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Highlights of the 2024 AICPA & CIMA Conference on Current SEC and PCAOB Developments

Executive Summary

At the annual AICPA & CIMA Conference on Current SEC and PCAOB Developments, held in Washington, D.C., key stakeholders convene to discuss developments, emerging issues, and trends in accounting, financial reporting, and auditing, as well as other related matters. During this year's conference, several speakers addressed how the SEC's priorities are expected to shift because of the recent election and incoming administration.

Other key topics discussed at this year's conference included:

- *Non-GAAP considerations related to segment reporting* — During the session on developments in the Division of Corporation Finance (the "Division"), staff members reiterated comments made at last year's conference regarding [ASU 2023-07](#). Specifically, they stated that when additional measures of segment profitability are provided voluntarily in the financial statements and such measures are not determined in accordance with GAAP, they would be considered non-GAAP measures and would be subject to the SEC's rules and regulations related to those measures. Further, the staff discussed what it would expect of registrants when the additional measures are non-GAAP measures as well as audit-specific considerations related to such additional measures.
- *Updates on recent SEC rulemaking and OCA accounting consultations* — Division staff members provided important updates on recent SEC rulemaking related to cybersecurity, executive compensation clawbacks, pay versus performance, special-purpose acquisition company (SPAC) rules, and other matters and indicated that they

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would expect issuers to continue to evaluate and update their disclosures in light of rapidly evolving macroeconomic conditions. In addition, the staff in the Office of the Chief Accountant (OCA) shared perspectives on recent accounting consultation trends (e.g., complexities related to the accounting for warrants).

- *FASB agenda consultation and ITCs* — FASB Chair Richard Jones, SEC Chief Accountant Paul Munter, and multiple SEC staff members highlighted the FASB's upcoming agenda consultation and related invitations to comment (ITCs), emphasizing that it is critical for the FASB to receive stakeholder feedback in establishing its standard-setting priorities.
- *PCAOB standard setting and rulemaking, PCAOB inspection trends, and state of audit quality* — During the PCAOB keynote session and standard-setting update, PCAOB Chair Erica Williams discussed the Board's record amount of standard-setting activity in the current year and gave an update on inspection activity. She stated that after a rise in inspection deficiency rates, the Board is seeing significant improvements in the current year in the aggregate Part I.A deficiency rate at the largest firms. Ms. Williams further stressed the importance of high-quality audit engagements to fostering trust in the auditing profession, strengthening the connection between firm culture and audit quality, and promoting a culture of accountability.
- *Accounting firm priorities* — During the SEC keynote session, Mr. Munter emphasized the importance of firm culture and "tone at the top," including a firm's global commitment to professionalism, ethical behavior, independence, and serving the public interest.

The above topics and other matters addressed at this year's conference are discussed in further detail below.

Shifting Regulatory Landscape

Since the presidential election in November, SEC Chair Gary Gensler and SEC Commissioner Jaime Lizárraga have announced their intent to step down. President-elect Donald Trump has announced his intent to nominate former SEC Commissioner Paul Atkins to be the next chair of the SEC. During the conference, several speakers, including current SEC Commissioner Mark Uyeda, addressed the various impacts to securities regulation they expect following the change in presidential administration and leadership at the SEC, including:

- Reevaluation of recent SEC rulemaking, including the SEC's climate rule that is currently stayed pending judicial review.
- Amendment or rescission of SEC Staff Accounting Bulletin (SAB) 121 (SAB Topic 5.FF) on safeguarding of crypto assets, and reconsideration of the SEC's approach to crypto assets.
- SEC oversight of the PCAOB.

The timing and scope of any such changes are not yet known.

Accounting and Financial Reporting

Contracts Indexed to an Entity's Own Equity

During the panel discussion on the OCA's current projects, Senior Associate Chief Accountant Gaurav Hiranandani commented on the complexities that issuers face when evaluating whether a financial instrument should be classified as a liability or equity and, more specifically, whether a warrant instrument may be considered indexed to an entity's own equity in accordance with ASC 815-40. Mr. Hiranandani noted that the SEC staff has observed

evolving terms and features in warrant agreements that may affect the settlement amounts of warrants and, therefore, the application of the indexation guidance in ASC 815-40. He discussed the following examples:

- *“Greater of” inputs* — Upon the occurrence of a fundamental transaction of the issuer (e.g., a change in control), a warrant agreement may entitle the warrant holders to a settlement amount calculated on the basis of a standard option pricing model (such as the Black-Scholes option pricing model). In certain agreements, the option pricing model would use market-based explicit inputs that are current as of the settlement date, except that the volatility input is prespecified as the “greater of” a prespecified volatility (e.g., 100 percent) or historical volatility for the underlying equity over a defined period. In other agreements, the option pricing model would prespecify the share price used in the option pricing model as the “greater of” share price on different dates. The “greater of” inputs to the option pricing model affect the settlement amount of the warrants.
- *Distributions participation feature* — A warrant exercisable into common stock may include a feature that entitles the warrant holder to participate in distributions to common stockholders (e.g., cash dividends) based on the number of common shares into which the warrants are exercisable, without regard to the exercise price of the warrants.

The SEC staff observed that these provisions are common in warrant agreements and that because an entity must use significant judgment when applying the relevant guidance, widespread diversity in practice exists related to the determination of whether such provisions would preclude an instrument from being indexed to the entity's own equity. The SEC staff did not formally express views on the accounting for such provisions in its remarks.



Connecting the Dots

In a recent preclearance with the SEC's OCA, the staff did not object to the classification of a warrant as either a liability or equity in a case in which the warrant included both (1) the “greater of” a prespecified volatility and historical volatility input to a Black-Scholes settlement calculation and (2) a distribution participation feature that entitles the holder to participate in distributions as if the holder held all the shares into which the warrant is exercisable. With respect to the volatility input, in the fact pattern considered by the staff, the registrant asserted that the prespecified volatility input used at inception to price the warrant was within the range of possible volatilities that could be used to determine the Black-Scholes value at settlement (i.e., the prespecified volatility is within a reasonable range of volatility inputs at the time of the initial pricing of the instrument). We do not know if the SEC staff has formally expressed any views on whether a “greater of” share-price input feature to a Black-Scholes settlement value would preclude an instrument from being considered indexed to the issuer's own equity. We encourage entities to consult with their accounting advisers when performing the accounting assessment for a warrant agreement that includes these types of provisions.

The SEC staff articulated its belief that standard setting related to ASC 815-40 would improve consistency and provide necessary clarity on how to classify equity-linked contracts, and it encouraged stakeholder input on this topic as part of the FASB's upcoming agenda consultation. In a later session, Mr. Jones reiterated the complexities seen in the determination of whether an instrument should be classified as a liability or equity; he welcomed stakeholder feedback on the accounting model. Finally, in a panel of chief accountants of the largest accounting firms, participants expressed their support for prioritizing standard setting related to indexation.

Applicability of ASUs

During the OCA session on current projects, Mr. Hiranandani clarified the scope of certain ASUs recently issued by the FASB, including, for example, those related to segment reporting, income tax disclosures, and the disaggregation of income statement expenses. He noted that some industry groups have questioned whether they are subject to the ASUs and stated that unless an ASU, or specific industry guidance, explicitly excludes an entity from its scope, the ASU's broad requirements would apply to an entity. For example, the segment reporting requirements in ASC 280, including the recent segment reporting improvements in ASU 2023-07, apply to all entities that meet the ASC master glossary's definition of a public entity, which includes investment companies that are required to file financial statements with the SEC (e.g., those filed under the Investment Company Act of 1940 or the Securities Exchange Act of 1934).

Segment Reporting

In November 2023, the FASB issued [ASU 2023-07](#), which amends ASC 280 to improve the information that a public entity discloses about its reportable segments, including new requirements for single reportable segment entities. During a Q&A session, Deputy Chief Accountant Melissa Rocha reiterated comments made at the 2023 conference related to an entity with one reportable segment whose chief operating decision maker (CODM) evaluates the business and makes capital allocation decisions on a consolidated basis. She emphasized that in these circumstances, the SEC staff would expect the registrant to conclude that consolidated net income is the measure most consistent with GAAP and is therefore the required measure (of segment profit or loss).

For additional discussion of this topic, see the [Segment Reporting — Non-GAAP Considerations](#) section.

Statement of Cash Flows

In his [opening remarks](#), Mr. Munter reiterated his [previous remarks](#) regarding the statement of cash flows (SoCF) and its importance for investors. He reminded both preparers and auditors “to ensure that the statement of cash flows and related cash and non-cash disclosures are provided the same quality focus as other components of the financial statements.”

During the panel discussion on developments in the Division, Deputy Chief Accountant Sarah Lowe noted that the SEC staff has commented on cash flow classification and observed that registrants make changes to certain cash flows within the SoCF. Ms. Lowe emphasized that registrants may need to exercise significant judgment when determining the appropriate classification of certain changes in amounts in the SoCF, and she advised registrants to consider the predominant source of the cash flows in their unique fact pattern when making this determination in accordance with ASC 230. Further, Ms. Lowe noted that registrants should consider providing accounting policy disclosure in their footnotes that explains the basis for such cash flow presentation when significant judgment has been applied.

Sale of a Subsidiary

During the OCA's discussion of current projects and recent consultations, OCA Professional Accounting Fellow Jonathan Perdue shared a fact pattern related to a registrant's sale of one of its consolidated subsidiaries to a third party. In this fact pattern, the subsidiary did not meet the definition of a business in ASC 805, and it had significant assets that were typically sold by the registrant as part of the registrant's ordinary course of business. The question under consultation was whether the sale of the subsidiary as a whole should be accounted for under ASC 606.

When analyzing the fact pattern, the SEC staff considered that the assets and liabilities of the subsidiary were held in a legal entity. Therefore, it looked to the guidance in ASC 810-10-40-3A, which states, in part, that the deconsolidation and derecognition guidance in ASC 810 is applicable to a subsidiary that is not a nonprofit activity or a business unless the substance of the transaction is addressed directly by guidance in other Codification topics, including, but not limited to, ASC 606.

In applying ASC 810-10-40-3A, the SEC staff considered that the subsidiary not only held assets that were sold to customers as a part of the registrant's ordinary course of business, but also had other assets and liabilities not typically accounted for under ASC 606, such as lease contracts, trade payables, derivatives, and other liabilities. While the staff did not find any of the individual assets and liabilities to be determinative when evaluating the substance of the transaction, it determined on the basis of the total mix of assets and liabilities held by the subsidiary that the substance of the transaction was not directly addressed by ASC 606. As a result, the staff concluded that it would not object to accounting for the sale of the subsidiary in this particular transaction under ASC 810 instead of ASC 606.

