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# Highlights of the 2025 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 convened 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, including SEC Chairman Paul Atkins and SEC Chief Accountant Kurt Hohl, addressed priorities, including rulemaking related to disclosure rationalization, interim reporting, and crypto assets.

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

- *Emerging accounting and auditing issues* — The staff in the Office of the Chief Accountant (OCA) commented on emerging accounting issues and the related audit considerations. Topics addressed during this discussion included recent consultations on digital assets (stablecoins) and the applicability of the normal purchases and normal sales (NPNS) derivatives scope exception to commodity forward sale contracts; the increase of private equity investments in audit firms; artificial intelligence (AI), including the accounting for certain transactions involving the construction and operation of data centers; and the valuation of loans made by private credit lenders. In addition, the staff provided reminders about auditor independence.
- *FASB agenda consultation and invitations to comment* — FASB Chair Rich Jones, Technical Director Jackson Day, and Deputy Technical Directors Helen Debbeler and Rosemarie Sanguolo provided an update on the FASB's agenda consultation. They indicated that through feedback received on the invitation to comment, the Board has identified 72 items and thus far has added 3 of these to its technical agenda. The FASB further

discussed certain ASUs that have been finalized in 2025 or are expected to be finalized in 2026.

- *Capital markets transactions* — Staff members in the SEC’s Division of Corporation Finance (the “Division”) addressed the application of SEC reporting requirements to certain capital markets transactions, such as the determination of financial statements required for spin-offs, IPO transactions involving the transfer of a license (primarily in the life sciences industry), put-together transactions, and reorganizations under common control. Staff members also discussed the requirement for a target company to file a Form 15 to suspend its reporting obligations after a de-SPAC transaction is consummated.
- *SEC reporting considerations* — Division staff members provided important updates on key reporting topics, including observations on segment reporting after adoption of ASU 2023-07 and best practices for disclosures related to non-GAAP measures. They also reminded conference attendees about financial statement presentation matters and shared their perspectives on emerging issues in MD&A, using tariffs as an example.
- *PCAOB inspection trends and state of audit quality* — Acting PCAOB Chair George Botic discussed the value that the PCAOB provides to investors through its inspection program, its new and revised auditing standards, and the transparency that Form AP and critical audit matters have brought to the audit process. Mr. Botic also highlighted that 2025 inspection results signal a decrease in firms’ deficiency rates. The PCAOB staff panel emphasized the importance of sustaining audit quality through strong quality control systems and noted that private equity investment in accounting firms presents opportunities and risks that inspectors will focus on, including those related to auditor independence.
- *AI* — Chairman Atkins and Mr. Hohl stressed the OCA’s focus on understanding the use of AI in financial reporting. OCA staff also highlighted the importance of AI governance and discussed new risks associated with the use of AI, including the explainability of AI models and emerging fraud risks. PCAOB staff members emphasized the potential opportunities and inherent risks related to audit firms’ adoption of AI, noting that this will be an area of focus for inspectors going forward.
- *International convergence* — Mr. Hohl and SEC staff members highlighted that collaborating with international standard setters is a priority and emphasized the benefits of convergence for investors and the standard-setting process.

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

## Accounting and Financial Reporting

### AI and Data Centers

During the panel discussion on the OCA’s current projects, OCA Professional Accounting Fellow Ella Karafiat commented that with the growing use of AI, there has been an increasing number of questions about the accounting for the development and operation of data centers. The parties involved in these transactions may include, but are not limited to, (1) technology companies that use data centers for computing power, (2) financing entities that fund the construction of data centers, and (3) power and utility companies that provide energy to the data centers. Ms. Karafiat highlighted that while the guidance to be applied to these transactions is not new, it needs to be carefully and thoughtfully evaluated.

Specifically, she noted a number of accounting complexities that may arise as a result of these transactions depending on the manner in which they are structured, including the following:

- *Consolidation* — Often, a data center may be built in a separate legal entity designed for the sole purpose of constructing, owning, and operating a single data center (i.e., a single-asset entity). A single-asset entity is typically a variable interest entity (VIE), and each variable interest holder needs to evaluate whether it is the primary beneficiary of the VIE and should therefore consolidate the VIE. A reporting entity's consolidation analysis of a VIE includes an evaluation of whether the reporting entity has both of the following characteristics:
  - The power to direct the activities that most significantly affect the VIE's economic performance.
  - The obligation to absorb losses of the VIE, or the right to receive benefits from the VIE, that could potentially be significant to the VIE.

Ms. Karafiat noted that a reporting entity is often required to make significant judgments when determining the activities that most significantly affect a single-asset entity and the party that holds power over each of those activities. She observed that the activities that most significantly affect a single-asset entity that owns a data center may include construction and development, leasing, operations and maintenance, and remarketing of the data center.

See Deloitte's Roadmap [Consolidation — Identifying a Controlling Financial Interest](#) for more information about performing a consolidation analysis.

- *Lease accounting* — Often in these complex transactions, an asset's owner allows, or plans to allow, another party to obtain the benefits of the asset. As a result, there may be one or more leases involving the data center building, the IT hardware assets therein (e.g., servers), and the associated power generation assets. For example, a technology company may lease a data center to procure the computing power necessary to support its AI-related activities. When a lease exists, ASC 842 requires the lessee to determine the lease commencement date and, if there is construction, whether the lessee should be considered the deemed owner of the asset during construction. ASC 842 provides a list of factors to be considered in the determination of whether the lessee controls the asset during construction. Ms. Karafiat cautioned that this list is not exhaustive and that all relevant factors should be considered in the determination of who is the accounting owner during construction since such factors will ultimately affect the determination of (1) whether the transaction is within the scope of the sale-and-leaseback guidance in ASC 842 and (2) when assets and liabilities should be recognized on the balance sheet.

See Deloitte's Roadmap [Leases](#) for more information about determining whether a lessee should be considered the deemed owner of an asset during construction and other leasing matters.

