



# Financial Reporting Insights

## INSIGHTS FROM THE 2024 AICPA & CIMA CONFERENCE ON CURRENT SEC AND PCAOB DEVELOPMENTS

January 2025

### OVERVIEW

In December 2024, the American Institute of Certified Public Accountants (AICPA) and the Chartered Institute of Management Accountants (CIMA) held their annual Conference on Current SEC and PCAOB Developments (Conference). At the Conference, representatives from the U.S. Securities and Exchange Commission (SEC), Public Company Accounting Oversight Board (PCAOB) and Financial Accounting Standards Board (FASB), as well as other speakers, provided their insights on the regulatory environment facing SEC registrants, their accountants and others involved in the public capital markets. Topics included the impact of the forthcoming change in the presidential administration, compliance with recently issued accounting and financial reporting rules and standards, and audit quality initiatives.

This publication discusses the accounting and financial reporting topics, impacting both public and private companies, that were discussed at the Conference.

THE POWER OF BEING UNDERSTOOD  
ASSURANCE | TAX | CONSULTING



RSM US LLP is the U.S. member firm of RSM International, a global network of independent assurance, tax, and consulting firms. Visit [rsmus.com/aboutus](https://rsmus.com/aboutus) for more information regarding RSM US LLP and RSM International.

## TABLE OF CONTENTS

<b>1. Introduction .....</b>	<b>3</b>
<b>2. Implementation of new segment reporting requirements.....</b>	<b>3</b>
2.1 Additional measure of segment profit or loss .....	3
2.1.1 Auditing the additional measure of segment profit or loss.....	4
2.2 Single reportable segment entities .....	4
<b>3. Scope of recently issued ASUs .....</b>	<b>5</b>
<b>4. Distinguishing between debt and equity financing arrangements .....</b>	<b>5</b>
4.1 Step 1: Evaluate contingent exercise provisions .....	5
4.2 Step 2: Evaluate the instrument's settlement provisions .....	6
4.3 SEC staff observations .....	6
<b>5. Statement of cash flows .....</b>	<b>7</b>
<b>6. Debt restructurings .....</b>	<b>8</b>
6.1 Modification versus extinguishment accounting .....	8
6.2 EITF project on accounting for debt exchanges .....	8
<b>7. Revenue from contracts with customers.....</b>	<b>8</b>
7.1 Consideration payable to a customer .....	8
7.2 Contract modifications .....	9
<b>8. OECD's Pillar Two tax initiative .....</b>	<b>9</b>
<b>9. Derecognition of subsidiaries.....</b>	<b>10</b>
<b>10. FASB projects update.....</b>	<b>10</b>
<b>11. Other reporting considerations .....</b>	<b>11</b>
11.1 Potential changes to regulations on crypto assets .....	11
11.2 Disclosure of emerging risks.....	11
11.3 Consulting with the SEC .....	12

## 1. Introduction

At the annual American Institute of Certified Public Accountants (AICPA) & Chartered Institute of Management Accountants (CIMA) Conference on Current U.S. Securities and Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB) Developments, representatives from the SEC, PCAOB and Financial Accounting Standards Board (FASB), along with various other speakers and panelists, shared their views on accounting, financial reporting, auditing, regulatory and emerging challenges facing the financial reporting community.

Speakers discussed a wide range of topics, including expectations for the regulatory environment with the forthcoming presidential administration, the continued relevance of the accounting profession, challenges in filling the accountant pipeline, and the SEC's regulatory and enforcement environment. In addition to these topics, speakers discussed current accounting developments and practice issues. Among other things, these speakers highlighted the challenges involved in applying certain elements of generally accepted accounting principles (GAAP) to complex transactions and the importance of consulting with specialists and regulators, if applicable, when there is a lack of authoritative guidance to determine the appropriate accounting treatment.

This paper summarizes some of the complex accounting and financial reporting topics discussed during the Conference that are of interest to both public and private entities, as well as their independent auditors and accounting advisors.

