidance on how for-profit entities should account for the receipt of government grants.
- **Environmental credits.** This project would establish accounting guidance for environmental credits and environmental obligations.

The FASB also reaffirmed its commitment to balancing costs and benefits while ensuring standards remain clear and actionable for preparers and investors.

From the PCAOB and stakeholder observations on auditing matters

In her keynote address, PCAOB Chair Erica Williams reflected on the progress made in 2024 in the areas of inspections, standard-setting, and enforcement.

Williams began her remarks by noting the board has seen significant improvements in Part 1.A deficiency rates at the largest firms, which she attributed to the board's initiatives in recent years. She cautioned, however, that challenges remain. She encouraged firms to address and reduce the number of deficiencies and not to let momentum slip away.

Inspections

Transparency remains a cornerstone of the PCAOB's efforts. Williams highlighted the recent timing for inspection reports, noting they are now issued faster than in recent years. The inspection reports also include a new section on independence-related deficiencies and more granular insights to help audit committees, investors, and other stakeholders understand audit deficiencies.

During 2024, the PCAOB launched an initiative to examine firm culture and its impact on audit quality through its inspection program. Regarding the culture initiative, Christine Gunia, PCAOB director of the Division of Registration and Inspections, shared that the inspection of firms' culture identified a disconnect in priorities within most of the six U.S. global network firms. An example included that while audit leadership prioritizes audit quality, other audit partners prioritize financial considerations such as growth and profitability. Further, the inspection results indicated that culture can, in fact, influence audit quality, for better or for worse. Williams encouraged firms to promote a culture of accountability that supports audit quality. The PCAOB recently issued a spotlight document summarizing its findings from the culture initiative.

Looking ahead to 2025, Gunia discussed that the upcoming inspection priorities include a focus on:

- Audits of companies and industries negatively impacted by uncertainties and volatility in the economic and geopolitical environment, such as banking, real estate, and information technology
- The increased use of technology at audit firms and companies
- Audit execution challenges due to workforce concerns and remote work
- Compliance with quality control standards, including firm policies and procedures related to independence and client acceptance

In a later panel session with representatives from the Center for Audit Quality (CAQ) and public accounting profession, panelists emphasized the need for auditors to remain alert to emerging risks that might impact the financial statements and not to lose perspective of the importance of reliable financial reporting and the role of the auditor in the financial reporting ecosystem. Panelists encouraged auditors and issuers to read the PCAOB publications "Spotlight: Auditor Responsibilities for Detecting, Evaluating, and Making Communications About Illegal Acts" and "Spotlight: Staff Priorities for 2025 Inspections and Interactions With Audit Committees." These publications include topics and considerations for auditors when planning and performing their current and upcoming audits.

Standard-setting

Williams observed that, in recent years, the board has updated 27 standards and rules and that in 2024 alone, the board has taken more formal actions on standard-setting and rulemaking than any year since the PCAOB's creation. Williams underscored the importance of newly adopted standards, including AS 1000 and QC 1000, and highlighted the "Firm and Engagement Metrics" and "Firm Reporting" standards as increasing the level of transparency to investors.

PCAOB Chief Auditor Barbara Vanich provided an update on the PCAOB's recent standard-setting projects and highlighted the importance of firms directing enough resources to the implementation effort with the new standards. Vanich discussed some recently issued resources by the PCAOB, including PCAOB staff guidance documents related to QC 1000, the fraud resources webpage; publications related to the use of generative AI and the auditor's existing responsibilities related to illegal acts; and a webinar related to the new confirmation standard. She provided some year-end audit reminders related to compliance with the PCAOB's auditor independence rules and encouraged firms to take a fresh look at their critical audit matters methodology.

In the panel session with representatives from the CAQ and public accounting profession, panelists acknowledged the accomplishments by the PCAOB in standard-setting in recent years. Panelists emphasized the need for both auditors and issuers to understand the direct and indirect effects of the new standards on audit processes, reporting timelines, and audit committee communications and stressed the importance of resource planning and proactive dialogue among auditors, issuers, and audit committees with the new standards.

