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Keeping you informed

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Message from Sydney Garmong

Partner, National Office

Dear readers,

Our thoughts are with those affected by all the recent hurricanes.

On the standard-setting front, the Financial Accounting Standards Board (FASB) advanced the ball this quarter, issuing three proposals. Next quarter, we should have more to cover as the FASB expects to issue two final standards and five more proposals:

Final standards:

- “Disaggregation – Income Statement Expenses”
- “Induced Conversions of Convertible Debt Instruments”

Proposals:

- “Accounting for and Disclosure of Software Costs”
- “Accounting for Environmental Credit Programs”
- “Accounting for Government Grants”
- “Determining the Acquirer in the Acquisition of a VIE”
- “Interim Reporting – Narrow-Scope Improvements”

The Securities and Exchange Commission (SEC) advanced Public Company Accounting Oversight Board (PCAOB) rulemaking by approving several PCAOB standards, and it concurrently issued related statements.

The SEC also published its semiannual regulatory agenda. While the SEC agenda is lengthy, the estimated timing for proposals that are top of mind for us are:

- Incentive-based compensation arrangements – 2024
- Human capital management – 2024
- Corporate board diversity – 2025
- Revisions to definition of securities held of record – 2025

Also of importance is the issuance by the PCAOB of “Spotlight: Inspection Observations Related to Auditor Independence.” The 29-page publication covers reminders, inspection observations, deficiencies, good practices, and audit committee considerations.

I am grateful to my Crowe colleagues Tony Boras, Alissa Doherty, Jason Eaves, Steven King, and Mark Shannon for their significant contributions to this publication. We hope you find this report useful, and we welcome any feedback.

Third quarter highlights

During the third quarter of the 2024 calendar year, the Financial Accounting Standards Board (FASB) issued three proposed Accounting Standards Updates (ASUs): one on clarifications to share-based consideration payments to a customer, one on hedge accounting improvements, and one on changes to derivative scoping guidance. The FASB also issued a statement of financial accounting concept related to measurement.

The Securities and Exchange Commission (SEC) remarked on safeguarding crypto assets, AI washing, the FASB's updated conceptual framework, disclosure review and priorities, and cybersecurity incident disclosures. It approved several Public Company Accounting Oversight Board (PCAOB) standards and concurrently issued related statements. The SEC adopted final amendments related to Forms N-PORT and N-CEN reporting requirements and final rules related to the venture capital funds threshold and registered index-linked annuities. The SEC published updates to asset-backed securities guidance and issued proposed data standards for public comment. The SEC also published updates to its regulatory agenda.

The PCAOB received SEC approval of the new standards on quality control and general responsibilities of the auditor, amended standards related to using technology-assisted analysis, and an amendment to Rule 3502 related to contributory liability. It published spotlight reports on the use of generative AI in audits and financial reporting, 2023 inspection activities, independent inspection observations, and bank audit inspections. The PCAOB also published its annual broker-dealer inspection report and announced that it is seeking member nominations for the Standards and Emerging Issues Advisory Group and the Investor Advisory Group.

The Center for Audit Quality (CAQ) published an audit committee resource on generative AI oversight.

Checklists for the effective dates of FASB ASUs and Government Accounting Standards Board (GASB) statements are provided in the appendix.

From the FASB

Final standards

The FASB issued no new standards during the third quarter of 2024.

Proposals

Clarifications to share-based consideration payments to a customer

On Sept. 30, 2024, the FASB issued a proposed ASU, "Compensation – Stock Compensation (Topic 718) and Revenue From Contracts With Customers (Topic 606): Clarifications to Share-Based Consideration Payable to a Customer," to address diversity in practice in the accounting for share-based consideration payable to a customer. The proposed ASU would:

- Revise the Master Glossary definition of the term "performance condition" for share-based consideration payable to a customer to incorporate certain conditions, including vesting conditions, based on the volume, monetary amount, or timing of a customer's purchases of goods or services from the grantor. The revised definition also would incorporate certain performance targets based on the volume of purchases made by other parties that purchase the grantor's goods or services from the grantor's customers.
- Eliminate the policy election permitting a grantor to account for forfeitures as they occur for customer awards containing service conditions and therefore require the grantor to estimate the number of forfeitures expected to occur, consistent with the accounting for customer awards containing performance conditions.
- Clarify that a grantor should not apply the guidance under Topic 606 on constraining estimates of variable consideration to share-based consideration payable to a customer when using the Topic 718 approach.

The proposed amendments would result in revenue recognition no longer being delayed when an entity grants an award that is not expected to vest.

The proposed ASU does not yet include an effective date and would be applied on a retrospective or modified retrospective basis.

Comments are due Nov. 14, 2024.

Hedge accounting improvements

On Sept. 25, 2024, the FASB issued a proposed ASU, "Derivatives and Hedging (Topic 815): Hedge Accounting Improvements," to more closely align hedge accounting with the economics of an entity's risk management practices by addressing the following five issues:

- **Similar risk assessment for cash flow hedges:** Expand the hedged risks permitted to be aggregated in a group of individual forecasted transactions in a cash flow hedge by changing the "shared risk exposure" requirement to having "similar risk exposure."
- **Hedging forecasted interest payment on choose-your-rate debt instruments:** Facilitate applying the change in hedged risk guidance to cash flow hedges under "choose-your-rate" debt instruments by using the contractual terms of the debt agreement to determine the alternative interest rate indexes and interest rate tenors without needing to discontinue hedge accounting. The proposed ASU would also allow entities to use simplified assumptions when assessing certain factors.
- **Cash flow hedges of nonfinancial forecasted transactions:** Expand hedge accounting for forecasted purchases and sales of nonfinancial assets by applying the clearly-and-closely-related criteria.
- **Net written options as hedging instruments:** Permit a compound derivative comprised of a written option and a nonoption derivative (for example, an interest rate swap with a written cap or floor) to qualify as a cash flow hedge instrument by adjusting certain eligibility criteria.
- **Foreign-currency-denominated debt instrument as hedging instrument and hedged item (dual hedge):** Eliminate the recognition and presentation mismatch related to a dual-hedge strategy by requiring an entity to exclude the debt instrument's fair value hedge basis adjustment from the net investment hedge effectiveness assessment.