Disposition of a Subsidiary Reported on a Time Lag

During the panel discussion on current OCA projects, Mr. Hiranandani noted that the OCA receives a number of questions related to the acquisition, sale, and wind down of legal entities that meet the definition of a business under ASC 805. The accounting for these transactions depends upon facts and circumstances since no two transactions are alike. Mr. Hiranandani highlighted an example related to a registrant that was winding down a subsidiary by selling some of the subsidiary's assets and liabilities to a third party. The registrant had been reporting the results of the subsidiary on a three-month lag under ASC 810-10-45-12. The registrant proposed eliminating the lag reporting as of the date of the sale by (1) adjusting its shareholder's equity to recognize the subsidiary's income statement activity for the lag period (three months) and (2) adjusting the subsidiary's assets and liabilities to reflect a carrying value without a lag in reporting as of the sale date. Upon the sale of the net assets held by the subsidiary, the registrant would recognize a net gain or loss on the basis of the new carrying value of the assets and liabilities (i.e., the carrying value as of the sale date without a lag). Under this proposed accounting, (1) the registrant would recognize the net gain or loss incurred during the lag period related to the assets and liabilities that are disposed directly against shareholder's equity and (2) the registrant's income statement would only include the net gain or loss on the sale on the basis of the adjusted carrying value of the net assets that were sold. The staff objected to the registrant's proposed accounting under these facts and circumstances.

Supplier Finance Programs

[ASU 2022-04](#) requires enhanced transparency about an entity's use of supplier finance programs. Under the ASU, the buyer in a supplier finance program is required to disclose information about the key terms of the program, outstanding confirmed amounts as of the end of the period, a rollforward of such amounts during each annual period, and a description of where in the financial statements outstanding amounts are presented.

SEC Deputy Chief Accountant Jonathan Wiggins noted that the SEC staff focuses on these disclosures because of their importance to investors. He emphasized that companies should avoid boilerplate disclosures and focus on disclosing the key terms that are meaningful to the program to enable an investor to understand the impact of the program or the potential impact of the program in the future.

For further discussion of required disclosures about supplier finance programs, see Deloitte's September 30, 2022, [Heads Up](#).

Summary of the Latest FinREC Activities

FinREC Chair and Deloitte & Touche LLP Managing Director Mark Crowley explained that, as indicated on the AICPA's [Web site](#), the Financial Reporting Executive Committee (FinREC) is the AICPA's senior technical committee for financial reporting and its mission "is to determine the [AICPA's] technical policies regarding financial reporting standards . . . , with the ultimate purpose of serving the public interest by improving financial reporting." FinREC accomplishes this mission, in part, by releasing nonauthoritative financial reporting guides to help preparers apply accounting standards.

Mr. Crowley summarized certain recent FinREC activities related to the AICPA's accounting and valuation guides, audit and accounting guides, and practice aids:

- Accounting and Valuation Guide *Business Combinations* — The new guide addresses many accounting and valuation issues that have emerged over time. Specifically, it contains guidance and examples intended to help preparers, auditors, and valuation specialists understand and comply with the requirements of ASC 805 (on business combinations) and ASC 820 (on fair value measurements).
- Audit and Accounting Guide *Airlines* — The updated guide reflects the requirements in the FASB's leasing and revenue standards (ASC 842 and ASC 606, respectively) as well as other new authoritative guidance issued since the guide was previously updated in 2013. Given the significance of some of the leasing and revenue updates, FinREC decided to release certain chapters of the guide for public comment (comments are due by January 20, 2025).
- Audit and Accounting Guide *Not-for-Profit Entities* — The updates to this guide address the application of the current expected credit loss (CECL) model in ASC 326 to programmatic loans, which provide not-for-profit entities with benefits in the form of a financial instrument. The updates are meant, in part, to provide helpful considerations related to applying the CECL model to certain types of loans, such as those that contain below-market interest rates, conditional promises to give, or loan forgiveness provisions.
- Practice Aid *Accounting for and Auditing of Digital Assets* — This practice aid provides nonauthoritative guidance on how to account for and audit digital assets under existing accounting standards. Recent revisions to this practice aid include the addition of auditing considerations related to auditing SAB 121 disclosures. Also included are conforming changes related to the FASB's recently issued guidance on accounting for crypto assets.

Mr. Crowley also provided an update that the Equity Securities Task Force (the "Task Force") of FinREC released a [working draft](#) of two revised chapters that are expected to be included in the next edition of the AICPA's Accounting and Valuation Guide *Valuation of Privately-Held-Company Equity Securities Issued as Compensation* (the "AICPA valuation guide"). The two revised chapters of the AICPA valuation guide are Chapter 8, "Inferring Value From Transactions in a Private Company's Securities," and Chapter 9, "Selected Accounting and Disclosure Matters." The current edition of the AICPA valuation guide was issued in 2013.

Mr. Crowley noted that the main goal of revising these two chapters is to provide additional guidance on evaluating the impact of secondary transactions and other direct common stock transactions with investors when an entity estimates the fair value of equity securities related to stock-based compensation. The Task Force believes that companies have historically placed less weight on these secondary transactions and that the revised chapters present leading practices for how an entity should take them into account when estimating the fair value of equity securities related to stock-based compensation.

In addition, Mr. Crowley observed that although these two updated chapters constitute a working draft, the Task Force received relatively minor feedback during the comment period. Consequently, the Task Force does not anticipate making significant additional changes to the chapters as it finalizes the next edition of the AICPA valuation guide. Accordingly, entities are encouraged to start considering the revised chapters now.

See Deloitte's June 27, 2024, [Heads Up](#) for more information about the revised chapters for the AICPA valuation guide.

Accounting Standard Setting

FASB Agenda Consultation and Invitations to Comment

Mr. Jones and multiple SEC staff members discussed the FASB's upcoming agenda consultation and related ITCs, emphasizing that it is critical for the Board to engage with various stakeholders in establishing the priorities for its technical agenda as well as the scope of potential new projects. For example, the following topics were highlighted during the conference:

- *Principal-versus-agent considerations* — Mr. Jones acknowledged that an entity must use significant judgment in performing the principal-versus-agent evaluation under ASC 606 and that questions remain on this topic. Regarding potential standard setting in this area, Mr. Jones asked stakeholders to provide feedback and to consider whether they prefer a different outcome (compared with that under the current model) or use of a simplified model to achieve the same outcome (including a tolerance for potential different outcomes under a simplified model).
- *Statement of cash flows* — As part of his continuing focus on the importance of the statement of cash flows, Mr. Munter invited stakeholders to provide thoughtful feedback related to the FASB's current research project on this topic. He noted that he supports the FASB's efforts to improve consistency and comparability in this area (e.g., cash flow classification, information about noncash transactions). Mr. Munter also highlighted the need to "dig deeper" into stakeholder feedback to better understand investors' informational needs. For example, he noted that he has heard some investors say that the direct-method cash flow statement is unnecessary and others say that they want more information about certain cash flows, including cash collected from customers, cash paid to employees, and cash paid to suppliers and other creditors.
- *Intangible assets* — Mr. Jones noted that the FASB intends to issue an ITC related to its current research project on accounting for intangible assets. The ITC would request feedback on two key issues: (1) whether there should be one accounting model for all intangible assets (as opposed to the multiple models currently employed) and (2) whether the method of acquisition (e.g., internally developed, acquired in a business combination) should result in different accounting outcomes.
- *Financial key performance indicators (KPIs)* — Mr. Jones highlighted that the FASB often has heard stakeholders raise questions regarding non-GAAP and GAAP metrics and has issued an ITC on financial KPIs. The ITC requests stakeholder feedback on the FASB's role in standardizing financial KPIs and whether entities should be required or permitted to disclose such KPIs in the financial statements.

International Activities

IFRS 18 — Presentation and Disclosure in Financial Statements

During the OCA session on current projects, Mr. Perdue spoke about IFRS 18, which was issued by the IASB in April 2024. He noted that the implementation of the new guidance, which replaces IAS 1, will significantly change how information is communicated in the financial statements.

For further information regarding the main provisions in IFRS 18, see Deloitte's April 2024 [*iGAAP in Focus*](#).

During a Q&A session, Mr. Wiggins also discussed this topic in the context of the disclosure of management performance measures (MPMs) and their interaction with the SEC's non-GAAP rules. Mr. Wiggins noted that MPMs are defined in IFRS 18, in part, as subtotals of income and expenses that the company uses in public communications outside the financial statements. Accordingly, for an MPM to be required to be disclosed in the financial statements in accordance with IFRS 18, it has to have first been used in a public communication outside the financial statements. Because MPMs must first be reported in an entity's public communications outside of the financial statements, they would be subject to the SEC's non-GAAP rules, as applicable, in every instance in which such measures are communicated outside of the financial statements. This is consistent with the discussion at the [May 2024](#) CAQ SEC Regulations Committee's International Practices Task Force meeting.

IAS 7 — Statement of Cash Flows

During the OCA session on current projects, Mr. Perdue noted that the IASB's research agenda includes a project on cash flows that emphasizes the importance of the statement of cash flows, as highlighted in a previous statement made by Mr. Munter. Mr. Perdue underscored that, in an effort to determine the scope and direction of the project, the IASB continues to engage with stakeholders regarding potential improvements to the current cash flow guidance. He mentioned that the IASB is considering a number of approaches, including requiring further disaggregation of certain cash flow transactions, requiring use of the direct method, and incorporating new disclosure requirements.

Foreign Private Issuers — Applicability of SAB Topic 4.C

[SAB Topic 4.C](#) states that when a change in capital structure occurs "after the date of the latest reported balance sheet but before the release of the financial statements or the effective date of the registration statement," the change "must be given retroactive effect in the balance sheet." Even after the financial statements are authorized for issuance or are issued or available to be issued, a company undergoing an IPO would need to recast the financial statements included in a pre-effective registration statement to give effect to the change in capital structure.

For more information about changes in capitalization, see [Section 5.6.2](#) of Deloitte's Roadmap [*Initial Public Offerings*](#).

During the panel addressing Division developments, Ms. Rocha observed that the guidance on subsequent events in IFRS® Accounting Standards is similar to that in U.S. GAAP. Therefore, the SEC staff would expect both IFRS Accounting Standard filers and U.S. GAAP filers to comply with SAB Topic 4.C in registration statements.

SEC Reporting

Segment Reporting — Non-GAAP Considerations

Under [ASU 2023-07](#), public entities may disclose “more than one measure of a segment’s profit or loss” as long as at least one is the segment profit or loss measure that is “most consistent with GAAP measurement principles” (the “required measure”). In some cases, measures beyond the required measure may not be determined in accordance with GAAP.

At last year’s conference, the SEC staff communicated its view that such additional measures are neither required nor expressly permitted by GAAP (i.e., the ASU does not identify specific measures that must be disclosed, such as EBITDA). Accordingly, if additional measures are included in the segment footnote that have not been calculated in accordance with GAAP, they would be considered non-GAAP measures.

Determining Whether the Measure Is a Non-GAAP Measure

During the panel on Division developments, Ms. Lowe explained that not every part of a public entity is an operating segment or part of an operating segment (e.g., corporate headquarters or certain functional departments) and that it is possible that amounts reflected in a measure presented in the consolidated financial statements may not be fully allocated to operating segments. She provided an example of a measure of segment profitability in which certain corporate headquarter costs are included in the operating income line item of the statement of operations but are not allocated to the registrant’s operating segments. In these circumstances, the staff will not consider the disclosure of segment operating income to be a non-GAAP measure *solely* because of the unallocated corporate headquarter costs.

Ms. Lowe observed that when determining reported segment profit or loss, entities should include segment allocations of revenues, expenses, and gains or losses only if they include such items in the measure of segment profit or loss that is used by the CODM. Ms. Lowe stated that the staff would not consider an additional measure of segment profit or loss to be a non-GAAP measure if it is calculated by using measurement principles that are consistent with the corresponding measure presented in the consolidated financial statements. For example, if a registrant presents segment gross profit as an additional measure of segment profit or loss that is calculated by using measurement principles that are consistent with gross profit as presented in the consolidated financial statements, the staff would not consider segment gross profit to be a non-GAAP measure. On the other hand, a similar measure that excludes amounts such as depreciation expense would be considered a non-GAAP measure.