## 2. Implementation of new segment reporting requirements

Various panels, including representatives from the FASB and SEC, discussed the implementation of Accounting Standards Update (ASU) 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which is effective for public entities with fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024.

The discussion primarily focused on topics the SEC staff has previously covered, including:

- The ability to provide additional measures of segment profit or loss, as well as the interaction of the additional measure with SEC non-GAAP rules and requirements
- The application of FASB Accounting Standards Codification (ASC) topic 280 to entities with single reportable segments

The following sections provide further details of the discussion of these topics at the Conference.

### 2.1 Additional measure of segment profit or loss

The SEC staff reiterated their previous view that they would not object to the inclusion of an additional measure of segment profit or loss that is a non-GAAP financial measure in the segments note if the applicable non-GAAP rules in Regulation S-K Item 10(e) and Regulation G are followed. However, the SEC staff explained that entities should avoid adjustments, such as excluding "normal, recurring, cash operating expenses" as explained in Question 100.01 of the SEC's Non-GAAP Financial Measures Compliance & Disclosure Interpretations, to GAAP information that could result in a non-GAAP financial measure being misleading. For additional information on how to comply with the non-GAAP rules in these situations, refer to Section 5 of our Financial Reporting Insights, [\*Expanded Reportable Segment Disclosures\*](#).

Beyond reiterating its previous views, the SEC staff offered incremental direction on how to determine whether the additional measure of segment profit or loss is a non-GAAP financial measure. For example, the SEC staff noted that in accordance with ASC 280-10-50-4, some costs reflected in a public entity's consolidated income statement may not be allocated, in part or in whole, to its segments. An example of

such unallocated costs is corporate overhead costs. The SEC staff noted that exclusion of such costs would not, in and of itself, cause such an additional measure of segment profit or loss to be deemed non-GAAP. Similarly, an additional measure of segment profit or loss calculated using measurement principles consistent with the corresponding measure presented in the consolidated financial statements would not be considered a non-GAAP measure. However, if segment gross profit excludes an expense that is normally included in the consolidated measure (e.g., depreciation expense), it would be considered a non-GAAP measure.

### 2.1.1 Auditing the additional measure of segment profit or loss

The SEC staff clarified the responsibilities of auditors in situations in which a public entity provides an additional measure of segment profit or loss that is a non-GAAP measure. The SEC staff explained that auditors are only responsible for evaluating whether the disclosure meets the requirements of ASC 280 (i.e., that the additional measure of segment profit or loss is regularly provided to the Chief Operating Decision Maker (CODM) and the CODM uses it to assess performance and allocate resources). The auditors would not be responsible for determining if the measure is compliant with SEC non-GAAP rules and regulations (e.g., the auditor would not have to assess whether the non-GAAP measure is misleading or assess any information in the segments note provided solely to meet the non-GAAP requirements). The auditor could label that additional information as “unaudited” and should consider adding an emphasis of matter paragraph to the audit report that discusses items that are not subject to the auditor’s opinion.

If an additional non-GAAP measure of segment profit or loss is subsequently removed from the segments note solely because the measure does not comply with the SEC non-GAAP rules and regulations, then the removal would not be considered an error correction in the scope of ASC 250, *Accounting Changes and Error Corrections*. However, in those circumstances, auditors should consider a reevaluation of the public entity’s internal controls over financial reporting. A subsequent removal of an additional measure of segment profit or loss would only fall into the scope of ASC 250 if the disclosed measure did not meet the requirements of ASC 280.

## 2.2 Single reportable segment entities

The SEC staff reiterated their previous view that the reported measure of segment profit or loss for an entity with a single reportable segment should be a consolidated measure, such as consolidated net income, if the entity is managed on a consolidated basis. For additional information on how an entity should determine whether an entity is managed on a consolidated basis, refer to Section 6 of our Financial Reporting Insights, [\*Expanded Reportable Segment Disclosures\*](#).