The proposed ASU does not yet include an effective date and would be applied prospectively for existing hedging relationships as of the date of adoption with early adoption permitted. Under the proposed ASU, entities may be either required or permitted to modify certain terms of existing hedging relationships, without dedesignating the hedge.

Comments are due Nov. 25, 2024.

Derivative scope refinements

On July 23, 2024, the FASB issued a proposed ASU, "Derivatives and Hedging (Topic 815) and Revenue From Contracts With Customers (Topic 606) – Derivatives Scope Refinements and Scope Clarification for a Share-Based Payment From a Customer in a Revenue Contract," to address 1) the application of derivative accounting to certain contracts and 2) the diversity in accounting for a share-based payment from a customer that is consideration for the transfer of goods or services.

Under the proposed ASU, a scope exception would be provided to exclude from derivative accounting certain contracts with underlying that are based on the operations or activities specific to one of the parties to the contract, but would exclude from the scope exception contracts with a single underlying based on either 1) a market rate, market price, or market index or 2) the price of performance of a financial asset or financial liability of one of the parties to the contract. The proposed amendments also provide certain modifications to the predominant characteristics assessment.

The proposed ASU also would clarify that an entity should apply the guidance under Topic 606 to a contract with a share-based payment from a customer that is consideration for the transfer of goods or services. The proposed ASU would result in the share-based payment recognized as an asset measured at fair value at contract inception when the right to receive or retain the share-based payment is no longer contingent on the satisfaction of a performance obligation. The proposal would also clarify that the guidance under Topic 815 and Topic 321 should not be applied unless and until the share-based payment is recognized as an asset under Topic 606.

The proposed ASU does not yet include an effective date and would be applied as follows:

- Derivative scope exception: Applied prospectively to contracts entered into after the date of adoption. Entities would have the option to apply the guidance to contracts that exist as of the beginning of the fiscal year of adoption through a cumulative-effect adjustment to opening retained earnings as of the beginning of the fiscal year of adoption. Early adoption would be permitted.
- Contracts with share-based payment from a customer that is consideration for the transfer of goods or services: Applied through a cumulative-effect adjustment to opening retained earnings as of the beginning of the fiscal year of adoption to revenue contracts that exist as of the beginning of the fiscal year of adoption. Early adoption would be permitted.

Comments are due Oct. 21, 2024.

Other activity

Financial accounting concept statement – measurement

On July 12, 2024, the FASB issued a issued a statement of financial accounting concept, "Statement of Financial Accounting Concepts No. 8, Conceptual Framework for Financial Reporting – Chapter 6: Measurement," to provide a conceptual framework for the FASB to consider, relating to the measurement of an asset or a liability recognized in the financial statements. The framework describes the entry price and exit price systems, provides certain considerations when choosing between the relevant measurement systems and illustrates enhancing qualitative characteristics. The framework defines each of these price systems as follows:

a. Entry price: The price paid (the value of what was given up) to acquire an asset or received to assume a liability in an exchange transaction
b. Exit price: The price received (the value of what was received) to sell an asset or paid to transfer or settle a liability in an exchange transaction.

The statement of financial accounting concept indicates that choosing between relevant measurements systems should be guided by the system that best meets the objective of general purpose financial reporting for the asset or liability being measured. The relevance of the underlying system depends on the asset or liability itself and how the asset or liability is used or settled.

Reminder

Interest expense for financial operations segments

The FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures," on Nov. 27, 2023, to enhance disclosures about significant segment expenses for public entities reporting segment information under Topic 280. The amendments are effective for fiscal years beginning after Dec. 15, 2023, and interim periods within fiscal years beginning after Dec. 15, 2024, with early adoption permitted.

Within the guidance, ASC 280-10-50-22 provides: "A public entity shall report interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest and the chief operating decision maker relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources to be allocated to the segment. In that situation, a public entity may report that segment's interest revenue net of its interest expense and disclose that it has done so." However, as a reminder, this guidance then further explains: "Nonetheless, a public entity shall separately disclose interest expense if it is a significant segment expense in accordance with paragraph 280-10-50-26A." This treatment of interest expense is further addressed in basis for conclusion paragraph 76, where the board "decided that the amendments in this update should require that a public entity disclose gross interest expense when that amount meets the criteria in paragraph 280-10-50-26A, even if the public entity meets the conditions in paragraph 280-10-50-22 for disclosing net interest revenue for a financial operations segment."

From the SEC

Public statements and announcements

Statement on safeguarding crypto assets

On Sept. 9, 2024, Chief Accountant Paul Munter spoke at the AICPA & CIMA Conference on Banks & Savings Institutions, providing observations from recent staff consultations on Staff Accounting Bulletin No. 121 (SAB 121), on the required accounting for an entity that has obligations to safeguard crypto assets for its platform users. While emphasizing that the staff's views expressed in SAB 121 have not changed, Munter detailed specific fact patterns that could indicate that an entity's arrangement does not fall within the scope of SAB 121, and therefore that the entity should not recognize a balance sheet liability associated with its safeguarding obligation.

Statement on AI washing

On Sept. 4, 2024, Chair Gary Gensler issued a statement on "AI washing," the practice of overstating the role of AI, commenting on the application of fundamental securities laws to AI-related disclosures by SEC registrants. Any prospective claims related to AI must have a reasonable basis, and discussions of the related risks should not be "boilerplate." Additionally, registrants should consider whether discussions on AI on earnings calls or with the registrant's board of directors could indicate that AI matters are material, and therefore may be required to be publicly disclosed.