Additional Measure Is a Non-GAAP Measure

During the panel on Division developments, Ms. Rocha highlighted the following:

- The staff would not object to a registrant’s voluntary inclusion, in the segment footnote, of additional non-GAAP performance measures that it discloses in accordance with ASC 280-10-50-28B and 50-28C (added by ASU 2023-07).
- Additional non-GAAP measures of segment profit or loss must meet the presentation and disclosure requirements of Regulation G and Regulation S-K, Item 10(e) (collectively, the “SEC’s non-GAAP rules”).
- A registrant may provide the additional disclosures required by the SEC’s non-GAAP rules within or outside the financial statements (e.g., in MD&A), and the financial statement footnotes should not include a cross-reference to other parts of a filing that contains such disclosures.
- In addition to the segment reconciliation under ASC 280-10-50-28C, a registrant must provide a quantitative reconciliation of the segment non-GAAP measure to the most comparable GAAP measure in accordance with Regulation G (e.g., the required segment GAAP measure).

- A registrant's internal control over financial reporting applies to the registrant's disclosures made in accordance with ASC 280. However, registrants should also ensure that they have the appropriate disclosure controls and procedures in place to address the non-GAAP measures, regardless of their location.

Audit-Specific Considerations

Division Chief Accountant Heather Rosenberger highlighted the following audit-specific considerations:

- The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework. Therefore, the auditor is required to evaluate whether the segment information is in conformity with ASC 280.
- The scope of the audit would not include whether a registrant has complied with any incremental disclosure requirements under the SEC's non-GAAP rules and interpretations. A registrant may elect to provide the incremental disclosures needed for complying with the SEC's non-GAAP rules in a location outside the financial statements, such as its MD&A. However, Ms. Rosenberger stated that for a registrant that elects to include such disclosures in the notes to the audited financial statements, "if an auditor does not audit that additional information, the information should be labeled as unaudited." The additional segment measures themselves cannot be labeled "unaudited" since they are presented and disclosed in accordance with ASC 280.
- If the SEC's non-GAAP disclosures are provided in the audited financial statements, auditors may emphasize in their audit opinion any items that were not subject to audit.
- The requirements in Regulation S-X, Rule 4-01(a), and PCAOB AS 2810 related to considerations about whether the financial statements themselves are misleading are applicable.

Ms. Rosenberger also noted that auditors have responsibilities under PCAOB AS 2710 related to the information included in the audited financial statements that is otherwise not audited.

Determining Whether a Measure of Segment Profitability Is Misleading

Ms. Rocha explained that a registrant would use the same SEC guidance it applies to other non-GAAP measures to evaluate an additional non-GAAP measure of segment profit or loss, including the [C&DIs](#) on misleading measures. Ms. Lowe noted that adjustments that render a non-GAAP measure of segment profitability misleading are inconsistent with Regulation G and that a change in disclosure would therefore be required. She observed that it is likely that the revised measure may not be one used by the CODM and that its disclosure in the segment footnote would thus not be permitted. In addition, a registrant's removal of the measure solely for such reason would not be considered an error correction under ASC 250. However, Ms. Lowe noted that the registrant should consider the disclosure change in its evaluation of the effectiveness of its disclosure controls and procedures.

Conversely, Ms. Lowe noted that removing a measure of segment profit or loss that is disclosed but was not used by the CODM in assessing segment performance or allocating resources would represent the correction of an error under ASC 250.

Non-GAAP Measures and Metrics

During the panel addressing Division developments, Ms. Rosenberger emphasized that non-GAAP measures continue to be one of the topics upon which the SEC staff comments most frequently, and both she and Ms. Lowe highlighted the following:

- *Prominence* — The SEC’s non-GAAP rules require presentation of the most directly comparable GAAP measure with equal or greater prominence. This requirement applies to *any* related discussion and analysis of a non-GAAP measure, including a ratio, table, chart, or graph that includes a non-GAAP measure.
- *Excluding normal, recurring, cash operating expenses* — A non-GAAP measure could be misleading if it excludes normal, recurring, cash operating expenses that are necessary for business operations. Ms. Lowe gave examples of adjustments that may be considered normal or recurring, such as losses on purchase commitments or inventory, rent expense when leased assets are integral to a company’s operations and generation of revenue, and cash compensation such as annual bonuses.

Ms. Rosenberger clarified that [C&DI Question 100.01](#) indicates that if a registrant presents a non-GAAP performance measure that excludes normal, recurring, cash operating expenses necessary to operate a registrant’s business, the measure could be considered misleading. However, she emphasized that “normal, recurring, and cash” are examples of factors and not all three need to be present for the exclusion of the expense to be misleading. For example, a write-down of inventory as an adjustment may not be a “cash” item, but it may still be both normal and recurring; therefore, exclusion of the write-down could be considered misleading.

- *Individually tailored accounting principles* — Adjustments that represent the application of individually tailored accounting principles are not limited to adjustments that accelerate revenue recognition. For example, the following could also be considered tailored accounting adjustments: changing the accounting for a lease from a sales-type lease to an operating lease, removing accelerated depreciation from measures other than EBITDA, and reversing the effects of purchase accounting after an acquisition.
- *Clear labeling* — When presenting non-GAAP measures, registrants should ensure that (1) they appropriately label each adjustment and (2) the accompanying disclosures provide investors with the information they need to clearly understand the nature of the measure or adjustment, including why the adjustment is being made.

Ms. Lowe also noted that [C&DI Question 102.09](#) requires a registrant to include the disclosure in MD&A of material items affecting its financial condition or liquidity and addresses the disclosure of material debt covenants. She stated that a registrant may include a measure that is calculated in accordance with a debt covenant in the liquidity and capital resources section of MD&A on the basis of its belief that the disclosure is necessary to comply with Regulation S-K, Item 303. The SEC staff would not object to the disclosure of such a measure, and such measure would not be subject to the SEC’s non-GAAP rules and regulations related to potentially misleading adjustments because it is required to be disclosed in MD&A by Commission rules.¹ However, she clarified that the staff *would* object to the measure if it is disclosed as a performance measure and includes an adjustment that renders the measure misleading.

¹ [Section IV.C](#) of the 2003 MD&A interpretive release states, in part:

There are at least two scenarios in which companies should consider whether discussion and analysis of material covenants related to their outstanding debt . . . may be required.

First, companies that are, or are reasonably likely to be, in breach of such covenants must disclose material information about that breach and analyze the impact on the company if material. . . .

Second, companies should consider the impact of debt covenants on their ability to undertake additional debt or equity financing. [Footnotes omitted]

Ms. Lowe further reminded registrants that when a covenant measure is disclosed, registrants should consider disclosing (1) the material terms of the credit agreement, including that the covenant is a material term; (2) the amount or limit required for compliance with the covenant; and (3) the actual or reasonably likely effects of compliance or noncompliance with the covenant on the registrant's financial condition and liquidity. Further, if the primary purpose of using the measure within the disclosures is to describe compliance with the covenant as of the most recent balance sheet date, registrants should carefully consider the appropriateness of including or discussing the measure, or both, for prior reporting periods. Doing so may indicate that the measure is being used as a performance measure, rather than a liquidity measure. Similarly, registrants should consider the appropriateness of disclosing covenant-related non-GAAP measures within an earnings release given that earnings releases generally address a company's performance.

For more information about this topic, see Deloitte's Roadmap [Non-GAAP Financial Measures and Metrics](#).

Emerging Risks and MD&A

Division Deputy Director of Disclosure Operations Cicely LaMothe briefly discussed disclosures related to current macroeconomic conditions that registrants may consider providing in the MD&A and risk factors sections, such as those associated with inflation, supply chain disruptions, and disruptions in the commercial real estate and banking industries. She also addressed disclosures about artificial intelligence (AI) and Pillar Two tax implementation.

Artificial Intelligence

Ms. LaMothe noted that references in Forms 10-K to the use of AI or other AI-related matters, largely in the MD&A and risk factors sections, have almost doubled in the past year. She observed that the SEC staff recently reviewed a sample of AI-related disclosures prepared by S&P 500 companies and determined that most were not tailored to an individual company or its business. Given that AI-related issues are diverse and depend on a company's size and needs, she emphasized that disclosures should reflect such diversity and cautioned that public companies should refrain from providing "boilerplate disclosures."

See Deloitte's March 2024 [Financial Reporting Spotlight](#) for more information about AI disclosure trends.

Ms. LaMothe indicated that when preparing specific and tailored disclosures about material AI risks, companies should take into account operational and market dynamics; cybersecurity and data privacy; discrimination and bias; intellectual property issues; litigation; cost and burdens of complying with international, federal, and state AI regulations; consumer protection concerns; and labor market effects.

She also reminded companies that they should have a basis for any claims they disclose about how technology may improve their results of operations, financial condition, or future prospects and opportunities. Further, she encouraged companies that have determined AI risks to be material to consider disclosing information about their AI risk management and corporate governance policies, including (if applicable) the oversight of such risks by the board of directors.

For more information about the SEC's focus on and expectations related to AI disclosures, see [Section 1.1](#) of Deloitte's Roadmap [SEC Comment Letter Considerations, Including Industry Insights](#).

Pillar Two Disclosures

Ms. Lowe highlighted MD&A disclosure considerations related to applying the Pillar Two global tax rules. Since MD&A must include discussion and analysis of significant economic changes that materially affect the amount of reported income from continuing operations, if a registrant's reported income tax is, or is likely to be, materially affected by the Pillar Two rules, the registrant's MD&A disclosure must contain a description of the extent of the economic impact on reported income. The SEC staff has observed that many registrants that have indicated that the Pillar Two rules could have a material impact did not quantify the effect on reported income, presumably because of the complexity of doing so under the rules. Ms. Lowe noted that as registrants have additional time to assess the impacts of Pillar Two on their results of operations or financial condition, the staff would expect registrants to enhance their disclosures (e.g., by quantifying the reasonably likely impact, if known and material). Such disclosures may need to include a range of reasonably likely outcomes when a registrant's specific facts and circumstances are uncertain.

For more information about the Pillar Two rules, see Deloitte's March 5, 2024 (last updated November 8, 2024), [Financial Reporting Alert](#).

Liquidity and Capital Resources

As reflected in recent editions of Deloitte's Roadmap [SEC Comment Letter Considerations, Including Industry Insights](#), MD&A has been the leading reason for SEC staff comments to registrants for the past several years. In light of this, Deloitte & Touche LLP Partner Patrick Gilmore asked Ms. Rocha whether there were any specific areas of staff focus related to MD&A and whether she had any reminders for registrants as they head into this year's annual report season.

Ms. Rocha acknowledged that MD&A is consistently a top focus of the SEC staff and that comments issued to registrants on MD&A have specifically addressed topics such as accounting estimates, impacts of current market events, and liquidity and capital resources. She reminded registrants that, as stated in Regulation S-K, Item 303(a):

- "The objective of the discussion and analysis is to provide material information relevant to an assessment of the financial condition and results of operations of the registrant including an evaluation of the amounts and certainty of cash flows from operations and from outside sources."
- "The discussion and analysis must be of the financial statements and other statistical data that the registrant believes will enhance a reader's understanding of the registrant's financial condition, cash flows and other changes in financial condition and results of operations."