- *Fixed assets* — An issuer may need to determine the useful life of the data center and any related long-lived assets (because, for example, the issuer consolidates the entity that owns the data center and related assets). Ms. Karafiat reminded preparers that ASC 360 requires entities to continually evaluate the appropriateness of useful lives assigned to long-lived assets. Further, Ms. Karafiat stated that the SEC staff does not view the recognition of an impairment of a long-lived asset as an acceptable substitute for determining the appropriate useful life of the asset. However, when an entity is

performing a recoverability test of its long-lived assets, ASC 360 requires an estimate of cash flows based on the entity's own assumptions about its use of an asset or asset group. This estimate should incorporate all available information.

See Deloitte's Roadmap [Impairments and Disposals of Long-Lived Assets and Discontinued Operations](#) for more information about performing a recoverability test.



### Connecting the Dots

Although the SEC staff provided the above reminders regarding certain accounting considerations related to data centers, it did not formally express any views on conclusions related to these considerations. Further, although the staff's comments highlight common complexities that entities may need to consider when accounting for the types of transactions discussed, an entity's evaluation of the accounting for these arrangements should not be limited to the concepts specifically mentioned by the staff. Since these types of arrangements often involve high levels of complexity and judgment, we encourage entities to consult with their accounting advisers when performing the accounting assessment for these arrangements.

## Derivative Accounting — NPNS Scope Exception

During the OCA's discussion of current projects and recent consultations, Associate Chief Accountant Jonathan Duersch described an OCA consultation on the application of ASC 815's NPNS scope exception. In the fact pattern, the entity entered into forward sales contracts for natural gas produced and delivered in the United States. Contract pricing was based on the Dutch Title Transfer Facility index, reduced by a fixed percentage.

Mr. Duersch noted that to qualify for the NPNS scope exception, among other requirements, the price adjustment must be clearly and closely related to the asset being sold (U.S.-delivered natural gas), and entities must assess whether the underlying used to adjust the price is extraneous to the cost or fair value of the commodity. In evaluating this fact pattern, the staff also considered whether similar terms are used by market participants for forward contracts at the delivery location and whether the fixed-percentage reduction approximated a Europe-bound delivery price differential from the U.S. location. On the basis of these factors, the staff did not object to the entity's conclusion that the contract qualifies for the NPNS scope exception. Mr. Duersch also observed that in evolving markets, transparency into all data needed to support the assessment may be limited, and judgment may be required.

See Deloitte's Roadmap [Derivatives](#) for more information about the NPNS scope exception.

## Valuation Considerations

During the OCA's discussion on current projects, Ms. Karafiat observed the continued growth in private credit, particularly lending by entities outside the traditional banking system (e.g., private funds and business development companies) in forms such as corporate direct lending, infrastructure debt, and asset-backed financing. Such lenders generally apply ASC 946, which requires measurement of investments at fair value under ASC 820. Because private credit investments are generally illiquid and have limited observable market data, preparers often rely on Level 3 inputs to determine the fair value of those loans. Under ASC 820, entities are required to develop unobservable inputs by using the best information available under the circumstances, which often includes an entity's own data. Ms. Karafiat noted that when an entity uses its own data to develop unobservable inputs, it should adjust those inputs to

reflect market participant assumptions, including the consideration of risk (e.g., incorporating changes in borrower credit risk into discount rates, expected losses, or other pricing terms). Further, when an entity determines that a transaction price represents fair value upon initial recognition but the valuation model that the entity expects to use for subsequent measurement yields an initial fair value estimate that differs from the transaction price, the valuation model should be calibrated in such a way that it yields the same estimate of fair value as the transaction price. Ms. Karafiat emphasized that an entity should not recognize a gain or loss at inception because of a difference between the valuation model and the transaction price; a gain or loss should only be recognized as a result of subsequent changes in circumstances. The SEC staff also highlighted Rule 2a-5 of the Investment Company Act of 1940 on good-faith fair value determinations, stressing the importance of robust governance over valuation risks, methodology selection and testing, and oversight of pricing services — considerations that are increasingly important given the expansion of private credit activities.

See Deloitte’s Roadmap [Fair Value Measurements and Disclosures \(Including the Fair Value Option\)](#) for more information about Level 3 fair value measurements.

## Tax Regulatory Landscape and the Adoption of ASU 2023-09

During a panel discussion on the current and future tax regulatory landscape, participants highlighted considerations related to the interpretation and application of certain provisions of the new tax legislation commonly referred to as the One Big Beautiful Bill Act as well as uncertainties associated with the future of the OECD’s “Pillar Two” tax rules.<sup>1</sup> Panelists emphasized that as more regimes rely on book income for tax compliance purposes, tax policy and financial reporting are becoming increasingly intertwined, which amplifies the need for cross-functional coordination between a company’s tax, controllership, legal, investor relations, and reporting arms. Accordingly, panelists urged companies to conduct business modeling holistically throughout the organization when evaluating the tax impacts of operational and financing planning.

Panelists also discussed potential challenges associated with adopting [ASU 2023-09](#) and provided reminders to preparers related to the upcoming year-end reporting process. They encouraged companies to discuss adoption approaches with their advisers and auditors as well as their organizations’ cross-functional teams, including whether to adopt the ASU (1) prospectively, which would retain the historical presentation of the income tax rate reconciliation and other income tax disclosures for any prior periods presented, or (2) retrospectively, which would provide comparability between the periods presented under the new disclosure requirements. Such discussions could also help companies ensure that they have sufficiently granular data available for use in preparing their disclosures, particularly those related to jurisdictional information. Panelists also stressed the importance of internal controls over financial reporting related to the data and processes used in preparing the ASU’s required disclosures.

See Deloitte’s May 20, 2025, [Heads Up](#) for more information about ASU 2023-09 and Deloitte’s Roadmap [Income Taxes](#) for more information about applying ASC 740.