Registrants that make AI-related disclosures may need to furnish additional disclosures on their definition of AI, including details of its use, and whether it is developed internally or provided by an external party. Gensler also noted that investment advisers and broker dealer should not make misleading statements to the public as to the nature or extent of their use of AI.

Statements on PCAOB standard-setting

On Aug. 20, 2024, the SEC voted to approve three PCAOB proposals: finalizing a new auditing standard (AS) on the general responsibilities of an auditor; amendments on technology-assisted analysis in an audit; and amendments on contributory liability.

Each SEC commissioner made comments on the rulemaking activity:

- General responsibilities of an auditor (AS 1000): statements from commissioners Jaime Lizárraga, Mark Uyeda, Caroline Crenshaw, and Chair Gensler
- Technology-assisted analysis (AS 1105, AS 2301): statements from Lizárraga, Uyeda, Crenshaw, and Gensler
- Contributory liability (Rule 3502): statements from Lizárraga, Uyeda, Crenshaw, and Gensler

Commissioner Hester Peirce issued a single statement with comments on all three items.

On Sept. 9, 2024, the SEC voted to approve an additional final standard on the quality control systems of audit firms. Lizárraga, Uyeda, Crenshaw, Peirce, and Gensler spoke on the standard.

Statement on updated conceptual framework

On Aug. 12, 2024, Munter issued a statement on recent comprehensive updates to the FASB's Conceptual Framework for Financial Reporting. This framework of financial reporting objectives and concepts guides the FASB's agenda prioritization and decision-making in evaluating potential projects and new accounting pronouncements. Munter commented his belief that the updated framework could not only further the FASB's ability to develop "high-quality accounting standards coupled with robust disclosures" but also help stakeholders to better understand FASB decisions and provide more meaningful, applicable feedback.

Statement on disclosure review and priorities

On June 24, 2024, Director of the Division of Corporation Finance (CorpFin) Erik Gerding issued a statement detailing his remarks in April at the "SEC Speaks" conference on CorpFin's annual disclosure review for 2023 and priorities for 2024.

On the 2023 disclosure review, Gerding highlighted top areas of comment including "China-related matters, non-GAAP disclosures, management's discussion and analysis (MD&A), revenue recognition, and financial statement presentation." Emerging areas of focus included "market disruptions in the banking industry, cybersecurity risks, the impact of inflation, and disclosure related to newly adopted rules, such as pay versus performance." In addition, CorpFin continues to monitor China-based companies – those with operations predominantly based in the People's Republic of China.

Summarizing CorpFin's priorities for 2024, Gerding emphasized the division's focus on disclosures related to recently issued accounting pronouncements and areas involving management's judgment, such as segment reporting (effective for annual periods beginning after Dec. 15, 2023), non-GAAP regulations and rules, critical accounting estimates disclosure in MD&A, and disclosures related to supplier finance programs. Gerding also predicted a continued focus on disclosures related to China-based companies, inflation, and interest rate and liquidity risk.

In addition, Gerding addressed the following disclosure priorities:

- Artificial intelligence (AI). Companies should clearly describe their definition of AI, provide specific and tailored disclosures on the material risks and reasonably likely impact of AI on the company and the company's current or proposed use, and have a reasonable basis for its claims.
- China-based companies. Companies should provide "more prominent, specific, and tailored disclosures about China-specific matters." In line with past Dear Issuer Letters, the division will continue to focus on issues such as variable interest entity structure, financial reporting reliability, the regulatory environment in China, and corporate governance matters for such companies.
- Commercial real estate (CRE). Given the continued risk associated with the CRE sector and real estate investment trusts (REITs), companies should evaluate where additional detail could be disclosed to further investor understanding of material risks and mitigating steps taken. CorpFin staff will focus on matters such as how banks disclose disaggregation of loan portfolio characteristics and how office and retail REITs describe default risks, liquidity issues, and other key information. Companies also should remain mindful of the potential impacts of the CRE environment even outside of its impacts on banks and REITs.
- Recently adopted SEC rules. Gerding commented on CorpFin's efforts to monitor and further improve disclosures related to recently adopted rules, including cybersecurity incidents, clawbacks, pay versus performance, universal proxy, and beneficial ownership reporting.

Statement on cybersecurity incident disclosures

On June 20, 2024, Gerding issued a statement on private disclosures of information on cybersecurity incidents outside of Item 1.05 of Form 8-K. Gerding reminded issuers that, while a recent SEC rule requires disclosure of material cybersecurity incidents, the rule does not preclude companies from privately discussing additional information about such incidents with other parties.

Acknowledging that companies could have concerns that such private discussions could implicate Regulation FD – which “requires public disclosure of any material nonpublic information that has been selectively disclosed to securities market professionals or shareholders” – Gerding emphasized that Regulation FD’s application to communications around cybersecurity incidents is consistent with other public company communications. Therefore, exclusions from Regulation FD could similarly apply – for example, if material nonpublic information is shared with an individual who has a duty of trust or confidence to the issuer, or if the other party expressly agrees to maintain the information in confidence.

Small Business Capital Formation Advisory Committee meeting

The Small Business Capital Formation Advisory Committee met on July 30, 2024. Agenda items included discussion of:

- Observations on the state of small business capital raising
- Recent changes to the Small Business Investment Company program

Rules and guidance

N-PORT and N-CEN reporting requirements

On Aug. 28, 2024, the SEC adopted final amendments to Forms N-PORT and N-CEN reporting requirements. Among the changes, the amendments increase the frequency of reporting on Form N-PORT, requiring funds to file monthly portfolio holdings data with the SEC on a monthly basis, within 30 days after month-end. Under the amendments, each monthly report on Form N-PORT will become available to the public within 60 days after the end of the month. In addition, the amendments require open-end funds to disclose on Form N-CEN certain information on any service providers used to fulfill liquidity risk management program requirements.

In conjunction with the form amendments, the final rule also includes guidance on the liquidity rule, primarily related to “the frequency of classifying the liquidity of fund investments, the meaning of ‘cash’ in the rule, and determining and reviewing highly liquid investment minimums.”