Ms. Rocha addressed two areas on which registrants might focus: (1) changes in financial condition and (2) liquidity.

Regarding changes in financial condition, Ms. Rocha noted that it is not uncommon for MD&A to simply repeat amounts provided in the statement of cash flows, such as the change in accounts receivable and accounts payable. Registrants should ensure that their discussion of changes in financial condition includes insights into the underlying reasons for those changes from both a qualitative and a quantitative perspective. Ms. Rocha encouraged registrants to keep "answering the *why*" to arrive at a sufficiently detailed disclosure. For example, MD&A should explain *why* customers are taking longer to pay and *why* the registrant is having difficulty paying its bills. Further, Ms. Rocha noted that registrants might consider using liquidity-related metrics (e.g., days sales outstanding or days payable outstanding) to provide a more robust description of their financial condition and cash flows.

Ms. Rocha also noted that registrants with negative cash flows should expand their disclosure to address their plans to generate sufficient cash to meet their cash requirements, particularly in the short term. More specifically, such registrants should discuss how they will fund their operations and pay their bills in the absence of cash generation and how their cash deficiency will be remedied. In addition, Ms. Rocha highlighted that the more prolonged or significant the declines in liquidity become, the more robust the disclosures about those declines should be.

Regarding liquidity, Ms. Rocha addressed potential inconsistencies related to going-concern disclosures. Regulation S-K, Item 303(b)(1), requires that registrants analyze their ability to generate cash to meet requirements for the next 12 months and beyond the next 12 months. Further, if a deficiency is identified, Item 303 requires disclosure of the course of action taken or proposed to remedy the deficiency. Ms. Rocha noted that the SEC staff has issued comments to registrants related to the content and consistency of these required disclosures when the auditor has included a going-concern paragraph in the audit opinion, including comments requesting consideration of whether a risk factor disclosure should be added or enhanced. She also emphasized the need for registrants to ensure that their going-concern disclosures under ASC 205 are complete and adequate.

SEC Rulemaking

Throughout the conference, the SEC staff and other speakers discussed recent final SEC rules. For a summary of SEC rulemaking initiatives and relevant Deloitte resources, see [Appendix A](#).

Cybersecurity Rule

Sebastian Gomez, associate director of the Division's disclosure review program, provided an overview of the disclosures required under the SEC's final rule on cybersecurity risk management, strategy, governance, and incidents (the "cybersecurity rule"). He noted that under Form 8-K, Item 1.05, an issuer is required to disclose a cybersecurity incident within four business days after it determines that the incident is material rather than four business days after the incident occurred. He also highlighted that in a May 2024 [statement](#) on disclosure of cybersecurity incidents determined to be material and other cybersecurity incidents, Division Director Erik Gerding advised registrants to (1) reserve use of Item 1.05 for disclosures of material cybersecurity incidents and (2) use Form 8-K, Item 8.01, to voluntarily disclose cybersecurity incidents that have not been determined to be material or for which no materiality determination has yet been made. He also observed certain instances in which registrants had initially reported an incident on Item 8.01 because they had not yet concluded that the incident was material and later reported the incident on Item 1.05 when they determined that it was material.

The SEC staff has been reviewing every Form 8-K, Item 1.05, filed, and has observed that registrants have sufficiently disclosed the quantitative impacts of material incidents. However, Mr. Gomez emphasized that the cybersecurity rule itself requires disclosures of both quantitative and *qualitative* impacts to the registrant and encouraged registrants to consider qualitative impacts, including reputational damage and effects on material contracts or customer relationships, among others, in their disclosures.

Mr. Gomez said that the SEC staff has also reviewed a sample of the disclosures required in Form 10-K. He highlighted that the SEC's disclosure requirements do not specify the processes that a registrant should have; rather, they require registrants to disclose information about the processes they *do* have. Although Mr. Gomez observed that most registrants stated in their disclosures that they had a cybersecurity risk management process, he advised them to further elaborate on that process in sufficient detail for a reasonable investor to understand what processes are in place, including processes to oversee the risk of cybersecurity incidents at third-party service providers. He also highlighted the requirement to disclose the expertise of the management personnel responsible for managing cybersecurity risk and that such disclosure should be provided for each individual when a group of individuals is responsible.

Lastly, Mr. Gomez reminded registrants that the Inline XBRL tagging requirement for cybersecurity disclosures is effective in the second year the disclosures are required to be presented.

See Deloitte's July 30, 2023 (updated December 19, 2023), [Heads Up](#) for additional information about the cybersecurity rule and [Section 3.10](#) of Deloitte's Roadmap [SEC Comment Letter Considerations, Including Industry Insights](#).

SPAC Rule

On January 24, 2024, the SEC issued a [final rule](#) on financial reporting and disclosures for SPACs and mergers involving SPACs. During the panel on Division developments, Ms. Rocha explained that generally speaking, the financial statements presented for a private operating company in a de-SPAC registration statement should be the same as those presented for a private operating company in its own IPO registration statement. Accordingly, a private operating company that would qualify as an emerging growth company (EGC) in its own IPO may only present two years of financial statements in a registration or proxy statement related to a merger with a SPAC. The private operating company is not required to consider whether the SPAC currently qualifies as an EGC or whether the combined company will qualify as an EGC after the transaction.

Ms. Rocha also highlighted the following considerations related to a newly formed entity (a PubCo) that is created to effect the merger of a private operating company and a SPAC by legally acquiring both entities:

- The PubCo is considered a registrant that does not meet the definition of a business combination–related shell company. Accordingly, financial statements for the PubCo would be required in the registration statement. In addition, once a Form S-4 or Form F-4 registration statement is declared effective, the PubCo has a reporting obligation under Section 15(d) of the Securities Exchange Act of 1934, notwithstanding the fact that the transaction has not closed. The PubCo would therefore be required to file a periodic report when due.
- The final rule states that in a registration statement filed after the de-SPAC transaction, the financial statements of the SPAC should be included, as if the SPAC were the registrant, until the registration statement includes financial statements for a period that reflects the de-SPAC transaction. Accordingly, the SPAC's financial statements should be subject to a PCAOB audit or review, as applicable.
- Companies must disclose the difference between the offering price and net tangible book value per share, as adjusted. The objective of this disclosure is to show the net assets the SPAC would contribute to the postcombination registrant, and the registrant must disclose the net tangible book value, the numerator, the number of shares, the denominator, and any adjustments to each of those.

Clawback Rule

Among other provisions, the SEC's [final rule](#) on "clawback" policies (the "clawback rule") requires that the cover page of Forms 10-K, 20-F, and 40-F include two checkboxes that separately are used to indicate:

- "[W]hether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements" (the "first checkbox").
- "[W]hether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period" (the "second checkbox").

Given that the rule has been in effect for a year, Ms. Rosenberger outlined some observations related to disclosures and clarified certain requirements:

- If a registrant is required to prepare restatements of its quarterly filing before filing its Form 10-K (e.g., Form 10-Q/A), the registrant does not have to mark the first or second checkbox in its Form 10-K if it is making no additional error corrections. However, the registrant must still provide the disclosures required by Regulation S-K, Item 402(w).
- Clawback analysis disclosure must be provided even if a registrant concludes that no recovery is required. Such disclosure must include a brief explanation of why the recovery policy resulted in this conclusion.
- An XBRL block tag must be used for recovery disclosures.

First Checkbox

Ms. Rosenberger noted that registrants would only select the first checkbox to reflect the correction of an error, as defined in U.S. GAAP, that results in a change to previously issued annual financial statements (e.g., fiscal years in a previously issued Form 10-K). This includes (1) any required restatements, often referred to as “Big R” or “little r” restatements, and (2) any voluntary error corrections. It excludes out-of-period adjustments, which are adjustments made in the current period that are related to prior periods but do not change the amounts presented in the previously issued financial statements.

To illustrate this point, Ms. Rosenberger offered two examples:

- *Example 1* — In 2024, a registrant files a Form 10-K/A to correct a material error related to the 2023 financial statements. The registrant appropriately selects the first checkbox in its 2023 Form 10-K/A. The registrant does not need to select the first checkbox in its 2024 Form 10-K if it is making no additional error corrections beyond those reflected in the 2023 Form 10-K/A.
- *Example 2* — In 2024, a registrant reports the correction of a material error related to 2023 in a filing other than Form 10-K (e.g., a Form 8-K or registration statement), which did not have a checkbox on the cover page. In this example, the registrant would select the first checkbox on the cover of the 2024 Form 10-K because the form(s) used by the registrant did not include a checkbox to signal to investors that a restatement had occurred.

In addition, Ms. Rosenberger confirmed that the following changes to previously issued annual financial statements would not be considered the “correction of an error”:

- Changes made as a result of the implementation of a new accounting standard.
- Disaggregation of a financial statement line item even though what was provided in the previously issued financial statements may have changed (because it is presumed that the disaggregation does not reflect the correction of an error).
- Changes in accounting principle.
- A change in accounting method if the previous method used was not a misapplication of U.S. GAAP.

Second Checkbox

Ms. Rosenberger highlighted that the purpose of the second checkbox is to indicate whether, as a result of the error corrections related to the first checkbox, a recovery analysis would be required. She also clarified that:

- A “Big R” or “little r” restatement would trigger a requirement to select the second checkbox; however, a voluntary error correction would not.

- The checkbox must be selected even if no incentive-based compensation was received by executive officers during the prescribed recovery period.
- The checkbox must be selected even if incentive-based compensation received by executive officers during the recovery period was not based on financial reporting measures affected by the restatement.

See Deloitte's November 14, 2022, [Heads Up](#) for more information about the clawback rule.

Pay-Versus-Performance Rule

During the session on Division developments, Ms. LaMothe discussed staff observations related to pay-versus-performance disclosures after implementation of the August 2022 pay-versus-performance rule.

In the initial year of implementation, the staff generally took a high-level approach by issuing forward-looking comments to a random sample of companies after their annual meetings. In addition, the staff issued C&DIs to help registrants address the more common issues identified in the first-year reviews as they prepared their disclosures for the second year.

In the second year of implementation, the staff increased its engagement with companies, asking additional questions and obtaining additional analysis and information. Ms. LaMothe noted that in contrast to the first year, in which the staff found that a surprising number of companies omitted the relationship disclosures (between executive pay and company performance), either in whole or in part, the required relationship disclosures were largely provided in the second year.

However, Ms. LaMothe shared a few additional areas of improvement:

- *Net income requirement* — Registrants should disclose net income in pay-versus-performance tables, but many registrants have disclosed variations of net income, including net income that excludes noncontrolling interest (NCI). Ms. LaMothe reminded registrants that net income used in the table should align with net income in the income statement and should include net income attributable to NCI (see [C&DI Question 128D.08](#)).
- *Company-selected measures* — If a company-selected measure is a non-GAAP measure, filers must disclose how that non-GAAP measure is calculated from the audited financials. There is no requirement for numeric reconciliation to a GAAP measure; however, the company should provide a clear description that uses defined terms and avoids vague references to other unspecified adjustments. Lastly, the description may not be incorporated by reference from another filing.
- *Calculation of compensation actually paid* — There were not many issues identified related to the numeric calculation or valuation decisions made. However, Ms. LaMothe noted that it was difficult to determine how the disclosure requirements were met because the terminology used to describe the calculations did not align with that of the pay-versus-performance rule. Given the detailed nature of the required calculations, registrants should adhere to the terminology and the steps set out in the rule.