The SEC staff discussed the possibility of the significant segment expense disclosure requirements causing the duplication of information already disclosed in the financial statements and accompanying notes. Paragraph BC32 of ASU 2023-07 indicates that in these situations an acceptable alternative is to refer to the other areas of the financial statements in the segment disclosure. The SEC staff emphasized that if such a reference is provided, the reference should clearly indicate where in the financial statements, either the primary financial statements or other disclosures, the relevant information is provided. The SEC staff also highlighted that the expense classifications regularly provided to the CODM could be different than the expense classifications presented in the consolidated financial statements. The significant expense principle follows the management approach underlying ASC 280, which provides investors the ability to view segments and segment information through the eyes of management. This is different than the objective or requirements for the expense classifications presented in the consolidated income statement.



**RSM COMMENTARY:** Just because a public entity is managed on a consolidated basis does not indicate that the CODM uses the information presented on the consolidated income statement to assess performance and allocate resources. For example, the CODM may be

regularly provided with different expense classifications or further disaggregated expense classifications than what is presented in the consolidated income statement. In circumstances in which more disaggregated expense classifications are provided to the CODM, paragraph BC61 of ASU 2023-07 indicates it would be inappropriate to aggregate the expense classifications regularly provided to the CODM prior to evaluating the expense classifications under the significant expense principle. As such, public entities are reminded that the information regularly provided to the CODM, even if that information is not consistent with the consolidated income statement, is the basis that should be used when determining which expense information meets the criteria of the significant expense principle and, therefore, is required to be disclosed in the segments note.

### 3. Scope of recently issued ASUs

SEC staff explained that they have received numerous questions from industry groups and other relevant stakeholders related to whether their respective industries or companies are within the scope of recently issued ASUs. ASUs mentioned by the SEC staff included:

- ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*
- ASU 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*
- ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*

Specifically, the staff emphasized that an entity is within the scope of the recently issued ASUs unless:

- The entity has been explicitly excluded from the scope of the ASU.
- The existence of industry-specific guidance precludes certain accounting.

For example, the SEC staff indicated that the scope of ASU 280 includes all entities that meet the definition of a public entity in the ASC Master Glossary, which includes investment companies and broker-dealers that are required to file financial statements with the SEC.

### 4. Distinguishing between debt and equity financing arrangements

SEC staff discussed the overall complexity and diversity in practice related to the classification of financial instruments with embedded features as a liability or equity. Current guidance requires significant judgment in determining the correct classification, and the SEC staff focused specifically on the evaluation of whether an instrument is indexed to an entity's own stock in accordance with ASC 815-40, *Derivatives and Hedging – Contracts in Entity's Own Equity*. The guidance on determining whether a financial instrument is indexed to an entity's own stock outlines two steps that must both be passed. The first step is to evaluate the instrument's contingent exercise provisions, if any. If that step is passed, the instrument's settlement provisions should be evaluated.

#### 4.1 Step 1: Evaluate contingent exercise provisions

Exercise contingencies would not preclude an instrument (or embedded feature) from being considered indexed to an entity's own stock under ASC 815-40-15-7A unless they are based on an observable market other than the market for the issuer's stock or are based on an observable index other than an index calculated or measured solely by reference to the issuer's own operations (e.g., sales, earnings before interest, taxes, depreciation and amortization, net income) or total equity.



Common provisions include those that allow either party to exercise the instrument upon reaching a certain level of sales or upon the completion of an initial public offering.

#### **4.2 Step 2: Evaluate the instrument's settlement provisions**

If the instrument (or embedded feature) passes Step 1, an entity should next consider the instrument's settlement provisions. For an instrument to be considered indexed to an entity's own stock, as noted in ASC 815-40-15-7C, the settlement amount needs to equal the difference between the fair value of a fixed number of the entity's equity shares and a fixed monetary amount or a fixed amount of a debt instrument issued by the entity. Commonly, financial instruments also allow for potential adjustments of the settlement provisions, such as changes in strike price or the number of shares to issued, if certain circumstances occur. Therefore, these adjustment provisions must be analyzed under ASC 815-40, regardless of the probability of such adjustments occurring or whether the adjustments are within the entity's control.