The final rule includes a tiered approach, with larger entities required to comply with the Form N-PORT amendments for reports filed on or after Nov. 17, 2025, and smaller entities required to comply for reports filed on or after May 18, 2026. All funds will be required to comply with the Form N-CEN amendments for reports filed on or after Nov. 17, 2025.

Venture capital funds threshold

On Aug. 21, 2024, the SEC adopted a final rule implementing an inflation-based amendment to the dollar threshold used to define a "qualifying venture capital fund," increasing the threshold from $10 million to $12 million. The change is made in accordance with the inflation adjustment requirements of the *Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018*. The final rule also allows the SEC to make further adjustments based on the Personal Consumption Expenditures Chain-Type Price Index (PCE Index) every five years.

The final rule was effective Sept. 30, 2024.

C&DIs on asset-backed securities

On July 31, 2024, CorpFin published updates to compliance and disclosure interpretations (C&DIs) on asset-backed securities. The revised C&DIs address the following issues:

- Clarify that access to, or receipt of, information publicly available on EDGAR would not in itself result in an affiliate or subsidiary being classified as a securitization participant.
- Describe the appropriate registration and periodic reporting forms for public utility securitizations structured as standalone trusts and meet the definition of an "asset-backed security," and those structured as "series trusts."
- Clarify that the "discrete pool" requirement under Item 1101(c)(1) of Regulation AB does not preclude a security that is supported by the cash flow of a single asset.

Registered index-linked annuities

On July 1, 2024, the SEC adopted a final rule on offerings of registered index-linked annuities and registered market value adjustment annuities (collectively, nonvariable annuities). Under the final rule, such offerings must be registered on Form N-4, the form currently used for registered offerings of most variable annuities. The rule also enacts certain changes for Form N-4 specifically applicable to nonvariable annuities, including new tailored disclosures, and makes other changes applicable to all issuers using the form.

The final rule was effective Sept. 23, 2024. Filers must comply with most of the provisions beginning May 1, 2026.

Proposals

Joint data standards

On Aug. 2, 2024, the SEC, jointly with several other financial regulatory agencies, issued for public comment proposed data standards in accordance with the *Financial Data Transparency Act of 2022*. If adopted, they would implement uniform data identifiers and principles-based data transmission and structuring standards with the aim of promoting greater "interoperability of financial regulatory data across the agencies." Common data identifiers would be established for characteristics such as entity, geographic location, date, and certain products and currencies.

These identifiers are required to be "open license." For example, the agencies designate the International Organization for Standardization (ISO) 17442-1:2020, Financial Services – Legal Entity Identifier (LEI) as the proposed legal entity identifier.

Chair Gensler and commissioners Peirce and Uyeda issued statements on the proposal and called for stakeholder feedback.

Comments are due Oct. 21, 2024.

Regulatory agenda

On July 8, 2024, the SEC published updates to its spring 2024 agenda. Among other updates, the agenda includes a forecasted next action date of October 2024 for the SEC's forthcoming rulemaking on incentive-based compensation and the *Financial Data Transparency Act*.

From the PCAOB

Leadership

Second term

On June 11, 2024, the SEC announced the appointment of Erica Y. Williams to a second term as PCAOB chair. The term begins on Oct. 25, 2024, and ends on Oct. 24, 2029. The swearing-in ceremony was conducted virtually.

Standard-setting and rulemaking

Quality control

On Sept. 9, 2024, the SEC approved QC 1000, “A Firm’s System of Quality Control,” the PCAOB’s new quality control (QC) standard including related amendments to its standards, rules, and forms.

QC 1000 requires all PCAOB-registered firms to identify their risks and design a QC system that includes policies and procedures to guard against those risks. Under the standard, firms will be required to evaluate annually their QC system and report the results of their evaluation to the PCAOB on a specific form, which will be certified by key firm personnel to reinforce individual accountability. Additionally, firms that annually audit more than 100 issuers will be required to establish an external oversight function for the QC system. Responsibilities of the external function will include evaluating the significant judgments made and the related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system.

The new standard and related amendments will be effective on Dec. 15, 2025.

PCAOB Chair Erica Y. Williams shared thoughts on the approval.

Auditor responsibilities when using technology-assisted analysis

On Aug. 20, 2024, the SEC approved the amendments to PCAOB Auditing Standard (AS) 1105, “Audit Evidence,” and AS 2301, “The Auditor’s Responses to the Risks of Material Misstatement,” as adopted by the PCAOB on June 12, 2024. The amendments address audit procedures that involve technology-assisted analysis of information in electronic form and the responsibilities auditors have when performing procedures using such analysis. The changes specifically address the auditor’s responsibilities in using reliable information in audit procedures, using audit evidence for multiple purposes, and performing tests of details.

The amendments are effective for audits of financial statements for fiscal years beginning on or after Dec. 15, 2025.

General responsibilities of the auditor

On Aug. 20, 2024, the SEC approved PCAOB AS 1000, "General Responsibilities of the Auditor in Conducting an Audit" and related amendments, which provide clarification of the general principles and responsibilities of auditors and the auditor's responsibility to evaluate whether the financial statements are presented fairly. The new standards and related amendments address the engagement partner's due professional care responsibilities by adding specificity to certain audit performance principles detailed in the standards. In addition, they note that an auditor's professional skepticism extends to other information that is obtained to comply with PCAOB standards and rules. The new standard also shortens the documentation completion date by reducing the maximum period for the auditor to assemble a complete and final set of audit documentation from 45 days to 14 days.

Applicable to all audits conducted under PCAOB standards, the new standard is effective for audits of financial statements for fiscal years beginning on or after Dec. 15, 2024, except for registered public accounting firms that provide audit opinions for 100 or fewer issuers during the calendar year ending Dec. 31, 2024. The amendment relating to the documentation completion date will take effect for audits of financial statements for fiscal years beginning on or after Dec. 15, 2025.