## Stablecoins

During the panel discussion on the OCA’s current projects, Ms. Karafiat summarized two recent OCA consultations related to stablecoins.

<sup>1</sup> OECD (2021), *Tax Challenges Arising from the Digitalisation of the Economy — Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS*, OECD Publishing, Paris, <https://doi.org/10.1787/782bac33-en>.

In the first consultation, the SEC staff addressed an issuer's balance sheet treatment of reserve assets and its related redemption obligation for stablecoins. The issuer was required to fully back each stablecoin with reserve assets that were segregated from the issuer's other nonreserve proprietary assets. In addition, the reserve assets were held by financial institutions for the benefit of the stablecoin holders. Further, the issuer was limited to investing the reserves in specific types of assets (e.g., short-term U.S. Treasury bills). In managing those reserves, the issuer focused on minimizing liquidity risk to meet expected redemptions as opposed to maximizing earnings through yield. The issuer reasoned that because the reserves were held in segregated accounts and any investment decisions regarding the reserve assets were subject to regulatory limitations, the issuer did not control the reserve assets and therefore should not recognize the reserve assets or the redemption obligation on its balance sheet. The SEC staff objected to this conclusion, citing the following:

- The issuer was a regulated stablecoin issuer and was the sole obligor with respect to the stablecoins' redemption.
- The issuer controlled and managed the reserve assets by investing them (within regulatory limits) and benefiting from their associated yield.

Finally, the OCA observed that recognizing the reserve assets helped investors understand the nature and value of the reserve assets as compared with the redemption obligation.

The second consultation involved an issuer's classification of stablecoins that were pegged to the U.S. dollar as cash equivalents.<sup>2</sup> The holder had a separate agreement with the stablecoin issuer, apart from the issuer's general terms of service that guaranteed a one-for-one redemption into U.S. dollars within two business days. Further, the issuer was subject to regulation, and all outstanding stablecoins under the agreement were fully backed by specified liquid assets, which were limited to instruments that were cash equivalents. In this scenario, the SEC staff did not object to the issuer's classification of the stablecoins as cash equivalents.

## Accounting Standard Setting

### FASB Agenda Consultation and Invitations to Comment

Mr. Jones and multiple FASB staff members gave an update on several key items on the FASB's research agenda. Mr. Jones commented that the FASB is considering stakeholder feedback on its invitations to comment (ITCs) on financial KPIs for business entities and the accounting for and disclosure of intangibles. On the basis of such feedback, the Board will decide whether standard setting is needed in either of those areas.

Mr. Jones then provided an update on the FASB's January 2025 ITC on its ongoing agenda consultation project, on which comments were due by June 30, 2025. The FASB is evaluating nearly 130 comment letters on 72 issues and plans to discuss this feedback at meetings through mid-2026. On the basis of these discussions, the Board will then determine whether to add to its technical agenda projects addressing those issues. To date, the Board has added projects on the following three topics to its technical agenda as a result of feedback received on the agenda consultation ITC:

- *Classification of certain digital assets as cash equivalents* — Mr. Jones referred to the SEC's consultation activity related to stablecoins as well as the recently enacted GENIUS Act, which identifies attributes indicating when a digital asset is not a cash equivalent for accounting purposes but not those indicating that a digital asset may be presented as a cash equivalent. The FASB intends to address that topic as part of this project. For more information, see Deloitte's October 31, 2025, [Heads Up](#).

<sup>2</sup> The ASC master glossary defines cash equivalents, in part, as "short-term, highly liquid investments that have both of the following characteristics:

- a. Readily convertible to known amounts of cash
- b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates."

- *Accounting for transfers of crypto assets* — This project includes (1) expanding the scope of ASC 350-60 to address wrapped tokens and receipt tokens and (2) clarifying the derecognition guidance related to crypto transfer arrangements to assess whether control of a crypto asset has been transferred. Mr. Jones observed that views differ on which derecognition models are acceptable. In this project, the FASB is hoping to clarify the appropriate accounting for such transactions. See Deloitte's November 20, 2025, [Heads Up](#) for more information.
- *Equity method of accounting: targeted improvements* — This project is intended to (1) address the accounting for a subset of equity method investments in partnerships and similar entities (subject to ASC 323-30) for which the investor is unable to significantly influence the operating and financial policies of the investee but is required to apply the equity method because of presumptive levels of influence and (2) clarify how equity method investors in non-real-estate entities should determine equity in earnings for investees with complex allocation structures. During a Q&A session, Mr. Jones also referred to the fair value option for equity method investments prescribed in ASC 825, which allows investors in equity method investees to record their investment at fair value in each reporting period, with subsequent changes in fair value reported in earnings. Mr. Jones observed that, as part of this project, the Board may consider whether entities should be permitted to use the measurement alternative in ASC 321, in lieu of applying the equity method, for equity securities without readily determinable fair values.

## Recent FASB Activities

During a panel discussion, Mr. Jones, Mr. Day, Ms. Debbeler, and Ms. Sangiuolo highlighted the progress on the FASB's technical agenda during 2025 and the FASB's recent standard-setting activities. They discussed final ASUs issued in 2025 as well as ongoing standard-setting and research projects, including the following:

- Final ASUs:
  - [ASU 2025-05](#) on the [measurement of credit losses for accounts receivable and contract assets](#).
  - [ASU 2025-06](#) on the [accounting for and disclosure of software costs](#).
  - [ASU 2025-07](#) on [derivatives scope refinements and scope clarification for share-based noncash consideration from a customer in a revenue contract](#).
  - [ASU 2025-08](#) on the [accounting for purchased loans](#).
  - [ASU 2025-09](#) on [hedge accounting](#).
  - [ASU 2025-10](#) on the [accounting for government grants](#).
  - [ASU 2025-11](#) on [interim reporting](#).
- Ongoing projects:
  - [Accounting for environmental credit programs](#).
  - [Financial key performance indicators for business entities](#).