Specific projects discussed by the panelists included the PCAOB's new confirmation standard and technology-assisted analysis of information project, which have both been approved by the PCAOB and SEC. The new confirmation standard, which is effective for audits of fiscal years ending on or after June 15, 2025, requires additional audit committee communications, consideration of additional financial relationships and accounts or transactions for confirmation, and a focus on third-party intermediaries that are often used in the confirmation process. For the technology-assisted analysis project, which is effective for audits of financial statements for fiscal years beginning on or after Dec. 15, 2025, profession representatives mentioned the need for the PCAOB to provide additional guidance over the requirements related to authentication of electronic evidence and how to effectively risk assess electronic evidence.

Enforcement

In speaking about enforcement actions, Williams stated that the board focuses on cases that involve serious matters that create risks for investors: audit failures in cases involving financial statement fraud, taking on client work that firms cannot complete, altering work papers, and not performing sufficient work before signing audit opinions. In 2024, the board announced major enforcement matters involving exam cheating and misinforming investigators, in addition to pursuing enforcement actions against a China-based firm for repeated violations of PCAOB rules and for failing to cooperate with an investigation into those violations.

William Ryan, PCAOB chief counsel of the Division of Enforcement and Investigations, discussed the current focus to make sanctions more impactful, expanding types of cases pursued and the geographical reach of enforcement actions. As an outlook for 2025, the PCAOB will continue to prioritize investigations involving significant audit violations, failures to cooperate with inspections or investigations, and significant independence violations.

From Capitol Hill

Day two of the conference opened with an address from Rep. French Hill. Hill outlined his views as to the upcoming priorities of Congress impactful to the accounting profession. Hill was recently recommended by the House Republican Steering Committee to lead the House Financial Services Committee when the new Congress convenes in January 2025.

Outlook for the capital markets

In various panels, representatives of the legal profession, the accounting profession, and the U.S. Chamber of Commerce addressed risks, opportunities, and uncertainties for the business environment in the coming year including the outlook for capital formation, rulemaking, and enforcement of the securities laws.

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Chief accounting officer panel

This panel explored key challenges and priorities facing accounting leaders, focusing on balancing global expansion with centralized operations, managing compliance and finance transformation challenges, and fostering healthy team dynamics. Panelists discussed regulatory compliance challenges with new accounting standards and regulations, such as the FASB's new segment reporting and income statement disaggregation disclosures and the SEC's cybersecurity disclosure rule, underscoring the critical role accountants play in ensuring compliance and adding value to an organization.

Panelists highlighted the need for robust processes and controls as well as the role of AI and shared service partners in transforming operations, with discussions centered on governance, safeguards, and workforce adaptability. Overall, the panel underscored the importance of curiosity, proactive learning, and clear communication in driving transformation.

Practice issues panel

Mark Shannon, a partner in the Crowe national office, moderated a discussion featuring the chief accountants from several large accounting firms, including Matthew Schell, the managing partner of the Crowe national office. The panel addressed a range of complex accounting and financial reporting issues, including financial instruments, revenue recognition, segment reporting, the statement of cash flows, consolidation, and other matters.

Financial instruments

Echoing many of the challenges observed by SEC OCA staff earlier in the conference, the panelists discussed the complexity involved in determining whether certain financial instruments, such as warrants, should be classified as liabilities or equity. The panelists emphasized that form matters, and therefore the specific provisions of a warrant agreement, which are frequently evolving in practice, should be carefully considered to determine the appropriate accounting. In addition, the panelists urged the FASB to consider potential standard-setting to simplify the application of the indexation guidance in ASC 815-40.

The discussion also touched on a separate issue related to the accounting for debt exchange transactions involving multiple creditors. Specifically, diversity in practice exists with respect to whether such exchanges should be accounted for as debt extinguishment or a debt modification. At the recommendation of the Emerging Issues Task Force (EITF) – of which each of the panelists are members – the FASB recently added a project to its technical agenda to require a debt exchange transaction involving multiple creditors to be accounted for as a debt extinguishment and the issuance of new debt when certain conditions are met.

Revenue recognition

The panel discussed common challenges related to the application of ASC 606, including:

- **Consideration payable to a customer.** Entities that offer rebates and incentives to customers frequently face challenges when evaluating whether these payments should be accounted for as consideration payable to a customer, thereby reducing revenue. It can be particularly difficult to evaluate payments to a customer's customer – which may still result in the reduction of revenue. In addition, poor communication between marketing and accounting teams can lead to delays in identifying and accounting for such arrangements, making proper internal controls essential. Given this can often be a focus of the SEC staff, preparers are advised to provide comprehensive disclosures regarding these arrangements.
- **Contract modifications.** Practice issues often arise when determining whether a contract modification should be accounted for as 1) a separate contract, 2) a termination of the existing contract and the creation of a new contract, or 3) a cumulative catch-up adjustment to revenue. For example, when a contract is partially canceled together with a termination payment, some preparers fail to properly evaluate whether the remaining goods and services are distinct from those already provided, potentially leading to inaccurate conclusions. In these and other

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scenarios, the panelists suggested preparers should carefully challenge conclusions that indicate a cumulative catch-up adjustment to revenue is warranted, given such a conclusion can only be reached in certain limited facts and circumstances.