As stated in ASC 815-40-15-7D, an instrument (or embedded feature) with potential adjustments would still be considered indexed to an entity's own stock if the only variables that could affect the settlement amount would be inputs to the fair value calculation of a fixed-for-fixed forward or option on equity shares. The most widely known fixed-for-fixed fair value option model is the Black-Scholes-Merton model. As stated in ASC 815-40-15-7E, inputs to such calculations generally include the entity's stock price, as well as other types of variables such as the term of the instrument, stock price volatility and strike price.

Also discussed in ASC 815-40-15-7E, determinations and adjustments related to the settlement amount must be commercially reasonable (i.e., customary in the industry and not relative to the counterparty's specific practices). An instrument (or embedded feature) would not be considered indexed to the entity's own stock if its settlement amount is affected by variables that are extraneous to the pricing of a fixed-for-fixed option or forward contract on equity shares, or if the instrument contains a feature (e.g., a leverage factor) that increases exposure to the additional variables listed earlier in a manner that is inconsistent with a fixed-for-fixed forward or option on equity shares. ASC 815-40-55 contains numerous examples to illustrate the application of the guidance relevant to determining whether an instrument (or embedded feature) is indexed to an entity's own stock.

If after considering the two-step test, a conclusion is reached that the freestanding instrument or embedded feature is indexed to the entity's own stock, additional requirements in ASC 815-40 are assessed to conclude on the balance sheet classification for that instrument or feature. If the conclusion is reached that an instrument or embedded feature is not indexed to the entity's own stock, it cannot be classified as equity; rather, it is accounted for as an asset or a liability (as appropriate), with an initial carrying amount based on fair value. If the instrument or feature meets the definition of a derivative, ASC 815-10-35-2 requires ongoing fair value measurement, with changes in fair value reflected in earnings (assuming that the derivative is not designated in a hedge).

#### **4.3 SEC staff observations**

At the Conference, the SEC staff focused on certain common features, such as participation or settlement features, included in issued financial instruments that require significant judgment in assessing whether they meet Step 2 of the indexation guidance. The fact pattern shared by the staff included a registrant that issued a warrant with an embedded feature that stated that upon a fundamental transaction, such as an all-cash acquisition of the registrant, the warrant holder would be entitled to a settlement amount based on a Black-Scholes value with certain pre-specified inputs. The pre-specified inputs included the notion of selecting the greater of two outcomes for inputs such as volatility or share price. Additionally, warrants included a participation feature that provides the holder with the right to share in the dividends with common stockholders based on the number of shares that the warrant is exercisable into (though the hypothetical conversion did not consider the strike price of the warrants).

The SEC staff noted that the evaluation of these features under the indexation guidance in ASC 815-40-15 requires significant judgment, especially when assessing the pre-specified inputs for the Black-Scholes model and whether they are commercially reasonable. The SEC staff noted that it has observed widespread diversity in practice related to the classification outcomes for these types of features. As a result, the staff encouraged registrants to consult with the SEC on these issues and similar arrangements. The staff also stated that this is an area where standard-setting by the FASB would benefit all stakeholders. For example, they noted that the examples in ASC 815-40 no longer reflect the more prevalent terms and conditions included in today's financial instrument contracts.

For further information on the indexation guidance in ASC 815-40 and other important considerations when determining the balance sheet classification of financial instruments and embedded features, refer to our [A guide to accounting for debt and equity instruments in financing transactions](#).

## 5. Statement of cash flows

Numerous Conference speakers discussed the importance of the statement of cash flows (SCF). SEC Chief Accountant Paul Munter specifically mentioned the value provided to investors by the information presented in the SCF and stated the SEC's support for current FASB projects to increase transparency between the SCF and the balance sheet and income statement.

Speakers also noted the challenges in accurately preparing the SCF, guidance on which is found in ASC 230, *Statement of Cash Flows*. Speakers noted that errors in its preparation are common, representing the third largest source of financial statement restatements by SEC registrants. Errors in the preparation of the SCF often arise from the misclassification of cash flows, such as those related to complex or unusual transactions. Other common errors result from omitting the disclosure of non-cash transactions. Such omissions are likely to occur from exchange transactions, such as those for real estate, financial instruments or crypto-assets. Panelists noted the need for judgment in determining whether a transaction involves cash or not.