## SEC Reporting

### SEC Rulemaking Priorities

During his keynote speech, Chairman Atkins noted concerns about the decline in the number of companies listed on the U.S. exchanges by approximately 40 percent since the mid-1990s. To address these concerns, he outlined three priorities for revitalizing U.S. capital markets:

- *Disclosure rationalization* — Reducing voluminous disclosure requirements (e.g., those related to risk factors and executive compensation) by recalibrating Regulation S-K to focus on material information.
- *Securities litigation* — Addressing litigation costs by discouraging meritless securities litigation (e.g., by reversing an SEC staff policy of not permitting IPOs by companies that have adopted mandatory arbitration and fee-shifting provisions).
- *Corporate governance* — Refocusing shareholder proposal and corporate governance rules to focus on shareholders whose interests align with those of the registrant.

Chairman Atkins further committed to defining clear “rules of the road” for digital assets and strengthening the SEC oversight of the PCAOB while prioritizing audit independence and promoting integrity, objectivity, and professional skepticism. The SEC plans to propose many amendments in 2026 and then work in the following years to finalize those reforms. While he did not discuss it in his remarks, Chairman Atkins has previously suggested that a rule proposal to permit semiannual reporting will be “fast tracked.”

In addition, the SEC staff observed that the Commission had received approximately 75 comment letters on the foreign private issuer (FPI) [concept release](#) and is currently evaluating such letters in determining whether to propose changes.

### Segment Reporting

Heather Rosenberger, chief accountant in the Division, led a conversation with the SEC staff on segment reporting in which the staff provided insight into the findings from its filing reviews related to the recent adoption of ASU 2023-07 by public entities. The discussion focused on the topics below.

#### ***Determination of the Required Measure of Profit and Loss***

Jarrett Torno, associate chief accountant in the Division, reminded participants that, under ASC 280-10-50-28A (added by ASU 2023-07), a registrant is permitted to disclose more than one segment performance measure provided that one of these measures is the one that is most closely aligned with the measurement principles used in the registrant’s financial statements (GAAP basis). Mr. Torno discussed practical examples and considerations related to determining the required measure in various scenarios.

- *Example 1: Multiple GAAP measures* — If the chief operating decision maker (CODM) uses more than one GAAP measure, such as GAAP gross profit and GAAP operating income, the measure for which more GAAP revenue and expense line items are reflected in the consolidated financial statements is the required measure. In this example, operating income would be the required measure because it encompasses more GAAP expense line items than gross profit.
- *Example 2: One GAAP measure and one non-GAAP measure* — If the CODM uses GAAP operating income and a non-GAAP measure such as EBITDA, the GAAP measure is “closer to GAAP” and therefore is the required measure.
- *Example 3: No GAAP measures* — If none of the measures of profit and loss used by the CODM are presented on a GAAP basis, determining the measure closest to GAAP can be complex and a matter of judgment. Factors to consider include the number and nature of adjustments and the income statement elements used in arriving at

the measure. For example, if the two measures used by the CODM are EBITDA and adjusted EBITDA (which further excludes restructuring charges), EBITDA would be the required measure because adjusted EBITDA diverges further from how amounts are measured in the consolidated financial statements. Mr. Torno also gave another example in which a CODM uses an adjusted gross profit measure and an adjusted operating income measure and the only adjustment in each measure is the exclusion of stock-based compensation. He expressed the staff's belief that in this example, similarly to Example 1 above, the adjusted operating income measure would be the required measure since it includes more operating expense line items than the adjusted gross profit measure.

The examples above are not exhaustive. Registrants should carefully evaluate their facts and circumstances and may consult with the Division and the OCA as needed.

### ***Requirements for Single Reportable Segments Managed on a Consolidated Basis***

Next, Ms. Rosenberger asked Melissa Raminpour, acting deputy chief accountant in the Division, to discuss the application of ASU 2023-07 to entities with a single reportable segment that are managed on a consolidated basis. The staff observed that while the FASB, in the ASU's Background Information and Basis for Conclusions, considers the ability of such entities to use cross-references of certain required disclosures to their primary financial statements, such a reference may not meet all segment disclosure requirements. For example, a cross-reference cannot satisfy the requirements to disclose the factors used to identify the reportable segment, the identification of the CODM, and how the CODM uses the measure of segment profit or loss to allocate resources and assess performance.

When the significant segment expense principle is applied, if the expense categories and amounts presented on the face of the income statement match what the CODM is regularly provided, a cross-reference may be appropriate. However, in such cases, registrants should include explanatory disclosures indicating that the CODM does not receive additional expense information beyond what appears on the face of the income statement.

### ***Significant Segment Expenses***

ASU 2023-07 requires disclosure of significant segment expenses and other segment items for each reported measure of segment profit or loss. Mr. Torno highlighted that if a registrant determines that it is not required to disclose significant segment expenses for one or more reportable segments, the registrant must explain the nature of the expense information the CODM uses to manage operations in accordance with ASC 280-10-50-26C. He also mentioned that it may be helpful to consider the example in ASC 280-10-55-15G of this explanatory requirement. The staff has issued comments when the explanatory disclosure was omitted. This requirement applies at the reportable segment level; thus, if significant segment expenses are disclosed for some but not all reportable segments, the explanation is still required for the segment(s) for which significant segment expenses are not identified.

Mr. Torno noted that the staff has also commented when disclosures are unclear on how a reported significant segment expense is measured or what the significant segment expense consists of (e.g., "adjusted G&A expense" without a description of the adjustments; "segment cost" without disclosure of the composition). Registrants are encouraged to:

- Clearly describe the composition of each significant segment expense category.
- Explain how significant segment expenses and measures of segment profit or loss are measured when they differ from GAAP.
- Use naming conventions that clearly distinguish segment expenses from similarly named consolidated financial statement line items.