Contributory liability

On Aug. 20, 2024, the SEC approved an amendment to PCAOB Rule 3502, which addresses the liability of an associated person of a registered public accounting firm who contributes to that firm's violations of the laws, rules, and standards that the PCAOB enforces. It renamed the rule "Governing Contributory Liability" and allows the PCAOB to hold accountable associated persons who negligently, directly, and substantially contribute to firms' violations. The amendment more closely aligns the rule with the standard of reasonable care auditors are already required to exercise.

The amendment is effective Oct. 19, 2024.

Generative AI

Outreach activities on the use of GenAI

On July 22, 2024, the PCAOB released "Spotlight: Staff Update on Outreach Activities Related to the Integration of Generative Artificial Intelligence in Audits and Financial Reporting." It summarizes a survey of audit firms and preparers on the use of generative AI (GenAI) in audits and financial reporting and finds that integration is still in early stages but rapidly evolving. Audit firms and preparers alike said that they are exploring ways to integrate GenAI-enabled tools in auditing and financial reporting.

Audit firms are primarily using GenAI in administrative and research activities but see potential for using it in planning and performing audits. Observations touched on investment in GenAI, limitations specifically related to data privacy and data security concerns, supervision and review, risks related to input and output, other emerging risks, and the importance of firm policies and procedures related to GenAI. Additionally, the survey indicated that preparers are exploring how they can use GenAI throughout their operations and customer-facing areas.

Inspections

Target team inspection observations

On Sept. 25, 2024, the PCAOB released "Spotlight: Observations From the Target Team's 2023 Inspections." The report summarizes the target team's inspection results and observations and provides examples of good practices that might contribute to audit quality in the execution of engagement procedures related to the focus areas. The focus areas for 2023 included crypto assets, multilocation audits, and significant or unusual events or transactions.

Independence inspection observations

The PCAOB on Sept. 16, 2024, issued "Spotlight: Inspection Observations Related to Auditor Independence," which details inspection observations and describes the importance of independence, recent trends related to independence, and inspection procedures. Additionally, the publication addresses good practices and provides reminders for auditors and considerations for audit committees.

2023 inspection activities

On Aug. 15, 2024, concurrent with the posting of inspection reports for all 2023 annually inspected firms, the PCAOB published "Spotlight: Staff Update on 2023 Inspection Activities," providing a summary of the 2023 inspections approach, common deficiencies, observations on quality control systems, and trends on recurring deficiencies. The document reveals that the aggregate deficiency rate in the audits of issuers and brokers and dealers increased in 2023; however, there were signs of improvement or leveling off at some of the largest firms, and the results of outlier inspections strongly influenced the aggregate rate. The areas of most common deficiencies included auditing internal control over financial reporting (ICFR), accounting estimates, revenue, inventory, business combinations, investment securities, and long-lived assets, goodwill, and intangible assets. The report also includes recommendations on best practices for auditing long-lived assets and revenue as well as reminders related to the auditor's consideration of fraud.

Bank audit inspections

The PCAOB on Sept. 9, 2024, released "Spotlight: Bank Financial Reporting Audits," describing the PCAOB's inspection response to bank failures in early 2023, the effects of banking events on the PCAOB's inspection activities, inspections observations, and good practices at audit firms in key focus areas, including investment securities, allowance for credit losses, deposit liabilities, and loans and related accounts. The report highlights the continued effects of the bank failures on the banking industry and includes an overview of survey responses from U.S. audit firms on how they responded to disruptions in the banking industry, including impacts from rising interest rates, and how firms evaluated emerging and evolving risks in the banking sector.

Broker-dealer inspection report

The PCAOB on July 25, 2024, released its "Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers," which includes observations from inspections during 2023, guidance about and examples of effective procedures, and information about the inspection approach. According to the report, the percentage of firms with audit and/or attestation engagement deficiencies decreased slightly to 88%, from the 90% identified in 2022. The PCAOB noted that "these high deficiency rates across engagement types are a cause for significant concern."

The PCAOB also notes that this report should help broker-dealer management and audit committees or equivalents as they oversee the work of their auditors and engage on financial reporting. With the report, the PCAOB released "Supplementary Information Related to Audits of Brokers and Dealers," which provides comparative data about selected firms and engagements and the results of PCAOB inspections over multiyear periods.

Advisory groups

Investor Advisory Group

On Sept. 26, 2024, the PCAOB held a meeting of its Investor Advisory Group. The meeting included a standard-setting update and presentations on audit committees' audit-related engagement with investors, audit firm ownership structures and funding arrangements, cyber risk on external audits, and critical audit matters. A recording is available on the PCAOB's event page.

Nominations

On July 29, 2024, the PCAOB announced that it is seeking nominations for members of its Investor Advisory Group and Standards and Emerging Issues Advisory Group. Links to nomination forms, qualifications, and information about the groups are in the announcement. New members will serve from Jan. 1, 2025, to Dec. 31, 2026. The nomination deadline is Sept. 6, 2024.

From the CAQ

Generative AI (GenAI) audit committee resource

In July 2024, the CAQ published "Audit Committee Oversight in the Age of Generative AI," providing an overview of GenAI technology, a description of the impact of GenAI on financial reporting and ICFR, and questions to ask management and the auditor.

The use of GenAI in financial reporting processes and ICFR creates new risks and considerations for companies including when and how to invest in GenAI technologies, and audit committees will have an important oversight role to play. The questions provided in this resource are aimed at helping audit committee members to better understand company management's approach to the use of GenAI and oversee the related risks.

From the GASB

Final standards

The GASB issued no new standards during the third quarter of 2024.

Proposals

The GASB issued no new proposals during the third quarter of 2024.