Panelists discussed best practices in the preparation of the SCF, including assessing the cash flow impact of complex transactions concurrently with assessing their balance sheet and income statement impact and tracking non-cash transactions as they occur (rather than as an afterthought shortly before the entity's reporting deadline).

Challenges in preparing the SCF often occur when cash flows from a transaction cross several cash flow classes. In such instances, entities should follow the predominance principle addressed in ASC 230-10-45-22 through 45-22(a). Under this guidance, the classification of such cash flows is first determined by applying the specific guidance in ASC 230 and other applicable sections of the FASB's ASC. In the absence of specific guidance, an entity should determine each separately identifiable source or use of cash within the transaction. The entity should classify each separately-identifiable source or use of cash based on the nature of the underlying cash flows, which may require use of significant judgment.

In situations in which transactional cash flows have aspects of more than one class of cash flows and cannot be separated by source or use, an entity should classify the total cash flows based on the activity that is likely to be the predominant source or use of cash flows for the transaction. For example, assume a piece of equipment is acquired or produced by an entity. The piece of equipment is to be rented to others for a period of time and then sold. In such instances, the cash flows would be classified based on the predominant nature of the cash flows arising from the transaction.

## 6. Debt restructurings

### 6.1 Modification versus extinguishment accounting

Conference speakers discussed the challenges in determining whether debt restructurings constitute a modification of the existing arrangement or its extinguishment. This distinction is important, as modification and extinguishment accounting yield different accounting outcomes. If deemed to be a modification, the restructured arrangement is considered a continuation of the original borrowing arrangement, with the accounting impact of the restructuring recognized prospectively via a revised yield on the original debt. Under extinguishment accounting, a gain or loss is recognized immediately, measured as the difference between the reacquisition price of the debt and the net carrying amount of the extinguished debt. The reacquisition price of the debt is the amount paid on extinguishment, including any call premium and miscellaneous costs of reacquisition. If extinguishment is achieved by a direct exchange of new securities, the reacquisition price is the total present value of the new securities issued.

The determination of the accounting treatment of the restructuring is based on whether the modifications to the original arrangement are more than minor. Changes are considered more than minor if the present value of the cash flows under the terms of the new debt instrument is at least 10% different from the present value of the remaining cash flows under the terms of the original instrument. If this threshold is met, the transaction is accounted for as an extinguishment of debt; if not, the transaction is accounted for as a modification. See Chapter 2 of our [A guide to accounting for debt modifications and restructurings](#) for further discussion of the accounting for loan restructurings from the perspective of the borrower. See Chapter 5 of our [A guide to accounting for investments, loans and other receivables](#) for further discussion of the accounting for loan restructurings from the perspective of the creditor.

### 6.2 EITF project on accounting for debt exchanges

Panelists discussed a current issue on which the FASB's Emerging Issues Task Force (EITF) decided to clarify when a transaction with multiple creditors that involves the contemporaneous exchange of cash between the same debtor and creditor in connection with the issuance of a new debt obligation and satisfaction of an existing debt obligation by the debtor (a "debt exchange transaction") should be accounted for as a debt extinguishment and the issuance of new debt.

Consistent with the EITF recommendation, the FASB has tentatively stated that a debt exchange transaction involving multiple creditors in the issuance of the new debt obligation should be accounted for as a debt extinguishment and the issuance of new debt when both of the following conditions are met:

- The original debt is repaid based on its contractual terms or is repurchased at market.
- The new debt is issued at market terms.

The FASB is expected to issue a proposed ASU in the first quarter of 2025.

## 7. Revenue from contracts with customers

Panelists discussed challenges in applying certain aspects of ASC 606, *Revenue from Contracts with Customers*, especially in situations where the accounting result appears less intuitive.