- **Performance obligations.** Identifying performance obligations can be challenging, especially for arrangements involving multiple related goods and services, such hardware-as-a-service or the transfer of technology together with smart devices. Before concluding that multiple promised goods and services are not separately identifiable (that is, not distinct within the context of the contract), panelists cautioned that preparers should carefully evaluate factors such as whether the combined item is greater than (or substantively different from) the sum of the underlying promised goods or services and whether there is significant two-way interdependency between the goods and services, among other factors.

Segment reporting

Building on many of the matters discussed by the SEC staff in separate sessions, the panelists highlighted a variety of practice issues related to the adoption of the segment reporting amendments in ASU 2023-07 - for example, issues related to the determination of significant segment expenses and the disclosure of additional measures of segment profit or loss. These, and other matters, are discussed in the Crowe Take Into Account post covering ASU 2023-07, which includes an overview of SEC staff views on the application of the standard.

Statement of cash flows

The panelists discussed best practices for preparing the statement of cash flows, including dedicating the same level of rigor and attention to the statement of cash flows as other financial statements and developing processes and internal controls to proactively evaluate the cash flow treatment of nonrecurring transactions early in the financial reporting cycle. In addition, panelists observed other pitfalls and challenges, including:

- **Noncash transactions.** ASC 230, “Statement of Cash Flows,” requires separate disclosure of all noncash investing and financing activities, but noncash transactions often can be inadvertently overlooked during the preparation of the statement of cash flows and related disclosures.
- **Funds held on behalf of others.** Certain entities, including fintech platforms, insurance entities, and payment processors, frequently receive and transfer cash or cash equivalents on behalf of customers or other third parties. These situations present questions concerning the classification in the statement of cash flows of the changes in funds held on behalf of others. While diversity in practice may exist, one view is that these cash flows should be classified as financing activities because the receipt of the funds and the recognition of a corresponding financial liability is analogous to a borrowing that is repaid or otherwise settled when the funds are disbursed (for example, either by returning the funds to the customer or paying another party on behalf of the customer).
- **Other classification issues.** Classification can also be difficult to evaluate in other fact patterns, such as when cash receipts or payments have aspects of more than one class of cash flows and cannot be separated by source or use. In such cases, judgment is needed to determine the predominant source or use of cash flows in accordance with ASC 230-10-45-22 through 45-23.
- **Constructive receipts and disbursements.** Generally, only the entity’s direct receipt or payment of cash should be presented on the face of the statement of cash flows. However, in some circumstances, it may be appropriate to invoke the concept of constructive receipt or disbursement and report a cash flow on the face of the statement of cash flows, even if cash was not directly received or paid through the entity’s bank account (for example, if another party made a payment on the entity’s behalf).

Consolidation

The panelists observed that it remains challenging to apply ASC 810, “Consolidation,” highlighting the differences between the voting interest and variable interest entity (VIE) models. The panelists noted that many of the challenges are a result of the complexity required to determine whether an entity is a VIE. While the application of the standard can be challenging, differing views were expressed on whether the FASB should consider broad standard-setting in this area.

Other matters

Other matters discussed by the panelists included the recent U.S. Supreme Court decision in *Loper Bright Enterprises v. Raimondo*, which overturned the long-standing Chevron deference doctrine (“Chevron doctrine”) and ruled that courts should exercise independent judgment and not defer to the agency (that is, courts, not agencies, are experts in statutory interpretation). This shift in judicial review marks a significant opportunity for those challenging federal regulations. However, the panelists emphasized that until a court case challenging agency interpretations is filed and resolved, the existing agency interpretations stand. While accounting, financial reporting, and tax questions are starting to arise, it is unlikely there will be significant immediate changes in practice. The *Loper Bright* decision did not overrule every case that relied on the Chevron doctrine, and courts have not walked away from giving respectful consideration to agency interpretations. Nevertheless, preparers should monitor developments and discuss any questions with their auditors and accounting advisers.