Accounting Standards Updates (ASU) effective dates

Checklist A – ASU effective dates for public business entities (PBEs) **A-1**

Checklist B – ASU effective dates for nonpublic business entities (non-PBEs) **B-1**

Checklist A

ASU effective dates for public business entities (PBEs)

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end PBEs	Early adoption
Convertible Instruments and Contracts in an Entity's Own Equity (ASU 2020-06) Clarifies the accounting for certain financial instruments with characteristics of liabilities and equity. The amendments reduce the number of accounting models for convertible debt instruments and convertible preferred stock. The cash conversion and beneficial conversion feature models were removed. Limiting the accounting models will result in fewer embedded conversion features being separately recognized from the host contract. Improves disclosure requirements for convertible instruments and earnings-per-share guidance. Revises derivatives scope exception guidance to reduce form-over-substance-based accounting conclusions driven by remote contingent events.	**For SEC filers, excluding smaller reporting companies, March 31, 2022** **For all other PBEs, including smaller reporting companies, March 31, 2024**	**Permitted as of the fiscal years beginning after Dec. 15, 2020** **An entity must adopt the guidance as of the beginning of the fiscal year and not in a subsequent interim.**
Long-Duration Insurance Contracts (ASU 2018-12) Revises the accounting for life insurance and annuity contracts by eliminating the method of locking in liability assumptions and the premium deficiency test for traditional and limited-payment contracts, among other methodology changes. Requires additional disclosure. Clarifying standards: **ASU 2019-09** – Deferral of effective dates. **ASU 2020-11** – Deferral of effective dates. **ASU 2022-05** – Revises transition guidance to allow for an insurance entity to make an accounting policy election on a transaction-by-transaction basis. An insurance entity may elect to exclude contracts from applying the amendments if certain conditions are met as of the effective date.	**For SEC filers, excluding smaller reporting companies, March 31, 2023** **For all other PBEs, including smaller reporting companies, Dec. 31, 2025**	**Permitted**
Disclosure of Supplier Finance Program Obligations (ASU 2022-04) Provides transparency regarding the entity's use of supplier finance programs. The amendments require various quantitative and qualitative disclosures including key terms of the program, the amount outstanding, a description of where those obligations are presented on the balance sheet, and a rollforward of those obligations during the annual period. For interim reporting, the buyer should disclose the outstanding confirmed amount as of the end of the interim period.	**March 31, 2023, except for the amendment on rollforward information, which is March 31, 2024**	**Permitted**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end PBEs	Early adoption
Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions (ASU 2022-03) Clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. Clarifies that an entity cannot recognize and measure a contractual sale restriction as a separate unit of account. The amendments include various disclosure requirements.	**March 31, 2024**	**Permitted, including in an interim period**
Common Control Lease Arrangements (ASU 2023-01) Revises the accounting for leasehold improvements. Leasehold improvements associated with a lease between entities under common control are to be amortized over the useful life of those improvements to the common control group as long as the lessee controls the use of the underlying asset through a lease. If the lessor obtained the right to control the use of the underlying asset through a lease with another entity not within the common control group, the amortization period is determined under existing guidance when a lease is not a lease between entities under common control. If and when the lessee no longer controls the underlying asset, leasehold improvements associated with common control leases must be accounted for as a transfer between entities under common control through an adjustment to equity.	**March 31, 2024**	**Permitted, including in an interim period. If adopted in an interim period, an entity must adopt as of the beginning of the fiscal year that includes that interim period.**
Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (ASU 2023-02) Expands the option to account for tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. For tax equity investments not accounted for under the proportional amortization method, the amendments require entities to apply ASC Topic 323, "Equity Method or Joint Ventures," or ASC Topic 321, "Investments – Equity Securities." The amendments require specific disclosures that must be applied to all investments that generate income tax credits and income tax benefits from a tax credit program for which an entity has elected to apply the proportional amortization method, including investments within the tax credit program that do not otherwise qualify for the proportional amortization method.	**March 31, 2024**	**Permitted, including in an interim period. If adopted in an interim period, an entity must adopt as of the beginning of the fiscal year that includes that interim period.**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end PBEs	Early adoption
Segment Reporting (ASU 2023-07) Enhances disclosures about significant segment expenses for public entities reporting segment information under ASC Topic 280. Requires public entities to disclose significant expense categories for each reportable segment, other segment items, the title and position of the chief operating decision-maker, and interim disclosures of certain segment-related information previously required only on an annual basis. Clarifies that entities reporting single segments must disclose both the new and existing segment disclosures under Topic 280, and a public entity is permitted to disclose multiple measures of segment profit or loss if certain criteria are met.	**Dec. 31, 2024**	**Permitted, including in an interim period**
Joint Venture Formations (ASU 2023-05) Amends the accounting for contributions made to a joint venture upon formation in a joint venture's separate financial statements. The amendments require that a joint venture apply a new basis of accounting upon formation. By applying a new basis of accounting, a joint venture, upon formation, will recognize and initially measure its assets and liabilities at fair value with exceptions to the fair value measurement that are consistent with the business combination guidance.	**March 31, 2025**	**Permitted, including in an interim period**
Crypto Assets (ASU 2023-08) Requires holdings of certain crypto assets to be measured at fair value at each reporting period with changes in fair value recorded through earnings. The amendments apply to assets meeting certain defined characteristics and require crypto assets to be presented separately from other intangible assets on the balance sheet with changes in fair value presented separately from other changes in intangible assets on the income statement. Requires extensive disclosure about crypto assets measured at fair value on an interim and annual basis, requires an annual rollforward of an entity's crypto holdings, and specifies certain statement of cash flows presentation for crypto assets received as noncash consideration in the ordinary course of business and converted nearly immediately into cash.	**March 31, 2025**	**Permitted, including in an interim period**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end PBEs	Early adoption
Scope Application of Profits Interest Awards (ASU 2024-01) Provides an illustrative example compromised of four fact patterns to demonstrate how an entity should apply the guidance in paragraph 718-10-15-3 when determining whether a profits interest award should be accounted for in accordance with Topic 718. The four fact patterns illustrate how the guidance in paragraph 718-10-15-3 applies to common award features.	**March 31, 2025**	**Permitted, including in an interim period. If adopted in an interim period, an entity must adopt as of the beginning of the fiscal year that includes that interim period.**
Amendments to Remove References to the Concepts Statements (ASU 2024-02) Removes references to concept statements, a nonauthoritative source of literature, in the guidance. The amendments simplify the codification and distinguish between authoritative and nonauthoritative literature by addressing 16 topical issues.	**March 31, 2025**	**Permitted, including in an interim period. If adopted in an interim period, an entity must adopt as of the beginning of the fiscal year that includes that interim period.**
Improvements to Income Tax Disclosures (ASU 2023-09) Enhances transparency into income tax disclosures. Requires annual disclosure of certain information relating to the rate reconciliation, income taxes paid by jurisdiction, income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign, and income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign. Eliminates certain requirements relating to unrecognized tax benefits and certain deferred tax disclosure relating to subsidiaries and corporate joint ventures.	**Dec. 31, 2025**	**Not applicable**
Disclosure Improvements (ASU 2023-06) Amends disclosure or presentation requirements and provides clarifications or technical corrections to a variety of topics within the codification pursuant to matters identified by the Securities and Exchange Commission in its August 2018 Release No. 33-10532, “Disclosure Update and Simplification.”	**For SEC filers and certain entities required to file or furnish financial statements with the SEC, when removal of the related disclosure from Regulation S-X or Regulation S-K becomes effective**	**Prohibited**