In addition, Ms. LaMothe noted that the calculation is based, in part, on the fair value of unvested stock options and awards that are outstanding at the end of the fiscal year. Such awards are included in the calculation until the vesting conditions are satisfied or the awards are forfeited. When retirement eligibility is the sole vesting condition, vesting occurs in the year the holder becomes retirement-eligible. However,

if other substantive conditions exist, registrants should take them into consideration when determining which conditions should be included in the calculation of compensation actually paid. In other words, registrants should follow legal vesting terms for these awards and continue to include them in the disclosure until (1) actual retirement or (2) completion of the service period or other substantive vesting condition, whichever occurs first. The determination of vesting for the pay-versus-performance disclosure should be based on whether the award has legally vested. See [C&DI Question 128D.18](#) for further clarification.

The final takeaway is that the pay-versus-performance rule, like many others, has structured data requirements that (1) help investors more readily assess disclosures and (2) help the staff in analyzing disclosures and providing high-level insights about registrant compliance with the various requirements.

Climate Rule

On March 6, 2024, the SEC issued a [final rule](#) that requires registrants to provide climate-related disclosures in their annual reports and registration statements, including those for IPOs, beginning with annual reports for the year ending December 31, 2025, for calendar-year-end large accelerated filers. However, in April 2024, the SEC issued a stay on the final rule pending the resolution of legal challenges.

The SEC staff did not discuss the rule's status at the conference. Regardless of the outcome, many U.S. companies will need to continue preparing to comply with state (e.g., California) or international (e.g., E.U. CSRD) climate reporting requirements.

Reverse Acquisitions

Ms. Rosenberger discussed an example consistent with previous discussions at the [March 2018](#) CAQ SEC Regulations Committee joint meeting with the SEC staff. The example concerns audit requirements related to pretransaction periods after a reverse merger involving two operating companies. In these situations, the target's premerger financial statements included in a related Form S-4, proxy statement, or Form 8-K may be audited in accordance with AICPA standards. However, once the financial statements of the target are presented as the registrant's historical financial statements (i.e., once the reverse merger is reported in an SEC filing), any reissuance of audited premerger target financial statements would have to be audited in accordance with PCAOB standards.

For example, assume that a private operating company completes a reverse merger with a public operating company in August 20X4. When the registrant files its annual report for the year ending December 31, 20X4, it would include the financial statements of the private operating company for the years ended December 31, 20X3, and 20X2. The financial statements for the years ended December 31, 20X4, 20X3, and 20X2 must be audited in accordance with PCAOB standards by a PCAOB-registered public accounting firm, and that firm needs to be independent under both PCAOB and SEC rules for all periods that are being presented.

See [Section 2.4.4.2](#) of Deloitte's Roadmap *SEC Reporting Considerations for Business Acquisitions* for further discussion.

PCAOB Developments and Other Auditing Matters

PCAOB Developments

In her keynote remarks, Ms. Williams highlighted recent progress made by the Board to support the PCAOB's key mission to protect investors. She reflected on the Board's priorities, objectives, and recent actions taken through standard setting, noting that such actions are starting to manifest in the form of positive trends in inspection results. Ms. Williams stated, "[In the past,] I have raised concerns about the unacceptable rise in deficiency rates that put investors at risk. . . . Today, I am pleased to stand before you and deliver the news that PCAOB inspectors are seeing significant improvements in the aggregate Part I.A deficiency rate from the largest firms." She further shared that she expects this positive trend to continue and urged auditors to keep up the momentum.

Ms. Williams also addressed stakeholder engagement in her keynote remarks. She stressed that "public feedback is absolutely vital to [the PCAOB's] work." In addition, she emphasized that the PCAOB has made transparency a priority by providing valuable information to stakeholders, such as by expanding (1) inspection reports to include new information about independence and other items and (2) the tools available on the [PCAOB's Web site](#) to enhance the understandability of the results of inspections.

Other participants at the conference similarly highlighted the importance of stakeholder engagement. In his keynote remarks, Mr. Munter emphasized the importance of stakeholders' "engaging constructively in the standard-setting process" with the PCAOB as it develops standards and rules and with the SEC as it approves such standards and rules. Further, during a panel discussion on the impact of PCAOB standard-setting and rulemaking activities on issuers, the panelists encouraged issuers and other stakeholders outside the audit profession to actively participate in the standard-setting process through the PCAOB's and SEC's comment letter processes. The PCAOB has approved and submitted proposals to the SEC on firm reporting and firm and engagement metrics that are still pending SEC approval. Interested parties are encouraged to submit comments to the SEC by December 26, 2024 ([firm reporting](#)), and January 2, 2025 ([firm and engagement metrics](#)).

PCAOB Standard-Setting, Research, and Rulemaking Projects

The PCAOB continues to actively pursue its mission to protect investors and further the public interest as it advances its standard-setting, research, and rulemaking agendas, which were updated in November 2024. Ms. Williams emphasized the need for auditing standards that are responsive to the needs of investors. In her keynote remarks, she observed that "[t]his year alone, the Board has taken more formal actions on standard-setting and rulemaking *than any year* since 2003 when the PCAOB was created — actions that investors **deserve** as they make decisions about their investments in the marketplace."

During her prepared remarks, PCAOB Chief Auditor Barbara Vanich summarized the key provisions of the standards and rules that the Board adopted in 2024, including those of the following:

- [General Responsibilities of the Auditor in Conducting an Audit \(AS 1000\)](#).
- [A Firm's System of Quality Control \(QC 1000\)](#).
- [Amendments Related to Aspects of Designing and Performing Audit Procedures That Involve Technology-Assisted Analysis of Information in Electronic Form \(Release No. 2024-007\)](#).
- [Firm and Engagement Metrics \(Release No. 2024-012\)](#).²

² Pending SEC approval.

See [Appendix C](#) for additional information about the PCAOB's standard-setting and rulemaking projects.

In addition, Ms. Vanich summarized PCAOB staff activities completed in 2024, such as the publication of (1) Spotlights on [generative AI](#) and [auditor responsibilities related to illegal acts](#), (2) a [fraud risk resources Web page](#), and (3) various implementation resources related to the new standards. Ms. Williams's keynote remarks also highlighted that while the standard-setting project on noncompliance with laws and regulations (NOCLAR) was not ready for adoption, the staff issued a Spotlight on the auditor's responsibilities related to illegal acts, which reminds auditors of various requirements under the existing PCAOB standards as well as Section 10A of the Securities Exchange Act of 1934.

Ms. Vanich concluded her remarks with year-end reminders for auditors. She highlighted, among other items, the importance of (1) designing and performing procedures to address the newly effective³ [AS 2310](#) on the auditor's use of confirmation, (2) evaluating the sufficiency of lead auditor participation under AS 2101,⁴ and (3) thoughtfully evaluating whether critical audit matters (CAMs) identified under AS 3101 are informative to investors and other users of the financial statements.

PCAOB Inspections

During the session on PCAOB inspection updates, Christine Gunia, director of the PCAOB's Division of Registration and Inspections (the "Inspections Division"), commented on the current state of audit quality, specifically remarking that inspections are the number one way that the Inspections Division drives improvements in audit quality. She noted that the Inspections Division is seeing improvements in deficiency rates in 2024 inspections.

Ms. Gunia highlighted the PCAOB staff's August 2024 [Spotlight](#) on 2023 inspection activities, reemphasizing that overall deficiency rates were unacceptably high. However, in a manner consistent with the sentiment expressed by Ms. Williams in her keynote remarks, Ms. Gunia stated that the 2023 inspection results "revealed the leveling off of the Part I.A aggregate deficiency rate at the U.S. Big Four audit firms" and that, for certain of those firms, the nature of the deficiencies was more isolated, signaling potential likely improvement in quality control systems at those firms.

Ms. Gunia also stated that to encourage audit quality, the Inspections Division issued twice as many staff [Spotlight publications](#) as it did in 2023. Topics addressed in those publications include root-cause analysis and auditor independence, among other topics.

In addition, Ms. Gunia highlighted 2025 PCAOB inspection priorities, all of which are discussed in detail in the PCAOB staff's December 2024 [Spotlight](#). Areas of inspection emphasis for 2025 include:

- Audit execution, including the determination of materiality, the scope of multi-location audits, and the use of technology in the audit and the related challenges created by internal or external pressures to reduce hours or fees.
- Implementation of new auditing standards.
- Audits in which a single CAM or no CAMs were reported.
- Audits of entities with increased use of technology, including generative AI.
- Audits of entities with material crypto asset holdings and significant transactions related to crypto assets.
- Audit firms' systems of quality control.
- Culture at audit firms.

³ AS 2310 is effective for audits of financial statements for fiscal years ending on or after June 15, 2025.

⁴ Specifically, paragraph .06A.

The 2025 selection process will prioritize public companies in the financial, real estate, and information technology sectors in light of the impacts of economic and geopolitical uncertainties and volatility.

Ms. Gunia concluded her remarks with a “call to action,” encouraging audit firms to focus efforts on developing and maintaining a strong quality control system, including centralized processes and monitoring and remediation efforts backed by robust root-cause analysis.

PCAOB Enforcement

William Ryan, chief counsel of the PCAOB’s Division of Enforcement and Investigations, gave an update on the PCAOB’s continued strength of enforcement, which included (1) expansion in both the types of cases pursued and the geographic reach of the PCAOB’s enforcement program and (2) imposition of meaningful sanctions. He shared highlights of enforcement activity from 2024 and the key areas that resulted in sanctions in 2024, including improper answer sharing on internal training exams, independence-related quality control violations at audit firms, failures in audit firms’ quality control systems, violations of PCAOB standards in connection with auditing revenue and receivables, and failure to cooperate with investigations. Public enforcement orders doubled from 2021 to 2022, and that level of activity has remained essentially the same in 2023 and 2024. However, as of November 30, 2024, the PCAOB increased civil penalties by \$15 million, from \$20 million in 2023 to \$35 million in 2024. This represents three successive years of record penalties imposed by the PCAOB. The Board has also increased its global reach on enforcement, since 45 percent of the Board’s 2024 disciplinary orders concerned non-U.S. firms or associated persons. Public enforcement orders also included the first-ever sanctions for partners of a mainland China-based global network firm.

Mr. Ryan noted that, looking forward to 2025, the Division of Enforcement and Investigations will continue to prioritize investigations involving significant audit violations that present risks to investors, matters related to significant independence violations, and matters that threaten the integrity of the Board’s regulatory oversight process.

Auditor Independence

Auditor independence was once again a recurring and important theme of the conference. Mr. Munter and others in the OCA emphasized the importance of auditor independence in both their prepared remarks and the Q&A sessions. In his keynote remarks, Mr. Munter stated that “[f]or auditors, the foundation of . . . trust lies in the auditor’s required independence. Every member of an audit firm [regardless of service line] should keep this in mind, and audit firm leadership should reinforce this message by actively championing the principles in the auditor independence rules.” Shehzad Niazi, SEC deputy chief counsel, took this sentiment further and stated that the audit committee and entity management also share responsibility with respect to auditor independence.