### 7.1 Consideration payable to a customer

One topic discussed was accounting for consideration payable to customers (e.g., rebates), which is addressed in ASC 606-10-32-25 through 32-27. Such consideration is generally treated as a reduction in revenue, unless the seller receives goods or services in return for such payments. This accounting treatment applies irrespective of the recipient of the payment. For instance, if a wholesaler ultimately pays consideration to a retailer's customer, as opposed to the retailer, the payment would still be recorded as a reduction of revenue by the wholesaler. This outcome may be at odds with how the entity views the



transaction, which is often seen as a marketing activity. See Chapter 7 of our [A guide to revenue recognition](#) for further discussion on the accounting for consideration payable to a customer under ASC 606.

## 7.2 Contract modifications

Panelists also discussed the challenges in applying ASC 606's prescriptive guidance on accounting for contract modifications, which is found in ASC 606-10-15-10 through 15-13. Entities must understand the underlying nature of the promises impacted from the modification, as well as the stand-alone selling price of items subject to the revised contractual terms, to correctly account for the modification.

Application of this guidance can lead to unexpected outcomes. For example, when receiving termination fees related to a partially terminated contract, the entity must recognize those fees over the remainder of the performance period of the contract, as opposed to immediately. Entities should assess the accounting impact of contemplated contract modifications so they can include that impact in their decision-making process. See Chapter 5 of our [A guide to revenue recognition](#) for further discussion of the accounting for contract modifications under ASC 606.

## 8. OECD's Pillar Two tax initiative

Several panels addressed the tax compliance, financial reporting and disclosure implications of the Organization for Economic Cooperation and Development's (OECD) Pillar Two global tax initiative (Pillar Two). Pillar Two attempts to ensure a minimum level of jurisdictional taxation—15% of pre-tax accounting income, subject to adjustments—irrespective of where the entity's revenue is generated. Pillar Two's scope includes entities with consolidated revenues of 750 million euros or more. Further, an entity meeting the revenue threshold would be within the scope of Pillar Two if it has operations in a jurisdiction that has adopted the initiative, even if it is domiciled in a jurisdiction that has not adopted the initiative, such as the United States.

Countries adopting Pillar Two will enact the following two taxes, with the goal to ensure an equitable distribution of earnings subject to income taxes among jurisdictions where an entity operates:

- **Income Inclusion Rule (IRR):** Under the IRR, entities will add back certain amounts to pre-tax income to achieve a 15% tax on financial accounting-based pre-tax income. The IRR is applicable for 2024.
- **Undertaxed Profits Rule (UTPR):** This tax serves as a backstop to ensure that an entity achieves the 15% tax on financial accounting-based pre-tax income. The UTPR is generally effective in 2025.

From an accounting perspective, Pillar Two taxes are considered alternative minimum taxes under ASC 740, *Income Taxes*. As such, an entity would record the impact of taxes related to Pillar Two as a current tax expense, with no corresponding deferred taxes.

SEC registrants should disclose the reasonably likely impact of the UTPR in its Management's Discussion and Analysis (MD&A) section of its SEC filings, if material. If the impact is not currently determinable, the entity should disclose a range of potential impact, as well as noting if it expects no material impact from the UTPR. The SEC staff is likely to issue a comment letter to a registrant if it omits disclosing the potential impact of the UTPR, or if the registrant discusses the impact of Pillar Two within its financial statements but does not include related disclosure of the potential impact of Pillar Two in its MD&A.

Non-SEC registrants within the scope of the Pillar Two initiative should also be assessing its potential impact, as well as their compliance with its requirements. All entities within its scope should be developing policies and procedures to ensure compliance with the Pillar Two reporting requirements and support the accounting and disclosure requirements of Pillar Two. Entities should also consider the

impact of incremental taxes paid when implementing Accounting Standards Update (ASU) 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*.

## 9. Derecognition of subsidiaries

SEC staff discussed the details of two recent consultations, highlighting the complexity of existing accounting guidance regarding the derecognition of subsidiaries, including the availability of their consultation process to assist registrants in concluding on complex accounting matters.