## **CODM-Related Disclosures**

Mr. Torno further noted the requirement in ASC 280-10-50-29(f) to disclose “[h]ow the [CODM] uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources.” He indicated that the staff has issued comments when the disclosures merely state that a measure is used for resource allocation and performance assessment without describing how it is used. In the Q&A session, Ms. Raminpour further encouraged registrants to consider the examples in ASC 280-10-55-47(bb) and ASC 280-10-55-54(c).

## **Disclosure of Information Not Required by ASC 280**

Mr. Torno also provided observations related to disclosures that are not required by ASC 280 and that may result in unintended disclosure connotations. Examples of such disclosures included:

- *Reconciliations and totals that are not required* — ASC 280 does not require presentations in which nonreportable operating segments and “corporate and other” are added to reportable segments to derive a consolidated “measure of segment profit or loss.” In such cases, a non-GAAP presentation may result, since the requirement in ASC 280-10-50-30(b) is to “reconcile the total of the segments’ measures of profit or loss [for reportable segments] to consolidated [amounts].”



### **Connecting the Dots**

We have seen an increase in SEC comments requesting registrants that include “corporate” and “other” as separate categories in the total of reportable segments’ expenses and profit and loss measure(s) to revise their segment disclosures to comply with the reconciliation requirements in ASC 280-10-50-15 and ASC 280-10-55-48 and 55-49.

- *Partial groupings and pseudo-consolidations* — Disclosing segment information for combinations of some, but not all, reportable segments, or groupings that include certain eliminations and corporate costs, can create a “pseudo-consolidation” or “hypothetical reporting entity” below the consolidated level, which is not contemplated in ASC 280.
- *Additional measures via subtotals* — Including subtotals in the segment disclosures could be viewed as including additional measures of segment profit or loss, in which case a registrant would need to provide the disclosures and reconciliation required by ASC 280-10-50-28C for each measure. Similarly, subtotals for significant segment expense categories are not required and could result in the creation of a non-GAAP consolidated expense subtotal.

## **Capital Markets Transactions**

### **Considerations for Spin-offs**

Given the increase in capital markets activity, including spin-offs, Tricia Armelin, associate chief accountant in the Division, discussed the following two key reporting matters related to spin-off transactions:

- *Basis of preparation of predecessor financial statements* — Ms. Armelin provided the staff’s views on two examples of spin-off transactions:
  - *Spin-off of a reportable segment* — A registrant has a complex organizational structure comprising a large number of legal entities as a result of legal and tax requirements. The registrant decides to spin off a line of business that historically had been commingled with the operations of other business lines within multiple legal entities. The line of business to be spun off is a separate reportable segment, and the spin-off will be effectuated by contributing various legal entities to the

spinnee after the lines of business retained by the registrant are removed. The staff did not object to the predecessor financial statements of the spinnee reflecting only the reportable segment that would ultimately be contributed to the spinnee — that is, the assets, liabilities, and operations being spun.

- *Spin-off of a legal entity* — A registrant historically held multiple lines of business within a single legal entity and planned to spin off this legal entity so that the legal entity would become a separate new registrant. Although certain business lines historically included in the legal entity would be retained by the registrant, those retained business lines were complementary with the business that would be spun off. Historically, all the lines of business had shared services, financing, and management, including the CEO. In this case, the SEC staff believed that the predecessor financial statements of the spinnee should include the entire legal entity, including lines of business retained by the registrant, because this presentation would be consistent with how the transferred operations were historically managed and operated.

The examples discussed above are consistent with the “management approach” and “legal-entity approach,” respectively, as discussed in [Section 1.2.2](#) of Deloitte’s Roadmap *Carve-Out Financial Statements*.

- *Reverse spin-off financial statement requirements* — For a reverse spin-off, a registration statement would generally require (1) the financial statements of the existing registrant (as predecessor to the legal spinnee), (2) the carve-out financial statements of the legal spinnee, and (3) pro forma financial information reflecting the existing registrant’s disposal of the legal spinnee. Ms. Armelin noted that the SEC staff may allow the use of the registrant’s consolidated financial statements (without separate carve-out financial statements) when the legal spinnee represents substantially all of the existing registrant.

For additional details on the accounting and reporting considerations for spin-off and carve-out transactions, see Deloitte’s Roadmap *Carve-Out Financial Statements*.

## **Considerations Related to IPO and SPAC Transactions**

### **Change in Reporting Entity Before an IPO**

Ms. Rosenberger highlighted [paragraph 13410.4](#) of the SEC Financial Reporting Manual (FRM), which states that if a common-control transaction representing a change in reporting entity will occur before an initial registration statement becomes effective, the staff will not object to combined or consolidated financial statements as opposed to separate financial statements of the entities involved. For consolidated financial statements, the audit report would be a “to be issued” opinion given that the transaction has not yet occurred. However, if the reorganization involves a registrant that was a recently organized entity that did not exist as of the most recent balance sheet date presented in the financial statements, the registrant would need to be presented separately from the other entities involved in the reorganization. Regardless of whether separate, combined, or consolidated financial statements are presented, Ms. Rosenberger encouraged registrants to ensure that financial statements are properly labeled and that the registration statement includes clear disclosure of the reorganization, including reflecting the impact in the capitalization table and pro forma disclosures, for example.

## Determination of Reporting Predecessor

Ms. Raminpour highlighted that the predecessor is generally the accounting acquirer; however, in a put-together transaction, even if a newly formed entity is identified as the accounting acquirer, one of the operating entities would be identified as a predecessor. While not necessarily common, it is also possible to have multiple predecessors in a put-together transaction. Ms. Raminpour reiterated a number of factors for registrants to consider in determining the predecessor, including, but not limited to, (1) the order in which the entities are acquired, (2) the size of the entities, (3) the fair value of the entities, and (4) the historical and ongoing management structure. Ms. Raminpour also noted that, in certain cases, the operations of a licensor may be determined to be the predecessor when a license has been transferred to the registrant, since the license conveys the right to operate and therefore may represent the acquisition of a business for SEC reporting purposes. In these transactions, which are common in the life sciences industry, the SEC staff will consider the stage of drug development and the terms of the license in determining the relevance of the licensor's historical financial statements.