Checklist B

ASU effective dates for nonpublic business entities (non-PBEs)

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Disclosure of Supplier Finance Program Obligations (ASU 2022-04) Provides transparency regarding the entity's use of supplier finance programs. The amendments require various quantitative and qualitative disclosures including key terms of the program, the amount outstanding, a description of where those obligations are presented on the balance sheet, and a rollforward of those obligations during the annual period.	**Dec. 31, 2023, except for the amendment on rollforward information, which is Dec. 31, 2024**	**Permitted**
Convertible Instruments and Contracts in an Entity's Own Equity (ASU 2020-06) Clarifies the accounting for certain financial instruments with characteristics of liabilities and equity. The amendments reduce number of accounting models for convertible debt instruments and convertible preferred stock. The cash conversion and beneficial conversion feature models were removed. Limiting the accounting models will result in fewer embedded conversion features being separately recognized from the host contract. Improves disclosure requirements for convertible instruments and earnings-per-share guidance. Revises derivatives scope exception guidance to reduce form-over-substance-based accounting conclusions driven by remote contingent events.	**Dec. 31, 2024**	**Permitted as of the fiscal years beginning after Dec. 15, 2020, including interim periods within**
Customer Contracts Acquired in a Business Combination (ASU 2021-08) Requires an acquirer to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606 on revenue from contracts with customers. The amendments apply to contract assets or contract liabilities in contracts with customers and other contracts to which the provisions of Topic 606 apply. The amendments also provide certain practical expedients for acquirers when recognizing and measuring acquired contract assets and contract liabilities from revenue contracts in a business combination.	**Dec. 31, 2024**	**Permitted, including in an interim period**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Portfolio Layer Method of Hedge Accounting (ASU 2022-01) Expands the scope of assets eligible for portfolio layer method hedging to include all financial assets. The amendments remove the requirement that all assets in the closed portfolio have a contractual maturity date on or after the earliest-ending hedge period. The amendments require an entity to maintain fair value hedge basis adjustments at the closed portfolio level for a currently designated hedge and prohibit an entity from considering portfolio layer method fair value hedge basis adjustments on a currently designated hedge in its determination of credit losses. When a breach occurs (that is, the aggregate amount of the hedged layers currently exceeds the amount of the closed portfolio), an entity is required to present the fair value hedge basis adjustments with a breach in interest income and disclose the amount along with the circumstances that led to the breach.	**Dec. 31, 2024**	**Permitted, including in an interim period when amendments in ASU 2017-12 have been adopted**
Common Control Lease Arrangements (ASU 2023-01) Provides a practical expedient to private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement to determine whether a lease exists and, if so, the classification of and accounting for that lease. The amendments also revise the accounting for leasehold improvements for all entities (that is, public business entities, private companies, not-for-profit entities, and employee benefit plans). Leasehold improvements associated with a lease between entities under common control are to be amortized over the useful life of those improvements to the common control group as long as the lessee controls the use of the underlying asset through a lease. If the lessor obtained the right to control the use of the underlying asset through a lease with another entity not within the common control group, the amortization period is determined under existing guidance when a lease is not a lease between entities under common control. If and when the lessee no longer controls the underlying asset, leasehold improvements associated with common control leases must be accounted for as a transfer between entities under common control through an adjustment to equity (or net assets for not-for-profit entities).	**Dec. 31, 2024**	**Permitted including in an interim period. If adopted in an interim period, an entity must adopt as of the beginning of the fiscal year that includes that interim period.**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Long-Duration Insurance Contracts (ASU 2018-12) Revises the accounting for life insurance and annuity contracts by eliminating the method of locking in liability assumptions and the premium deficiency test for traditional and limited-payment contracts, among other methodology changes. Requires additional disclosure. Clarifying standards: **ASU 2019-09** – Deferral of effective dates. **ASU 2020-11** – Deferral of effective dates. **ASU 2022-05** – Revises transition guidance to allow for an insurance entity to make an accounting policy election on a transaction-by-transaction basis. An insurance entity may elect to exclude contracts from applying the amendments if certain conditions are met as of the effective date.	**Dec. 31, 2025**	**Permitted**
Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions (ASU 2022-03) Clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. Clarifies that an entity cannot recognize and measure a contractual sale restriction as a separate unit of account. The amendments include various disclosure requirements.	**Dec. 31, 2025**	**Permitted, including in an interim period**
Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (ASU 2023-02) Expands the option to account for tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. For tax equity investments not accounted for under the proportional amortization method, the amendments require entities to apply ASC Topic 323, "Equity Method or Joint Ventures," or ASC Topic 321, "Investments – Equity Securities." The amendments require specific disclosures that must be applied to all investments that generate income tax credits and income tax benefits from a tax credit program for which an entity has elected to apply the proportional amortization method, including investments within the tax credit program that do not otherwise qualify for the proportional amortization method.	**Dec. 31, 2025**	**Permitted, including in an interim period. If adopted in an interim period, an entity must adopt as of the beginning of the fiscal year that includes that interim period.**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Joint Venture Formations (ASU 2023-05) Amends the accounting for contributions made to a joint venture upon formation in a joint venture's separate financial statements. The amendments require that a joint venture apply a new basis of accounting upon formation. By applying a new basis of accounting, a joint venture, upon formation, will recognize and initially measure its assets and liabilities at fair value with exceptions to the fair value measurement that are consistent with the business combination guidance.	**Dec. 31, 2025**	**Permitted, including in an interim period**
Crypto Assets (ASU 2023-08) Requires holdings of certain crypto assets to be measured at fair value at each reporting period with changes in fair value recorded through earnings. The amendments apply to assets meeting certain defined characteristics and require crypto assets to be presented separately from other intangible assets on the balance sheet with changes in fair value presented separately from other changes in intangible assets on the income statement. Requires extensive disclosure about crypto assets measured at fair value, requires an annual rollforward of an entity's crypto holdings, and specifies certain statement of cash flows presentation for crypto assets received as noncash consideration in the ordinary course of business and converted nearly immediately into cash.	**Dec. 31, 2025**	**Permitted, including in an interim period**
Improvements to Income Tax Disclosures (ASU 2023-09) Enhances transparency into an entity's income tax disclosures. Requires annual disclosure of qualitative information about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory and effective tax rate. Requires annual disclosure of income taxes paid by jurisdiction, income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign, and income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign. Eliminates certain requirements relating to unrecognized tax benefits and certain deferred tax disclosure relating to subsidiaries and corporate joint ventures.	**Dec. 31, 2026**	**Permitted**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Scope Application of Profits Interest Awards (ASU 2024-01) Provides an illustrative example compromised of four fact patterns to demonstrate how an entity should apply the guidance in paragraph 718-10-15-3 when determining whether a profits interest award should be accounted for in accordance with Topic 718. The four fact patterns illustrate how the guidance in paragraph 718-10-15-3 applies to common award features.	**Dec. 31, 2026**	**Permitted, including in an interim period. If adopted in an interim period, an entity must adopt as of the beginning of the fiscal year that includes that interim period.**
Amendments to remove references to the concepts statements (ASU 2024-02) Provides an illustrative example compromised of four fact patterns to demonstrate how an entity should apply the guidance in paragraph 718-10-15-3 when determining whether a profits interest award should be accounted for in accordance with Topic 718. The four fact patterns illustrate how the guidance in paragraph 718-10-15-3 applies to common award features.	**Dec. 31, 2026**	**Permitted, including in an interim period. If adopted in an interim period, an entity must adopt as of the beginning of the fiscal year that includes that interim period.**
Disclosure Improvements (ASU 2023-06) Amends disclosure or presentation requirements and provides clarifications or technical corrections to a variety of topics within the codification pursuant to matters identified by the Securities and Exchange Commission in its August 2018 Release No. 33-10532, "Disclosure Update and Simplification."	**Two years after removal of the related disclosure from Regulation S-X or Regulation S-K becomes effective**	**Prohibited**

