INSIGHTS FROM THE 2025 AICPA CONFERENCE ON CURRENT SEC AND PCAOB DEVELOPMENTS

December 2025

Overview

In December 2025, the American Institute of Certified Public Accountants (AICPA) held its annual Conference on Current SEC and PCAOB Developments (Conference). At the Conference, a wide range of experts—including representatives from the U.S. Securities and Exchange Commission (SEC), Public Company Accounting Oversight Board (PCAOB) and Financial Accounting Standards Board (FASB)—provided insights on key developments and emerging issues in accounting, financial reporting and auditing, including changes in the regulatory environment facing SEC registrants and private companies. Topics included updated priorities of the SEC and FASB, compliance with recently issued accounting and financial reporting rules and standards, and audit quality initiatives.

This publication is focused on the accounting and financial reporting topics impacting public and private companies discussed at the Conference.

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1 Introduction

At the 2025 AICPA Conference on Current SEC and PCAOB Developments, representatives from the SEC, PCAOB and FASB—along with various other speakers and panelists—shared their views on accounting, financial reporting, auditing, and regulatory issues and emerging challenges facing the financial reporting community.

In a keynote session, SEC Chairman Paul Atkins encouraged the profession to "get back to basics," emphasizing the importance of integrity, objectivity, professional skepticism and independence. Chairman Atkins discussed potential SEC rulemaking focused on disclosure rationalization, securities litigation risk and corporate governance, with a common objective of reducing the cost of, and eliminating barriers to, companies accessing the U.S. public markets. James Maloney, Director of the Division of Corporation Finance (Corp Fin), said the SEC expects to propose a change to semi-annual reporting for SEC registrants. Mr. Maloney stated that SEC rulemaking proposals will come fast in the new year so stakeholders should "get [their] speed-reading goggles on and then try to get back to [the SEC]" with feedback.

The SEC's Chief Accountant, Kurt Hohl, also shared his top priorities for the SEC's Office of the Chief Accountant (OCA), including being responsive to emerging issues such as the accounting for crypto asset transactions and the impacts of artificial intelligence (AI), working with the FASB to facilitate earlier and more detailed feedback from preparers on expected costs of standard-setting proposals, and strengthening international standard-setting structures in support of continued efforts toward international convergence of accounting and auditing standards.

FASB Chair Richard Jones noted that the FASB expects to achieve its goal of completing substantially all items on last year's technical agenda by early next year and emphasized the importance of stakeholder feedback throughout the 2025 Agenda Consultation process to shape the FASB's agenda going forward.

Other speakers discussed a wide range of topics, including the impacts of tariffs, financial reporting use cases for AI, and the SEC's regulatory and enforcement environment. Speakers also discussed a variety of current accounting developments and practice issues. Among other things, these speakers highlighted the challenges involved in applying certain elements of U.S. generally accepted accounting principles (GAAP) or SEC reporting requirements to complex transactions and the importance of consulting with specialists and regulators on these issues, as applicable.

This publication 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 Artificial intelligence

The wide-ranging current and potential future impact of AI on financial reporting was a pervasive theme throughout the Conference, including discussions regarding AI use cases for preparers, auditors, financial statement users and accounting educators; the importance of controls and governance related to AI; and accounting issues related to the development of AI and related data centers.

2.1 Considerations regarding the use of AI in financial reporting

Multiple panels at the Conference discussed the opportunities and risks related to the use of AI in financial reporting.

- **AI use cases for preparers.** Some of the preparer use cases for AI discussed included analyzing contracts and creating initial drafts of accounting memos, producing variance analyses on data with written explanations of the drivers of the variances, validating invoices by comparing specific invoice items to actual contractual terms and auditing expense reports.

- **AI use cases for financial statement users.** When considering the benefits of AI, one analyst noted that "information overload is not a problem anymore." Panelists shared current AI use cases for analysts and other financial statement users that have been effective, including gathering information on current market events, trends and issues and facilitating the publishing of research. One analyst stated that AI is not yet effective in other tasks such as detailed analytics, data extraction, data compilation and decision making.
- **Controls and governance.** The SEC staff emphasized the importance of an appropriate risk assessment when integrating AI into financial reporting, including understanding risks related to change management with constantly iterative AI models, risks related to the explainability of AI models and emerging fraud risks. The staff emphasized that AI is a tool, not a replacement for human judgment, and that the use of AI will require recalibration of how preparers think about internal controls. The staff also noted there is no single authority or framework for AI governance, and preparers should evaluate the use of an existing framework to ensure it is fit for purpose for that specific company (e.g., by considering the framework's reputation, adoption and comprehensiveness). The staff 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." The staff stated that entities should assess the expertise of those governing the use of AI. For example, if the board of directors or the audit committee lack appropriate expertise, their oversight may not be effective.
  - A separate panel also discussed the need for a principles-based, AI-specific framework, which could leverage existing Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework concepts around risk assessment and designing effective controls. The panel noted the importance of addressing the inherent risks in AI processes and how AI is used as well as the specific risks that come with using AI, in addition to a top-down approach with AI-specific entity level controls and information technology (IT) general controls.
  - Panelists discussing the role of the audit committee noted the importance of the audit committee understanding the current state of the organization's use of AI (with frequent progress updates from management) and the type of control framework in place over data and data governance. Some questions for the audit committee to ask include what controls are being put in place, who is involved in that process, how is internal audit participating in those activities and is the company using AI in financial reporting in a way that is auditable. The panel also discussed the importance of providing accurate disclosures regarding the organization's current use of AI.