For additional details on predecessor financial statements, see [Section 2.3](#) of Deloitte's Roadmap *Initial Public Offerings*.

## SPAC Transaction Deregistration Requirements

In a merger between an operating company and a SPAC, both parties are considered co-registrants. In April 2025, the Division issued [Section 253.03](#) of its Compliance and Disclosure Interpretations (C&DIs) on Securities Exchange Act of 1934 ("Exchange Act") rules, which clarifies that after the closing of a de-SPAC transaction, the target company may file a Form 15 to suspend its periodic reporting obligations as a co-registrant in certain circumstances. Deputy Chief Accountant Sarah Lowe stated that if the target company files a Form 15 after year-end but before the Form 10-K is due, it is not required to file the Form 10-K.

For additional details on SEC reporting requirements for IPO and SPAC transactions, see Deloitte's Roadmap *Initial Public Offerings*.

## Other Reporting Considerations

### ***MD&A Considerations***

MD&A continues to be the topic the SEC staff comments on most frequently. During the panel on Division developments, Ms. Rosenberger emphasized the need for registrants to reassess their MD&A disclosures each year to ensure that they appropriately reflect the evolution of macroeconomic conditions on their business. While she provided an example that focused on tariffs and trade-related restrictions, she noted that the importance of reevaluating MD&A disclosures would also apply to other emerging issues such as generative AI and associated governance issues.

Ms. Rosenberger provided examples of disclosures that registrants may consider providing in MD&A, such as:

- The magnitude of the risk to which the registrant's business is exposed.
- The registrant's ability to mitigate the impacts of that risk.
- The registrant's ability to recover from the negative effects of those impacts (e.g., increase prices in response to tariffs).
- The effects on profitability, financial condition, and liquidity.

- Actual or potential material impairments, credit losses, or other expenses.
- Known trends or uncertainties (see [paragraph 9240.1](#) of the FRM).

Ms. Rosenberger also emphasized the need for registrants to have appropriate disclosure controls and procedures in place for identifying and disclosing such matters.

### ***Non-GAAP Measures and Metrics***

Ms. Rosenberger observed that it may not always be clear to an issuer when a non-GAAP measure is misleading, and Ms. Lowe emphasized that a non-GAAP measure may be misleading even if it is used by management or provided to investors.<sup>3</sup> Ms. Lowe also highlighted certain exceptions to the non-GAAP disclosure rules, such as the required segment measure of profit or loss that must be disclosed for each reportable segment under ASC 280 or measures related to compliance with debt covenants.

When the SEC staff determines that a non-GAAP measure or adjustment is misleading, registrants are typically expected to remove or revise it immediately, beginning with the next SEC filing or other public disclosure. Ms. Lowe acknowledged that there may be practical challenges associated with the removal of a misleading measure on short notice (e.g., days before an earnings release). In those cases, she encouraged registrants to promptly contact their SEC staff reviewers to discuss the timing of the change. However, she emphasized that immediate change might be necessary despite a registrant's timing constraints.

Upon adoption of IFRS 18, companies are required to disclose management performance measures (MPMs) within the notes to the financial statements. Since paragraph 117 of IFRS 18 specifies that MPMs must be used in public communications outside the financial statements, and because FPIs are subject to the SEC's rules and regulations related to non-GAAP measures, Ms. Lowe highlighted that such public communications must comply with the requirements of Regulation G and Regulation S-K, Item 10(e), as applicable. This matter was discussed at the [May 2025 meeting](#) of the CAQ's International Practices Task Force joint meeting with the SEC staff, and Ms. Lowe noted that the SEC staff may issue further communications about this topic over the next year.

### ***Financial Statement Presentation Reminders***

The SEC staff highlighted the following financial statement presentation matters among recent areas of focus:

- *Statement of cash flows* — Cash flows should be sufficiently disaggregated. For example, issuers should present changes in receivables, inventory, and payables separately within operating cash flows.
- *Income statement presentation* — As business models evolve, commercial and industrial company issuers (other than smaller reporting companies [SRCs]) should reassess captions for compliance with Regulation S-X, Rule 5-03. For example, Rule 5-03(b) requires separate presentation of revenue for tangible products and services on the face of the income statement if those amounts are greater than 10 percent of net sales. Ms. Raminpour reaffirmed the SEC staff's historical view that when software licenses are separate performance obligations under ASC 606, the licenses should be presented as product revenue if the thresholds in Rule 5-03(b) are met.

Further, Ms. Raminpour addressed questions related to the interaction of certain GAAP disclosure requirements with Rule 5-03. She noted that Rule 5-03 includes guidance on the captions required on the face of the income statement, while ASC 606 and [ASU 2024-03](#) impose distinct footnote disclosure requirements for the disaggregation of certain of those captions (i.e., revenue and certain expenses,

<sup>3</sup> See [C&DI Questions 100.01 through 100.06](#) for interpretations related to potentially misleading non-GAAP measures.

respectively). She emphasized that such footnote disclosures do not replace the presentation requirements in Rule 5-03.

- *Regulation S-X, Rule 4-08(k)* — Registrants other than SRCs are reminded to present material related-party amounts on the face of the balance sheet, income statement, and statement of cash flows in accordance with Rule 4-08(k).
- *Incentive classification and disclosure* — Ms. Armelin observed that the SEC staff may issue comments to understand a registrant's conclusion supporting its classification of an incentive payment as a marketing expense (rather than as a reduction of revenue) because the application of ASC 606 to such incentive payments may require the use of significant judgment. This assessment often involves analyzing the nature of the agent's customer relationship, determining whether there are explicit or implicit promises to provide incentives to suppliers, and evaluating whether suppliers have reasonable expectations of receiving those incentives. Further, an entity with a material amount of incentives classified as marketing expenses should quantify and discuss those incentives in MD&A so that investors can understand their impact on an entity's operating results.