OCA Senior Associate Chief Accountant Anita Doult provided observations regarding recent violations of independence requirements, noting that many were committed by non-U.S. members of network firms that either (1) may not fully understand the independence requirements of the SEC and PCAOB or (2) may lack proper quality controls within their firm to monitor compliance with such requirements. She underscored the importance of timely evaluation of auditor independence and, in some cases, reevaluation when warranted by a change in facts and circumstances (e.g., when an entity under audit is preparing for its initial public offering, or when there is a change in the lead auditor).

Ms. Vanich echoed the importance of auditor independence and encouraged all to review PCAOB Rules 3524, 3525, and 3526 when preparing for year-end activities to keep the requirements therein top of mind, especially those related to communication and interaction between auditors and audit committees.

Profession-Wide Matters

Audit Quality

Many conference speakers emphasized the importance of audit quality. During his prepared remarks and in a Q&A session, Mr. Munter stressed that audit quality — in both the audit execution and the development of auditing standards — is important in protecting investors and supporting capital formation. In his keynote address, Mr. Munter stated the following:

Essential to the cooperative efforts of all interested parties involved [in standard setting] is a continued focus on the underlying objective to provide high-quality financial information, supported by high-quality independent audits, for the benefit of investors. The development of high-quality standards, and high-quality implementation of those standards, leads to investors receiving decision-useful financial information and promotes investor confidence in our markets, which results in a lower cost of capital for issuers.

During the Q&A session, Mr. Munter reemphasized the value of the audit and the important role that high-quality audits play in facilitating capital formation.

In her remarks, Ms. Williams echoed Mr. Munter's sentiments, stating that "[a]n audit is not a commodity, and it never should be viewed as such. The audit, and the auditors who carry it out, protect investors." In addition, PCAOB Board Member George Botic emphasized that high-quality audits, and the trust resulting therefrom, fundamentally support the efficient allocation of capital throughout the capital markets.

Talent

The need to foster talent and build the pipeline for the audit profession was discussed during multiple conference sessions, beginning with AICPA Board Member Wesley Bricker's welcome remarks and Mr. Munter's keynote address. Mr. Munter stated that he believes that the profession is at an inflection point regarding the attraction and retention of talented individuals who are dedicated to serving the public interest. During the PCAOB keynote session, Ms. Williams also suggested that audit firms consider how the remote and hybrid work environment has affected the apprenticeship model for on-the-job training and development of professionals. Mr. Bricker emphasized the profession's responsibility in supporting and developing both the current and the next generation of accountants, focusing on education, apprenticeship, and the many opportunities that the accounting profession offers. Further, during the CAQ update, panelists highlighted the importance of engaging with students, at various points in their academic careers, about the accounting profession and understanding what motivates them in choosing a career. Panelists cited their research findings that fulfillment, stability, and corporate culture were the top three motivators.

Audit Firm Culture and Ethical Behavior

The importance of maintaining a culture of professionalism and a commitment to the public interest was a central theme at the conference. In his remarks, Mr. Munter emphasized the critical role of a strong ethical culture and tone at the top in empowering accountants to exercise professional skepticism and challenge management when necessary. Both Mr. Munter and Ms. Doult discussed the concept of the "mood in the middle" and "buzz at the bottom," emphasizing that immediate supervisors play a crucial role in influencing staff behavior and that leaders not only need to set a positive tone at the top but also ensure that such tone flows through the rest of the organization. Ms. Doult called for operationalizing ethical behavior at all levels to create an environment in which questioning and probing are encouraged.

During the Q&A session, Mr. Munter stressed that a firm's commitment to audit quality must be ingrained in its culture, starting from leadership and permeating throughout the organization. He also discussed the impact of alternative practice structures, including private equity investments in accounting firms, on firm culture and audit quality. While such structures

give accounting firms access to capital, a shift in decision-making rights may also cause a shift in a firm's commitment to audit quality and to protecting the public interest. Firms must proactively manage these risks and prioritize audit quality and ethical behavior.

Ms. Williams shared insights from the PCAOB's initiative related to examining firm culture and its impact on audit quality. As part of this initiative, the PCAOB reviewed inspection results, including those associated with quality control systems, and internal messaging of U.S. global network firms. The Board also interviewed leadership and audit partners at those firms. See the PCAOB's December 2024 [Spotlight](#) on this initiative for more information.

During her remarks, Ms. Williams noted that firm culture drives audit quality, either negatively or positively, and she stressed the importance of accountability and the need for firms to align incentives with behaviors that promote audit quality. She also noted that firm leadership may send mixed messages and urged firm leaders to prioritize ethical behavior and professionalism over financial considerations.

While many speakers focused on audit firm culture, members of other professions, including those that prepare financial information, face similar challenges. Mr. Munter noted that recent high-profile cases of unethical behavior involving accountants and issuers have had an adverse impact on the profession and global capital markets as a whole. He remarked that "[a]ccountants serve as important gatekeepers to promote the integrity of our markets and protect investors regardless of whether they are internal or external auditors, preparers, tax professionals, audit committee members, or serve in other roles. The value of an accountant's services depends on their credibility and trustworthiness. Trust is hard to gain and easy to lose, both individually and as a profession, so accountants should consider the importance of building and maintaining trust every single day."

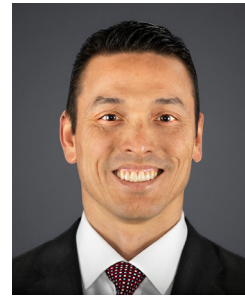
Generative AI and Technology

The transformative potential of generative AI and emerging technologies was highlighted throughout the conference. During the panel on expert insights and solutions, participants addressed challenges hindering widespread adoption of generative AI models, including the reliability of model outputs. In the session, and in another panel on the future of AI, participants discussed the broad and diverse applications of these innovations and emerging technologies in accounting, including the power of generative AI, the ways they currently use it, and potential future uses. When asked about the impact of these technologies on the workforce, panelists expressed optimism and emphasized the critical importance of upskilling.

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Appendix A — Summary of SEC Rulemaking

The table below summarizes selected recent SEC final rules related to financial reporting and provides links to relevant Deloitte resources that contain additional information about them.

Final Rules	Summaries and Deloitte Resources
<p><i>Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure</i></p> <p>The rule became effective September 5, 2023, and disclosures are required in annual reports beginning with fiscal years ending on or after December 15, 2023. Reporting of material cybersecurity incidents on Form 8-K or Form 6-K began December 18, 2023, for entities that are not smaller reporting companies (SRCs) and June 15, 2024, for SRCs.</p>	<p>Summary: The final rule established new requirements related to reporting the following:</p> <ul style="list-style-type: none"> • <i>Annual cybersecurity disclosures</i> — Registrants must provide annual disclosures on Form 10-K, Item 1C (or Form 20-F, Item 16K), about how they assess, identify, and manage material risks from cybersecurity threats and their board of directors' role in the oversight of such risks. • <i>Material cybersecurity incidents</i> — Within four business days after determining that a cybersecurity incident is material, registrants must file a Form 8-K or Form 6-K to describe the incident's nature, scope, timing, and impacts. <p>Additional Information: July 30, 2023 (updated December 19, 2023), Heads Up.</p>
<p><i>Listing Standards for Recovery of Erroneously Awarded Compensation</i></p> <p>The rule became effective January 27, 2023, and the NYSE and Nasdaq listing requirements became effective October 2, 2023. Issuers were required to adopt a written "clawback" policy no later than December 2, 2023, and provide related disclosures after adopting such policy.</p>	<p>Summary: The final rule requires issuers to adopt a written policy to "claw back" excess executive compensation for the three fiscal years before the determination of a restatement regardless of whether an executive officer had any involvement in the restatement. An issuer is also required to (1) disclose its recovery policy in an exhibit to its annual report, (2) include new checkboxes on the cover of Form 10-K, Form 20-F, and Form 40-F that disclose the correction of an error in previously issued financial statements and the performance of a compensation recovery analysis, and (3) disclose other information about the restatement and amounts of compensation clawed back.</p> <p>Additional Information: November 14, 2022, Heads Up.</p>
<p><i>Pay Versus Performance</i></p> <p>The rule became effective October 11, 2022, and applies to proxy and information statements that must include Regulation S-K, Item 402, disclosures for fiscal years ending on or after December 16, 2022.</p>	<p>Summary: The final rule requires certain registrants to provide disclosures about executive pay and company performance within any proxy statement or information statement for which executive compensation disclosures are required.</p> <p>Additional Information: September 2, 2022, Heads Up.</p>
<p><i>Special Purpose Acquisition Companies, Shell Companies, and Projections</i></p> <p>The rule became effective July 1, 2024, and applies to any filings made on or after the effective date.</p>	<p>Summary: The final rule aims to (1) "enhance investor protections in initial public offerings [IPOs] by [SPACs] and in subsequent business combination transactions between SPACs and private operating companies [also known as de-SPAC transactions]" and (2) "more closely align the treatment of private operating companies [target companies] entering the public markets through de-SPAC transactions with that of companies conducting traditional IPOs."</p> <p>Additional Information: February 6, 2024, Heads Up and Appendix D of Deloitte's Roadmap Initial Public Offerings.</p>

Final Rules

The Enhancement and Standardization of Climate-Related Disclosures for Investors

The rule was issued March 6, 2024, and was intended to apply to annual reports and registration statements, beginning with annual reports for the year ending December 31, 2025, for large accelerated filers. However, the SEC stayed the rule's effective date on April 4, 2024, pending the resolution of litigation in the U.S. Court of Appeals for the Eighth Circuit, which is still in process.

Summaries and Deloitte Resources

Summary: The rule would require registrants to provide climate-related disclosures in their annual reports and registration statements. In the footnotes to the financial statements, registrants must provide information about (1) specified financial statement effects of severe weather events and other natural conditions, (2) certain carbon offsets and renewable energy certificates, and (3) material impacts on financial estimates and assumptions as a result of severe weather events and other natural conditions or disclosed climate-related targets or transition plans. Disclosures required outside of the financial statements include the following:

- For large accelerated filers and accelerated filers, material Scope 1 and Scope 2 greenhouse gas emissions, subject to assurance requirements that will be phased in.
- Governance and oversight of material climate-related risks.
- The material impact of climate risks on the company's strategy, business model, and outlook.
- Risk management processes for material climate-related risks.
- Material climate targets and goals.

Additional Information: March 6, 2024 (last updated April 8, 2024), [Heads Up](#).

Appendix B — Summary of FASB Activities

The tables below summarize — and provide links to Deloitte publications about — recent FASB guidance and activities that presenters and panelists discussed throughout the conference.