FinREC update

Mark Crowley, chair of the Financial Reporting Executive Committee (FinREC), provided an overview of FinREC’s significant achievements over the past year. One key accomplishment was the release of the “Accounting and Valuation Guide – Business Combinations,” which addresses complex accounting and valuation issues and provides best practices to enhance compliance with ASC 805 and ASC 820. Other highlights covered by Crowley included updates to the accounting and valuation guide, “Valuation of Privately-Held-Company Equity Securities Issued as Compensation” (or “Cheap Stock Guide”) and the “Airlines – Audit and Accounting Guide”; updated guidance on programmatic loans within the “Not-for-Profit Entities – Audit and Accounting Guide”; and recently issued updates to the digital assets practice aid, introducing new accounting Q&As and chapters on auditing practices. Crowley concluded his update with an overview of the AICPA’s industry expert panels and their accomplishments over the past year.

Artificial intelligence

AI was a topic of conversation in many of the panels at the conference, and there were two panels devoted solely to AI. One panel addressed the impact of AI on the accounting profession, discussing the role of AI in streamlining accounting processes, ethical considerations and compliance, future skill sets for accountants, and case studies. The generative AI in financial reporting panel focused on the accuracy of generative AI, how AI can enhance the value of financial reporting, and the potential of AI to transform capital markets and analytic workflows. Both panels addressed the challenges and opportunities presented by AI and discussed the need for transparency, auditability, and accuracy in AI-generated outputs. The importance of human oversight and the potential for AI to complement human decision-making in finance were also topics of focus.

Sustainability reporting

During this session, speakers representing auditors and issuers provided insights on the evolving sustainability landscape. Topics included:

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- **Regulatory developments.** Given the current stay and uncertain future for the SEC's climate-related disclosures rules, companies are focusing on the implications of emerging regulations. such as the EU's Corporate Sustainability Reporting Directive and California's greenhouse gas disclosure rules.
- **Preparations for sustainability reporting requirements.** In preparing for reporting requirements, companies must understand reporting requirements; conduct or reassess materiality evaluations; assess, analyze, and potentially quantify climate-related risks; develop processes and controls for high-quality data; work toward third-party assurance; and consider effective governance over sustainability reporting.

Pillar 2 implementation

A session on Pillar 2 provided a focused discussion of the tax framework's implications for multinational enterprises (MNEs) including its enforcement mechanisms, financial reporting impacts, and practical steps for compliance. The panel pointed out the challenges posed by the Organization for Economic Cooperation and Development (OECD) minimum tax requirements and talked about actionable strategies to navigate this significant regulatory shift.

Pillar 2 applies to MNEs with consolidated revenues of 750 million euros or more and introduces three mechanisms for implementation: the qualified domestic minimum top-up tax, the income inclusion rule, and the undertaxed profits rule. These provisions ensure that every jurisdiction collects at least a 15% effective tax rate on income. While MNEs initially can rely on transition safe harbors, they must prepare for the expiration of these measures by building robust compliance systems and strengthening internal controls. In a previous discussion, Corp Fin outlined their expectation that disclosure about Pillar 2's potential impacts are critical, even if precise estimates are unavailable.

Throughout the session, the speakers highlighted the importance of staying ahead of evolving legislation, preparing for future compliance burdens, and collaborating with auditors. As Pillar 2 implementation proceeds, MNEs will need to adapt to ongoing OECD guidance and jurisdiction-specific rules, and panelists underscored the need to be proactive.

From the CAQ

The Center for Audit Quality (CAQ) staff provided insights into its evolving strategies to support the public company audit profession. The discussion centered on the recent activities of the CAQ, including:

- **Campaigns to address pipeline challenges within the profession.** The Accounting+ campaign aims to attract the next generation of accountants by dispelling myths and promoting the profession's benefits.
- **Efforts to promote the value of assurance.** The CAQ is evolving its messaging to emphasize the value of assurance, addressing stakeholders' desire for insights into how audits create trust and transparency within the financial reporting ecosystem.

The CAQ encouraged accounting professionals to promote the profession and communicate the value of assurance.

Mark your calendar

The 2025 AICPA & CIMA Conference on Current SEC and PCAOB Developments will be held Dec. 8-10, 2025, at the Washington Hilton in Washington, D.C.

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