### **Summarized Quarterly Financial Information for Material Retrospective Changes**

During the panel discussion on Division developments, Ms. Lowe noted that a registrant that has disclosed amended quarterly information in accordance with Regulation S-K, Item 302(a), in its Form 10-K need not repeat such amended information in a subsequent Form 10-K. Ms. Lowe presented an example in which a registrant provides Item 302(a) quarterly information in its 2025 Form 10-K to reflect a material discontinued operation in the third quarter of 2025. In the absence of any additional retrospective changes for which new Item 302(a) disclosures would be required, the SEC staff would not object to the registrant's omission of the 2025 Item 302(a) disclosures in its 2026 Form 10-K.

### **SRC Status**

In August 2025, the Division issued [Question 130.05](#) of the C&DIs on the Exchange Act Rules to clarify an issuer's filer status after it determines that it no longer qualifies as an SRC under the revenue test as defined in Rule 12b-2(2) or Rule 12b-2(3)(iii)(B) of the Exchange Act. In accordance with that definition, an issuer must assess both its public float and its annual revenue. In the panel discussion on Division developments, Ms. Lowe explained that, in a manner consistent with the guidance in C&DI Question 130.05, if an issuer that had concluded in the immediately preceding year that it qualified as an SRC under the revenue test determines that on its annual determination date (i.e., the last business day of its second quarter) it no longer qualifies as an SRC under the revenue test, the issuer would still be a nonaccelerated filer for filings due in the subsequent calendar year. This is because the issuer would still be eligible to continue to apply the requirements for SRCs under the revenue test until the end of the subsequent calendar year. In addition, because the company is not considered a large accelerated filer for filings due in the subsequent calendar year, it could also retain EGC status if it meets all other EGC eligibility criteria.

Ms. Lowe emphasized that an issuer is able to apply the C&DI's guidance even if it continues to qualify as an SRC under the public float test in Rule 12b-2(1) despite no longer qualifying under the revenue test (e.g., on the determination date, revenue equaled or exceeded \$100 million but public float was less than \$250 million). However, the C&DI's guidance would not apply if an issuer only qualified as an SRC under the public float test in the year immediately preceding the current-year assessment (e.g., on the prior-year determination date, revenue equaled or exceeded \$100 million but public float was less than \$250 million).

## Other Profession-Wide Matters and PCAOB Developments

### Profession-Wide Matters

In his keynote remarks, Chairman Atkins called for the profession to “get back to basics” and highlighted the importance of integrity, objectivity, independence, and professional skepticism. Mr. Hohl outlined top priorities for the OCA, including responsiveness to emerging issues, oversight of the PCAOB and FASB, and international standard setting.

### Emerging Issues

Mr. Hohl emphasized the pace of change. He stated that the OCA is “laser focused” on understanding how developments such as digital assets and AI affect financial reporting as well as accounting and auditing.

Ms. Karafiat observed that the accounting for digital assets is a frequent topic of consultation, and OCA Associate Chief Accountant Fariba Nasary commented that the “existing auditing standards were not written with today’s technology or AI or digital assets in mind.” Ms. Nasary indicated that alignment globally is critical to driving audit quality and providing regulatory certainty.

During the panel session on current OCA projects, OCA Senior Associate Chief Accountant Nigel James highlighted the importance of risk management and governance of AI, including the need for preparers to evaluate the governance frameworks that are currently in use to ensure that they are fit for their purposes. He remarked that “while AI may introduce new risks and require different responses than legacy technology, the foundations of risk assessment remain the same.” He further emphasized that preparers “need to understand the applicable laws and regulations, such as the [European Union’s] [AI Act](#), and ultimately, how AI governance is being integrated into the overall internal control environment.” OCA Senior Associate Chief Accountant Anita Doult expanded on the risks of AI in financial reporting, including the explainability of AI models and emerging fraud risks. She emphasized that AI is a tool, not a replacement for human judgment; this point was reinforced during the AI panel session by Deloitte Partner Will Bible, who remarked that since “accountability rests with the person who is preparing or using the tool,” it is necessary “to think about how to design [AI] solutions in such a way that the human remains responsible.” Further, Ms. Doult encouraged engagement of stakeholders across the financial reporting ecosystem, including internationally.

See Deloitte’s Web page [The EU AI Act — Overview and Resources](#) for more information about the European Union’s AI Act.

### FASB and PCAOB Oversight

Regarding the SEC’s oversight of the FASB, Mr. Hohl highlighted the importance of high-quality standards and robust cost-benefit analysis with preparers. With respect to the SEC’s oversight of the PCAOB, he outlined the following focus areas:

- Modernizing the inspection process by increasing the focus on firms’ systems of quality control and shifting accountability to firm leadership, as well as making inspection reports more meaningful.

- Improving the standard-setting process, with emphasis on convergence and cooperation with other international standard setters, including the development of a framework to support convergence, and up-front standard-setting agenda consultations.
- Enhancing the responsiveness of the PCAOB to audit firms.
- Promoting auditor communications that focus on material items that are relevant to investors and stakeholders.

## **International Standard Setting**

Mr. Hohl highlighted the importance of U.S. standard setters' collaboration with international standard setters and the desirability of convergence, noting that cooperation and convergence will reduce investor confusion and may reduce undue costs while expediting the standard-setting process. Similarly, during the OCA staff panel session, Ms. Karafiat highlighted the benefits of high-quality financial reporting and close collaboration between the FASB and the IASB. Mr. Hohl underscored the importance of moving toward a single set of high-quality auditing standards that are developed globally and would be used in the United States. Further, he emphasized that even partial convergence would deliver meaningful benefits for investors, such as by reducing confusion, costs, fragmentation, and potential risks of auditor noncompliance. Lastly, Mr. Hohl remarked that it is important for the international standard setters to have strong governance and stable funding.