Final ASUs	Summaries and Deloitte Publications
<p>ASU 2023-07, <i>Improvements to Reportable Segment Disclosures</i></p> <p>The amendments in ASU 2023-07 are effective for all public business entities (PBEs) for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted.</p>	<p>Summary: The ASU's main provisions include the following:</p> <ul style="list-style-type: none"> • <i>Significant segment expenses</i> — On both an annual and an interim basis, significant segment expenses by reportable segment must be disclosed if they are regularly provided to the CODM and included in each reported measure of segment profit or loss. • <i>Other segment items</i> — On both an annual and an interim basis, other segment items by reportable segment must be disclosed. Such a disclosure would constitute the difference between reported segment revenues and the significant segment expenses (disclosed) less the reported measure of segment profit or loss. • <i>Interim disclosure changes</i> — On an interim basis, all existing annual disclosures about segment profit or loss must be provided in addition to disclosure of significant segment expenses and other segment items as noted above. • <i>Multiple measures of a segment's profit or loss</i> — On both an annual and an interim basis, entities may disclose more than one measure of segment profit or loss used by the CODM provided that at least one of the reported measures includes the segment profit or loss measure that is most consistent with GAAP measurement principles. • <i>CODM-related disclosures</i> — On an annual basis, entities must disclose the CODM's title and position as well as an explanation of how the CODM uses the reported measure(s) and other disclosures. • <i>Entities with a single reportable segment</i> — Entities with a single reportable segment must apply all of the disclosure requirements of ASU 2023-07, as well as all existing segment disclosure and reconciliation requirements in ASC 280, on both an annual and an interim basis. • <i>Recasting of prior-period segment information to conform to current-period segment information</i> — Recasting is required if segment information regularly provided to the CODM is changed in a manner that causes the identification of significant segment expenses to change. <p>Additional Information: November 30, 2023 (last updated September 10, 2024), Heads Up and August 28, 2024, Heads Up.</p>
<p>ASU 2023-09, <i>Improvements to Income Tax Disclosures</i></p> <p>The amendments in ASU 2023-09 are effective for PBEs for fiscal years beginning after December 15, 2024. Entities other than PBEs have an additional year to adopt the guidance. Early adoption is permitted.</p>	<p>Summary: The ASU establishes new income tax disclosure requirements in addition to modifying and eliminating certain existing requirements. Under the ASU, entities must consistently categorize and provide greater disaggregation of information in the rate reconciliation.</p> <p>Additional Information: January 18, 2024, Heads Up.</p>

(Table continued)

Final ASUs	Summaries and Deloitte Publications
<p data-bbox="110 205 776 235">ASU 2024-03, <i>Disaggregation of Income Statement Expenses</i></p> <p data-bbox="110 243 776 359">The amendments in ASU 2024-03 are effective for all PBEs for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027. Early adoption is permitted.</p>	<p data-bbox="824 205 1520 380">Summary: The ASU requires disaggregated disclosure of income statement expenses for PBEs. The amendments do not change the expense captions an entity presents on the face of the income statement; rather, they require disaggregation of certain expense captions into specified categories in disclosures within the footnotes to the financial statements.</p> <p data-bbox="824 401 1520 548">The specified categories are (1) purchases of inventory, (2) employee compensation, (3) depreciation, (4) intangible asset amortization, and (5) depreciation, depletion, and amortization recognized as part of oil- and gas-producing activities or other types of depletion expenses.</p> <p data-bbox="824 562 1520 594">Additional Information: November 8, 2024, Heads Up.</p>
Proposed Guidance and Other Activities	Summaries and Deloitte Publications
<p data-bbox="110 707 776 764">Proposed ASU, <i>Targeted Improvements to the Accounting for Internal-Use Software</i></p> <p data-bbox="110 772 776 804">Comments on the proposed ASU are due by January 27, 2025.</p>	<p data-bbox="824 707 1520 909">Summary: The proposed ASU would amend certain aspects of the accounting for and disclosure of software costs under ASC 350-40. Rather than revising the guidance on this topic in its entirety, the FASB is proposing targeted improvements to address specific issues raised by stakeholders. In addition, the proposed ASU does not amend the cost guidance for software licenses that are within the scope of ASC 985-20.</p> <p data-bbox="824 930 1520 957">Additional Information: November 5, 2024, Heads Up.</p>
<p data-bbox="110 978 776 1035">Proposed ASU, <i>Accounting for Government Grants by Business Entities</i></p> <p data-bbox="110 1043 776 1075">Comments on the proposed ASU are due by March 31, 2025.</p>	<p data-bbox="824 978 1520 1180">Summary: The proposed ASU would add guidance to ASC 832 on the recognition, measurement, and presentation of government grants. In the absence of such guidance, many companies have analogized to other GAAP, including IAS 20 or ASC 958-605, when accounting for these grants. In developing the proposed ASU's recognition and measurement framework, the FASB largely leveraged the guidance in IAS 20.</p> <p data-bbox="824 1199 1520 1228">Additional Information: November 26, 2024, Heads Up.</p>
<p data-bbox="110 1249 776 1278">Proposed ASU, <i>Hedge Accounting Improvements</i></p> <p data-bbox="110 1287 776 1375">Comments on the proposed ASU were due November 25, 2024. The FASB plans to redeliberate the proposed guidance after reviewing stakeholder feedback.</p>	<p data-bbox="824 1249 1520 1423">Summary: The proposed ASU would amend certain facets of the hedge accounting guidance in ASC 815. It is intended to address issues raised by stakeholders during the implementation of ASU 2017-12 and more recent concerns that have surfaced as a result of the global reference rate reform initiative.</p> <p data-bbox="824 1444 1520 1474">Additional Information: September 30, 2024, Heads Up.</p>

(Table continued)

Proposed Guidance and Other Activities	Summaries and Deloitte Publications
<p data-bbox="100 201 764 285">Proposed ASU, <i>Derivatives Scope Refinements and Scope Clarification for a Share-Based Payment From a Customer in a Revenue Contract</i></p> <p data-bbox="100 296 764 386">Comments on the proposed ASU were due October 21, 2024. The FASB plans to redeliberate the proposed guidance after reviewing stakeholder feedback.</p>	<p data-bbox="824 201 1520 495">Summary: The proposed ASU would refine the scope of ASC 815 to exclude certain “contracts with underlyings based on operations or activities specific to one of the parties to the contract.” Contracts that may qualify for this exception would include those in which the underlying is a business operation or an event such as obtaining regulatory approval or achieving specific business milestones. The proposal would also change how the “predominant characteristics” of a contract are assessed when a contract has multiple underlyings, some of which qualify for scope exceptions and some of which do not.</p> <p data-bbox="824 506 1520 768">In addition, the amendments would clarify that when an entity has a right to receive a share-based payment from its customer in connection with a contract with that customer, the entity would account for the share-based payment as noncash consideration within the scope of ASC 606. That is, the proposed ASU states that “unless and until the share-based payment is recognized as an asset” in accordance with ASC 606, the right to receive the share-based payment would not be within the scope of ASC 815 or ASC 321.</p> <p data-bbox="824 789 1390 821">Additional Information: August 2, 2024, Heads Up.</p>
<p data-bbox="100 842 764 894">Proposed ASU, <i>Interim Reporting (Topic 270) — Narrow Scope Improvements</i></p> <p data-bbox="100 905 764 936">Comments on the proposed ASU are due by March 31, 2025.</p>	<p data-bbox="824 842 1520 1104">Summary: The proposed ASU aims to clarify the interim reporting requirements in ASC 270. The FASB issued the proposal in response to concerns from stakeholders regarding the complexity of applying these requirements. While the FASB notes that the proposal's objective is to make the guidance more understandable and easier to navigate, the amendments are not intended to “change the fundamental nature of interim reporting or expand or reduce current interim disclosure requirements.”</p> <p data-bbox="824 1115 1446 1146">Additional Information: November 18, 2024, Heads Up.</p>
<p data-bbox="100 1167 764 1220">Proposed ASU expected on the accounting for environmental credits</p> <p data-bbox="100 1230 764 1293">The FASB is expected to issue a proposed ASU, with a 90-day comment period, in connection with this project.</p>	<p data-bbox="824 1167 1520 1398">Summary: In May 2022, the FASB added to its technical agenda a project on the accounting for environmental credit programs. The objective of the project is to improve the recognition, measurement, presentation, and disclosure requirements related to (1) environmental credits and, when applicable, (2) compliance obligations incurred by an entity. Currently, the treatment of such credits and liabilities is not explicitly addressed in U.S. GAAP.</p> <p data-bbox="824 1419 1430 1457">Additional Information: February 22, 2024, Heads Up.</p>

(Table continued)

Proposed Guidance and Other Activities	Summaries and Deloitte Publications
<p data-bbox="99 201 764 258">Invitation to Comment, <i>Financial Key Performance Indicators for Business Entities</i></p> <p data-bbox="99 268 621 296">Comments on the ITC are due by April 30, 2025.</p>	<p data-bbox="824 201 1520 495">Summary: The FASB has previously explored the topic of KPIs, most recently in its 2021 agenda consultation ITC, which generated diverse feedback. Some investors observed that defining KPIs in GAAP would provide “a common starting point” and thereby enhance comparability. Others, including certain preparers, commented that standardization may not be necessary and highlighted that management may be best equipped to determine its KPIs. While at that time the Board decided not to include this topic in its technical agenda, it added the project to its research agenda.</p> <p data-bbox="824 512 1520 716">The ITC defines a financial KPI as “any financial measure that is calculated or derived from the financial statements and/or underlying accounting records that is not presented in the GAAP financial statements.” An example of this would be a current ratio calculated as current assets divided by current liabilities, which would be derived from amounts presented in a classified balance sheet.</p> <p data-bbox="824 732 1446 758">Additional Information: November 25, 2024, Heads Up.</p>
<p data-bbox="99 779 764 842">Invitation to Comment expected on the accounting for and disclosure of intangibles</p> <p data-bbox="99 852 764 905">The FASB is expected to issue an ITC by the end of 2024 in connection with this project.</p>	<p data-bbox="824 779 1520 963">Summary: The FASB chair announced at the Board’s May 8, 2024, meeting that the staff was working on an ITC related to the research project on accounting for and disclosure of intangibles. The ITC is expected to address ways to improve the accounting for and disclosure of intangibles, including internally developed intangibles and research and development.</p>

Appendix C — Summary of PCAOB Standard-Setting and Rulemaking Activities

The table below summarizes selected recent PCAOB standard-setting and rulemaking activities and provides links to relevant resources that contain additional information about them.

Recently Completed Projects	Summaries and Resources
Supervision of Other Auditors	<p>Summary: Amendments to existing auditing standards and adoption of a new standard to strengthen requirements that apply to audits involving multiple audit firms. These changes:</p> <ul style="list-style-type: none">Specify certain procedures for the lead auditor to perform when planning and supervising an audit that involves other auditors.Apply a risk-based supervisory approach to the lead auditor’s oversight of other auditors for whose work the lead auditor assumes responsibility. <p>Both the amendments and the new standard are effective for audits of fiscal years ending on or after December 15, 2024.</p> <p>Available PCAOB Staff Implementation Resources:</p> <ul style="list-style-type: none">Staff Presentation: Audits Involving Other Auditors: Overview of Amendments to PCAOB Standards (Part 1) (November 2023).Staff Presentation: Audits Involving Other Auditors: Overview of Amendments to PCAOB Standards (Part 2) (November 2023).
Confirmation (AS 2310)	<p>Summary: A new auditing standard to strengthen and modernize the requirements for the auditor’s use of confirmations. The new standard establishes principles-based requirements that apply to all methods of confirmation, including electronic and paper-based communications. In addition, the new standard better integrates with the PCAOB’s risk assessment standards.</p> <p>The new auditing standard is effective for audits of fiscal years ending on or after June 15, 2025.</p> <p>Available PCAOB Staff Implementation Resources:</p> <ul style="list-style-type: none">Staff Presentation: The Auditor’s Use of Confirmation: An Overview of New AS 2310 (November 2024).