The first example dealt with determining the appropriate accounting guidance to use to record the sale of a subsidiary to a third party that did not meet the definition of a business in ASC 805, *Business Combinations*. The subsidiary held a significant amount of assets that were sold in its ordinary business activities (i.e., inventory), as well as significant other assets. The question received by the SEC was whether the sale of the subsidiary should be considered within the scope of ASC 810, *Consolidation*, or ASC 606.

ASC 810-10-40-3A(c) addresses the scope of the guidance related to deconsolidation and derecognition of a subsidiary that is not a business. The paragraph notes that the deconsolidation and derecognition guidance in ASC 810 would apply to such a transaction unless the substance of the transaction is addressed directly by guidance in other ASC Topics, such as ASC 606. In the above fact pattern, while the sale of inventory held would be directly addressed by ASC 606, the subsidiary also held multiple other assets—such as receivables, lease contracts and derivative contracts—as well as liabilities that would not be accounted for in accordance with ASC 606. When determining whether the substance of the sale of the subsidiary was directly addressed by ASC 606, the SEC staff explained that they considered the total grouping of assets and liabilities held by the subsidiary. In performing that analysis, the SEC staff concluded that ASC 606 did not address the substance of the sale of the subsidiary given the presence of significant other assets and liabilities that were not subject to that guidance. As such, the SEC staff explained that they would not object to accounting for this transaction in accordance with the deconsolidation and derecognition guidance in ASC 810.

The second example involved accounting for the sale of some of the assets and liabilities of a subsidiary whose results were previously recorded on a three-month lag. The reporting of the subsidiary on a three-month lag was deemed acceptable in accordance with ASC 810-10-45-12; however, the registrant believed it should update its results for the lag period as of the date of sale. While there is no explicit guidance on whether or how to adjust for results of the three-month lag period due to the sale, the registrant proposed to adjust the assets and liabilities to their carrying values at the date of the sale by recording the results of the operations for the three months not yet recorded directly to shareholder's equity (as opposed to recording them in the income statement). The staff objected to this accounting treatment proposed by the registrant.

## 10. FASB projects update

Representatives from the FASB provided a summary of the following recently issued Accounting Standards Updates and projects on its technical agenda:

- [ASU 2024-03: Disaggregation of Income Statement Expenses](#)
- [Derivatives Scope Refinements](#)
- [Hedge Accounting Improvements](#)
- [Accounting For and Disclosure of Software Costs](#)
- [Interim Reporting: Narrow-Scope Improvements](#)

- [Accounting for Government Grants](#)
- [Accounting for Environmental Credit Programs](#)
- [Codification Improvements](#)

## 11. Other reporting considerations

### 11.1 Potential changes to regulations on crypto assets

During the Conference, SEC Commissioner Mark Uyeda and U.S. Rep. French Hill both spoke about the future regulatory landscape each expected due to the upcoming presidential transition and resulting changes in leadership at the SEC. One potential change both speakers alluded to was revisiting Staff Accounting Bulletin (SAB) 121/SAB Topic 5.FF on the accounting for entities that have obligations to safeguard crypto assets held by their platform users.

SAB 121 discusses that in connection with services to provide platform users with the ability to transact in crypto assets, entities and their agents may safeguard the platform user's crypto assets and maintain the cryptographic key information to access the crypto asset. The obligations associated with these arrangements involve unique risks and uncertainties—including technological, legal and regulatory—which can have a significant impact on the entity's operations and financial condition. Accordingly, SAB 121 provides recognition, measurement and disclosure guidance intended to improve the information provided to investors and other financial statements about these risks.

One of the primary requirements of SAB 121 is that as long as the entity is responsible for safeguarding the crypto assets held for its platform users, including maintaining the cryptographic key information necessary to access the crypto assets, the SEC staff believes the entity should present a liability on its balance sheet to reflect its obligation to safeguard the crypto assets held for its platform users. This safeguarding liability should be measured, both at the initial recognition and each subsequent reporting date, at the fair value of the crypto assets the entity is responsible for holding for its platform users. The asset recognized is similar in nature to an indemnification asset as described in ASC 805. This asset is separate and distinct from the crypto asset itself that has been transferred to and then held for the platform user.