## **PCAOB Developments, Inspections, and Enforcement**

In his opening remarks, Mr. Botic illustrated the value that the PCAOB provides to investors, highlighting three pillars of investor protection: the PCAOB's inspection program, its adoption of new and revised auditing standards, and its promotion of transparency into the audit process.

PCAOB Chief Auditor Barbara Vanich discussed the near-term implementation of [A Firm's System of Quality Control \(QC 1000\)](#) and [Amendments Related to Aspects of Designing and Performing Audit Procedures That Involve Technology-Assisted Analysis of Information in Electronic Form \(Release No. 2024-007\)](#).

Christine Gunia, director of the PCAOB's Division of Registration and Inspections, reiterated that the 2025 inspection results signal a decrease in firms' deficiency rates. Noting that high-quality audits are often a function of strong systems of quality control, she cited audits that involve specialists in the audit from beginning to end, engage in consultations, and assign personnel on the basis of the needs of the engagement.

William Ryan, chief counsel of the PCAOB's Division of Enforcement and Investigations, outlined the investigative priorities for the upcoming year, which include significant audit failures and independence violations, interference with board processes or other ethical violations, and quality control violations.

## **Auditor Independence**

Auditor independence was front and center at this year's conference. Chairman Atkins stressed the ongoing importance of integrity, objectivity, and independence in the profession to guard against bias and self-interest. Mr. Hohl reinforced this message, stating the SEC will "insist on rigorous independence and objectivity." He remarked that recent shifts — such as the rise of AI and increased private equity involvement in accounting firms — are introducing complexities and risks to audit quality and independence. Mr. Hohl added that the SEC staff will consider its independence rules and determine what changes, if any, need to be made to adapt to the evolving business environment.

The SEC staff highlighted the critical role of strong governance in accounting firms and emphasized that audit quality must be prioritized. Key topics discussed included:

- *Robust monitoring* — Audit firms need a robust, preventative monitoring process to identify affiliates and avoid prohibited business relationships or non-audit services for both existing and potential audit clients.
- *Accountability* — Regardless of an audit firm's structure, auditors are responsible for maintaining the firm's audit quality and independence for SEC audit clients.
- *Adapting to emerging trends* — The SEC staff is closely monitoring emerging trends and the impacts on auditor independence. Consultation with the SEC is encouraged.

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## Appendix A — Titles of Standards and Other Literature

### 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

Quality Control 1000, *A Firm's System of Quality Control*

Release No. 2024-007, *Amendments Related to Aspects of Designing and Performing Audit Procedures That Involve Technology-Assisted Analysis of Information in Electronic Form*

### SEC Literature

#### **Concept Release**

No. 33-11376, *Concept Release on Foreign Private Issuer Eligibility*

#### **FRM**

Topic 9, "Management's Discussion and Analysis of Financial Position and Results of Operations (MD&A)"

Topic 13, "Effects of Subsequent Events on Financial Statements Required in Filings"

#### **Investment Company Act of 1940**

Rule No. 2a-5, "Good Faith Determinations of Fair Value: A Small Entity Compliance Guide"

#### **Regulation S-K**

Item 10(e), "General: Use of Non-GAAP Financial Measures in Commission Filings"

Item 302(a), "Supplementary Financial Information: Disclosure of Material Quarterly Changes"

#### **Regulation S-X**

Rule 4-08(k), "General Notes to Financial Statements: Related Party Transactions That Affect the Financial Statements"

Rule 5-03, "Statements of Comprehensive Income"

#### **Securities Exchange Act of 1934**

Section 12b-2, "Definitions"

### IFRS Literature

IFRS 18, *Presentation and Disclosure in Financial Statements*

## Appendix B — Abbreviations

Abbreviation	Description
<b>AI</b>	artificial intelligence
<b>AICPA</b>	American Institute of Certified Public Accountants
<b>ASC</b>	FASB Accounting Standards Codification
<b>ASU</b>	FASB Accounting Standards Update
<b>CAQ</b>	Center for Audit Quality
<b>C&amp;DI</b>	SEC Compliance and Disclosure Interpretation
<b>CEO</b>	chief executive officer
<b>CIMA</b>	Chartered Institute of Management Accountants
<b>CODM</b>	chief operating decision maker
<b>EBITDA</b>	earnings before interest, taxes, depreciation, and amortization
<b>EGC</b>	emerging growth company
<b>EITF</b>	FASB Emerging Issues Task Force
<b>FASB</b>	Financial Accounting Standards Board
<b>FPI</b>	foreign private issuer
<b>FRM</b>	SEC Financial Reporting Manual
<b>G&amp;A</b>	general and administrative
<b>GAAP</b>	generally accepted accounting principles
<b>IASB</b>	International Accounting Standards Board

Abbreviation	Description
<b>IFRS</b>	International Financial Reporting Standard
<b>IPO</b>	initial public offering
<b>IT</b>	information technology
<b>ITC</b>	invitation to comment
<b>KPI</b>	key performance indicator
<b>MD&amp;A</b>	Management's Discussion and Analysis
<b>MPM</b>	management performance measure
<b>NPNS</b>	normal purchases and normal sales
<b>OCA</b>	SEC Office of the Chief Accountant
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PCAOB</b>	Public Company Accounting Oversight Board
<b>Q&amp;A</b>	question and answer
<b>QC</b>	quality control
<b>SEC</b>	U.S. Securities and Exchange Commission
<b>SPAC</b>	special-purpose acquisition company
<b>SRC</b>	smaller reporting company
<b>VIE</b>	variable interest entity

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