Governmental Accounting Standards Board (GASB) statement effective dates

Checklist C – Effective dates for all GASB statements C-1

Checklist C

Effective dates for all GASB statements

GASB statement	Effective dates – reporting periods beginning after	Early adoption
Omnibus 2022 **(GASB Statement 99)** Addresses a variety of topics including the classification and reporting of derivative instruments; clarification of provisions in Statements 34, 87, 94, and 96; extension of the LIBOR cessation date; and various technical updates related to SNAP, nonmonetary transactions, pledges of future revenues, and terminology.	**Varies by topic (see pages 11 and 12 of the statement)** **Upon issuance, June 15, 2022, June 15, 2023**	**Permitted**
Accounting Changes and Error Corrections **(GASB Statement 100)** Provides guidance for various categories of accounting changes or error corrections and prescribes the applicable accounting and financial reporting guidance for each category. The statement also establishes how accounting changes and error corrections should be displayed in financial statements, disclosed in notes, and presented in required supplementary information (RSI) and supplementary information (SI).	**June 15, 2023**	**Permitted**
Compensated Absences **(GASB Statement 101)** Provides recognition and measurement guidance for all types of compensated absences under a unified model. This statement requires that a liability for compensated absences be recognized if all of these occur: 1) The leave is attributable to services already rendered. 2) The leave accumulates. 3) The leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This statement amends the existing disclosure requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability, and it no longer requires the government to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.	**Dec. 15, 2023**	**Permitted**

GASB statement	Effective dates – reporting periods beginning after	Early adoption
Certain Risk Disclosures (GASB Statement 102) Provides users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This statement requires a government to assess whether a concentration or constraint makes the government vulnerable to the risk of a substantial impact. Additionally, this statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. If these criteria are met, the statement provides disclosure requirements that will enable users of financial statements to understand the nature of the concentrations or constraints identified and the government's vulnerability to the risk of a substantial impact.	**June 15, 2024**	**Permitted**
Financial Reporting Model Improvements (GASB Statement 103) Improves key areas of the current financial reporting model, including enhancements of management's discussion and analysis (MD&A); presentation of the proprietary fund statement of revenues, expenses, and changes in net position; budgetary comparison information requirement changes; display of unusual or infrequent items; presentation of major component unit information; and other application issues.	**June 15, 2025**	**Permitted**

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