SAB 121 also includes disclosure requirements, such as the nature and amount of crypto assets that the entity is responsible for holding for its platform users, with separate disclosures for each significant crypto asset, and the vulnerabilities the entity has due to any concentration in such activities.

Both Uyeda and Hill indicated that the objective of revisiting SAB 121 should be to reduce or eliminate the current accounting and disclosure requirements. Commissioner Uyeda specifically noted that part of the reason for the criticism in this area is that the regulations are primarily a result of enforcement actions and a staff accounting bulletin that does not have an established or comprehensive due process. To address this, he suggested the requirements of SAB 121 be withdrawn and the FASB, with an extensive and established due process that involves the input of various stakeholders, take on a project to determine the appropriate accounting and disclosure requirements for entities that have custody of crypto assets.

### 11.2 Disclosure of emerging risks

Panelists suggested that SEC registrants review current disclosures concerning risks and consider updating their filings to include new or emerging risks, including the following topics:

- Potential supply chain challenges
- Issues related to operations in China
- Exposure to commercial real estate activities

- Emerging technologies, such as artificial intelligence (AI), cybersecurity threats and other technological issues

Panelists noted that AI-related disclosures are valued by investors. References to AI in SEC filings doubled over the past year. However, panelists cautioned that registrants must have a basis for claims that they are making regarding their use of AI. Registrants should avoid boilerplate disclosures. Instead, disclosures should be tailored to the registrant's specific facts and circumstances related to the registrant's use of AI, its risks and how the use will impact the business. The discussion should be updated to reflect both new or emerging risks and actual experienced events. Registrants should also consider discussing its governance policies for the use of AI and other emerging technologies.

### 11.3 Consulting with the SEC

SEC staff discussed best practices when registrants wish to consult with the SEC. Such consultations could range from a pre-filing consultation on an accounting matter to auditor independence.

Subject matters most suitable for consultation would be those where no authoritative accounting or regulatory guidance currently exists or where such guidance is confusing or contradictory. The goal of the consultation process is for the registrant, its accountants and SEC staff to work collaboratively to arrive at the correct answer prior to the filing. Such upfront collaboration should reduce or eliminate potential financial statements issues following the review of the filing by SEC staff. Information about initiating a consultation can be found on the SEC's Office of the Chief Accountant's [Form of Delivery and Content of Correspondence for OCA Consultations](#) page on the SEC website.

Panelists provided the following tips for successful consultations:

- Leave sufficient time for all parties to reach a conclusion on the matter.
- Have a full understanding of the topic on which the consultation is based and the reason for the consultation.
- Identify the tension points that the registrant wishes the consultation to resolve.
- Prepare an explanation for the conclusion reached, including the alternatives considered and why they were rejected.



**RSM COMMENTARY:** When assessing accounting alternatives for complex transactions, registrants frequently reference non-authoritative guidance published by accounting firms in their documentation of the basis for their conclusions. At the Conference, SEC staff reminded registrants that management is ultimately responsible for ensuring that the financial reporting outcome is appropriate and consistent with applicable accounting standards (e.g., GAAP). Registrants should not merely rely on published non-authoritative guidance to support its conclusions. They should perform and document their own reasoned analysis of the specific facts and economic substance of the transaction, which includes evaluating the applicable authoritative accounting standards. The staff also reminded registrants that the SEC is available for consultation.

**+1 800 274 3978**  
**rsmus.com**

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute audit, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. RSM US LLP, its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person. Internal Revenue Service rules require us to inform you that this communication may be deemed a solicitation to provide tax services. This communication is being sent to individuals who have subscribed to receive it or who we believe would have an interest in the topics discussed.

RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party. Visit [rsmus.com/aboutus](https://rsmus.com/aboutus) for more information regarding RSM US LLP and RSM International.

RSM, the RSM logo and *the power of being understood* are registered trademarks of RSM International Association.

© 2025 RSM US LLP. All Rights Reserved.