Recently Completed Projects	Summaries and Resources
Quality Control (QC 1000)	<p data-bbox="824 205 1520 380">Summary: A new standard that will require all PCAOB registered firms to design a quality control (QC) system. Among other things, the new standard also requires that firms establish quality objectives, identify and assess quality risks to achieve the objectives, and design and implement quality responses to address those risks.</p> <p data-bbox="824 401 1520 663">The applicability of certain requirements in the standard is based on the size of the firm; while the largest firms are subject to the standard's more stringent requirements, smaller firms are expected to comply with the standard's core requirements in ways that take into account the size of those firms and the complexity of the audits performed. For firms with more than 100 issuers, the new standard also includes a new requirement to have an external oversight function (e.g., an Engagement Quality Control Function or EQCF).</p> <p data-bbox="824 684 1520 858">The new standard is effective on December 15, 2025. The first evaluation period is for the period beginning on the effective date of the standard (i.e., December 15, 2025) and ending on September 30, 2026. The firm's first evaluation must be reported to the PCAOB on Form QC by no later than November 30, 2026.</p> <p data-bbox="824 879 1520 911">Additional Information: Deloitte's June 18, 2024, Heads Up.</p> <p data-bbox="824 932 1422 963">Available PCAOB Staff Implementation Resources:</p> <ul data-bbox="865 974 1520 1358" style="list-style-type: none"> • Staff Guidance — Insights for Firms; QC 1000: A Firm's System of Quality Control (November 2024). • Staff Guidance — Insights for Firms; AS 2901: Responding to Engagement Deficiencies After Issuance of the Auditor's Report (November 2024). • Practice Aid: Providing a High-Level Overview of Certain Features Unique to QC 1000, A Firm's System of Quality Control (October 2024). • Comparison of QC 1000 With ISQM 1 and SQMS 1 (October 2024). • Staff Presentation: A Firm's System of Quality Control: An Overview QC 1000 (October 2024).

Recently Completed Projects	Summaries and Resources
General Responsibilities of the Auditor in Conducting an Audit (AS 1000)	<p>Summary: A new standard that modifies, clarifies, and streamlines a group of auditing standards that were adopted on an interim basis by the PCAOB. The new standard addresses the general principles and responsibilities of the auditor, such as due professional care, professional skepticism, competence, and professional judgment. The amendments also clarify the requirements for audit documentation and accelerate the period in which the auditor assembles a complete and final set of audit documentation for retention from 45 days to 14 days.</p> <p>The new standard is effective for audits of fiscal years beginning on or after December 15, 2024, except for the documentation completion requirement. For registered firms with less than 100 issuer audits, the 14-day documentation completion date is effective for audits of financial statements for fiscal years beginning on or after December 15, 2025.</p> <p>Additional Information: Deloitte's June 18, 2024, Heads Up.</p> <p>Available PCAOB Staff Implementation Resources:</p> <ul style="list-style-type: none"> • AS 1000 Implementation Knowledge Check.
Amendments Related to Aspects of Designing and Performing Audit Procedures That Involve Technology-Assisted Analysis of Information in Electronic Form	<p>Summary: Amendments to existing auditing standards to more specifically address certain aspects of designing and performing audit procedures that involve analyzing information in electronic form with technology-based tools (i.e., technology-assisted analysis). The amendments include new requirements for evaluating the reliability of external information provided by the company in electronic form and used as audit evidence.</p> <p>The amendments are effective for audits of fiscal years beginning on or after December 15, 2025.</p> <p>Additional Information: Deloitte's June 18, 2024, Heads Up.</p>
Contributory Liability	<p>Summary: Amendment to Rule 3502, previously titled <i>Responsibility Not to Knowingly or Recklessly Contribute to Violations</i>. The rule governs 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 are enforced by the PCAOB. Under the updated rule, an associated person must have contributed to the firm's violation directly, substantially, and negligently to be held liable.</p> <p>The amendment became effective on October 19, 2024.</p> <p>Additional Information: Deloitte's June 18, 2024, Heads Up.</p>

(Table continued)

Recently Completed Projects	Summaries and Resources
Registration (Constructive Requests to Withdraw From Registration)	<p>Summary: Amendment to existing Rule 2107, with new paragraph (h), which establishes a new procedural mechanism to withdraw a firm's registration when it has failed to file annual reports on PCAOB Form 2 and pay annual fees for at least two consecutive reporting years.</p> <p>The amendment is effective for annual reports and annual fees that are due in 2025, subject to SEC approval.</p> <p>Other Key Dates:</p> <ul style="list-style-type: none">• Adopted by the PCAOB on November 14, 2024.• Pending SEC approval, the period to submit comments on the proposed rule⁵ to the SEC closed on December 12, 2024. SEC action⁶ is expected by December 30, 2024.
Firm and Engagement Metrics	<p>Summary: A project that includes the issuance of a new rule (Rule 2203C), amendments to existing Rule 3211, and other conforming amendments. The new and amended rules require registered firms to report specified firm-level metrics on new Form FM, <i>Firm Metrics</i>, and engagement-level metrics on amended and renamed Form AP, <i>Audit Participants and Metrics</i>.</p> <p>The amendments are effective on October 1, 2027, and firms that issue audit reports for 100 or fewer issuers will begin reporting one year later, subject to SEC approval.</p> <p>Other Key Dates:</p> <ul style="list-style-type: none">• Adopted by the PCAOB on November 21, 2024.• Pending SEC approval; interested parties are encouraged to submit comments on the proposed rule⁷ to the SEC by January 2, 2024. SEC action⁸ is expected by January 25, 2025.

⁵ The PCAOB has submitted to the SEC a proposed rule to implement the amendments. As part of the SEC approval process, the SEC has published a notice in the [Federal Register](#) soliciting comments on the proposed rule.

⁶ As described in the proposed rule, within 45 days of the date of publication in the [Federal Register](#) (or longer, in which case the rationale will be published), the SEC will approve or disapprove such proposed rules, or institute proceedings to determine whether the proposed rules should be disapproved.

⁷ See footnote 5.

⁸ See footnote 6.

(Table continued)

Recently Completed Projects	Summaries and Resources
Firm Reporting	<p>Summary: Amendments to rules related to annual and special reporting requirements for registered public accounting firms to facilitate a firm's disclosure of more complete, standardized, and timely information. The resulting changes include enhanced reporting of firm financial, governance, and network information; timelier and expanded special reporting; and cybersecurity reporting, among other topics.</p> <p>The applicability of certain requirements in the amendments is based on the size of the firm; while the largest firms are subject to all requirements, smaller firms are expected to comply with the amendments' core requirements in ways that take into account the size of those firms and the complexity of the audits performed.</p> <p>Annual and special reporting requirements will become effective as of March 31, 2027; for smaller firms, one year later, subject to SEC approval. To align with the effective date of QC 1000, the Form QCPP will become effective on December 15, 2025, and the deadline for filing is 30 days thereafter on January 14, 2026, also subject to SEC approval.</p> <p>Other Key Dates:</p> <ul style="list-style-type: none">• Adopted by the PCAOB on November 21, 2024.• Pending SEC approval; interested parties are encouraged to submit comments on the proposed rule⁹ by December 26, 2024. SEC action¹⁰ is expected by January 19, 2025.

Short-Term Projects

The table below lists the six short-term standard-setting projects on the PCAOB's agenda, many of which address updates to the interim auditing standards that the Board adopted in 2003. Each project is under active development by the PCAOB (i.e., action, such as the issuance of a proposed or final standard, is expected within 12 months).

Proposed Guidance	Summaries
Noncompliance With Laws and Regulations	To be determined pending analysis of comment letters on the proposal issued on June 6, 2023, and the roundtable held on March 6, 2024, as well as responses to targeted inquiries to firms about their approach related to noncompliance with laws and regulations or illegal acts.
Attestation Standards Update	Proposal expected in 2025.
Going Concern	Proposal expected in 2025.
Substantive Analytical Procedures	Adoption expected in 2025.
Inventory	Proposal expected in 2025.
Auditor Reporting in Specified Circumstances	Proposal expected in 2024.

⁹ See [footnote 5](#).

¹⁰ See [footnote 6](#).

Appendix D — Titles of Standards and Other Literature

AICPA Literature

Accounting and Valuation Guide *Business Combinations*

Accounting and Valuation Guide *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*

Audit and Accounting Guide *Airlines*

Audit and Accounting Guide *Not-for-Profit Entities*

Practice Aid *Accounting for and Auditing of Digital Assets*

FASB Literature

For titles of *FASB Accounting Standards Codification* references, see Deloitte's ["Titles of Topics and Subtopics in the FASB Accounting Standards Codification."](#)

See the FASB's Web site for the titles of citations to:

- [Accounting Standards Updates](#).
- [Proposed Accounting Standards Updates](#) (exposure drafts and public comment documents).
- [Superseded Standards](#) (including FASB Interpretations, Staff Positions, and EITF Abstracts).

PCAOB Literature

Auditing Standard 1000, *General Responsibilities of the Auditor in Conducting an Audit*

Auditing Standard 2101, *Audit Planning*

Auditing Standard 2310, *The Auditor's Use of Confirmation*

Auditing Standard 2710, *Other Information in Documents Containing Audited Financial Statements*

Auditing Standard 2810, *Evaluating Audit Results*

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IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*

Appendix E — Abbreviations

Abbreviation	Description
AI	artificial intelligence
AICPA	American Institute of Certified Public Accountants
AS	Auditing Standard
ASC	FASB Accounting Standards Codification
ASU	FASB Accounting Standards Update
CAM	critical audit matter
CAQ	Center for Audit Quality
C&DI	SEC Compliance and Disclosure Interpretation
CECL	current expected credit loss
CIMA	Chartered Institute of Management Accountants
CODM	chief operating decision maker
CSRD	Corporate Sustainability Reporting Directive
EBITDA	earnings before interest, taxes, depreciation, and amortization
EGC	emerging growth company
EITF	FASB Emerging Issues Task Force
EQCF	Engagement Quality Control Function
ESG	environmental, social, and governance
E.U.	European Union
FASB	Financial Accounting Standards Board
FinREC	AICPA Financial Reporting Executive Committee
GAAP	generally accepted accounting principles
IAS	International Accounting Standard
IASB	International Accounting Standards Board

Abbreviation	Description
IFRS	International Financial Reporting Standard
IPO	initial public offering
ISQM	International Standard on Quality Management
ITC	invitation to comment
KPI	key performance indicator
MD&A	Management's Discussion and Analysis
MPM	management performance measure
Nasdaq	National Association of Securities Dealers Automated Quotations
NCI	noncontrolling interest
NOCLAR	noncompliance with laws and regulations
NYSE	New York Stock Exchange
OCA	SEC Office of the Chief Accountant
PBE	public business entity
PCAOB	Public Company Accounting Oversight Board
Q&A	question and answer
QC	quality control
SAB	SEC Staff Accounting Bulletin
S&P	Standard & Poor's
SEC	U.S. Securities and Exchange Commission
SoCF	statement of cash flows
SPAC	special-purpose acquisition company
SQMS	Statement on Quality Management Standards
SRC	smaller reporting company
XBRL	eXtensible Business Reporting Language

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