2.2 Accounting for AI data centers and similar arrangements

The rapid increase in the capabilities and use of AI has driven significant investment in AI-related infrastructure. The SEC staff and other speakers highlighted several areas of potential complexity in accounting for the development and operation of data centers or similar arrangements, each requiring careful judgment, particularly in the context of multi-party arrangements common in these types of projects.

- **Consolidation.** Data centers are often held by single-asset entities that may be variable interest entities (VIEs) under FASB Accounting Standards Codification (ASC) 810, *Consolidation*, due to being undercapitalized, for example. Each variable interest holder must assess whether it is the primary beneficiary and therefore required to consolidate the VIE. A lessee that does not have an equity interest in a single-asset legal entity may still have a variable interest in the entity through a residual value guarantee, renewal options or other contractual terms. Panelists provided observations on the identification of the primary beneficiary of a VIE, which hinges on two criteria:
  - The power to direct activities that most significantly impact the VIE's economic performance
  - An obligation to absorb losses or right to receive benefits that could potentially be significant to the VIE

One panelist reminded entities that the assessment of power is over the life of the VIE, not just the lease term. Additionally, the SEC staff noted that for data centers, relevant activities over the life of the VIE may include design and construction, leasing, operations and maintenance, and remarketing. Identifying which activities are most significant requires judgment based on individual facts and circumstances.

- **Lease accounting.** Given the number of parties involved in constructing and operating data centers, lease arrangements are common. For example, there may be one or more leases involving the building, the IT hardware assets or the associated power generation assets. Lessees must determine the lease commencement date and whether the lessee is considered a deemed owner during construction due to controlling the asset during construction. ASC 842, *Leases*, provides a list of indicators of control over the underlying asset during construction. The SEC staff noted that this list is not exhaustive, and that entities should carefully evaluate all facts and circumstances, as these determinations affect whether the transaction is within the scope of the sale-and-leaseback guidance in ASC 842 and when a right-of-use asset and corresponding liability are recognized on the balance sheet. Other panelists discussed the importance of understanding the impact of guidance in ASC 842 and ASC 606, *Revenue from Contracts with Customers,* when an arrangement includes lease and non-lease components, particularly when the arrangement includes variable payment terms, noting that lessors are often surprised at the allocation of consideration and resulting timing of recognition under the two models.
- **Fixed asset accounting.** The SEC staff reminded registrants to continually assess the appropriateness of useful lives assigned to long-lived assets. The staff noted that recognition of impairment of a long-lived asset is not an acceptable substitute for selecting or revising the useful life of the asset as conditions evolve. When performing recoverability tests of long-lived assets, cash flow estimates should reflect the entity's own assumptions about its use of the asset or asset group and should incorporate all available information, such as budgets and projections, calculations related to incentive compensation, and communications used in other contexts.
- **Other issues.** In providing observations of other common issues noted in data center and other similar arrangements, panelists noted complexities in applying the equity method of accounting when consolidation is not appropriate; the importance of identifying derivatives under ASC 815, *Derivatives and Hedging*; and the need for disclosure when a contractual arrangement with a customer or supplier leads to related party transactions.

These reminders underscore that while AI-related technology is novel, the accounting principles governing these arrangements remain rooted in established GAAP. Registrants should exercise sound judgment and maintain robust documentation to support conclusions concerning these and other aspects of complex arrangements.

3 Financial reporting considerations related to tariff policies

Several panelists discussed the financial reporting and operational considerations associated with the tariff policies introduced by the U.S. in 2025 and related uncertainties. They emphasized that entities need to assess the possible accounting and disclosure implications of tariffs and provided the following reminders:

- Tariffs do not directly affect revenue recognition because they are costs borne by the importer and are included in the carrying value of inventory. From a GAAP perspective, tariffs cannot be presented net of revenues because they are not related to the revenue-generating activities of an entity.
- Tariffs can have several indirect effects on financial reporting. For example:
  - Tariffs may lead to contract modifications or changes in variable consideration estimates under ASC 606.

- For companies with construction or production contracts, tariffs may create or increase losses, requiring consideration under loss contract guidance.
- The impacts of tariffs could serve as triggering events for the assessment of impairment of goodwill and other long-lived assets.
- Tariffs can impact the realizability of deferred tax assets and affect uncertain tax positions.
- Disclosures throughout an entity's financial reports, both within and outside the basic financial statements, may need to be updated to reflect the most recent changes in tariffs and related risks and uncertainties.

For additional information on tariff-related financial reporting considerations, see our Accounting Brief, *Financial reporting implications of tariffs*.[1]

3.1 Legal challenges to imposed tariffs

Panelists discussed financial statement disclosure considerations related to the ongoing legal challenges to specific Trump administration tariff policies. Oral arguments were held at the United States Supreme Court (USSC) on November 5, 2025, on the Learning Resources, Inc. v. Trump and Trump v. V.O.S. Selections, Inc. cases. These cases challenged the Trump administration's authority to impose tariffs under the provisions of the International Emergency Economic Powers Act (IEEPA). Panelists noted that it is unlikely that a ruling in these cases will be issued by the USSC before year end. If a decision on the cases is issued after year end but before an entity's financial statements are issued or available to be issued, panelists reminded entities to consider the need for disclosure of this non-recognized subsequent event. In accordance with ASC 855, *Subsequent Events*, such disclosure should include the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made. Given the uncertainty concerning the timing and content of an opinion by the USSC, panelists recommended that entities draft sample disclosures that address potential outcomes of these cases.

3.2 Other tariff-related disclosures

In addition to the potential disclosure of a non-recognized subsequent event related to the ongoing tariff litigation, panelists emphasized that entities should review existing financial statement disclosures related to tariffs and update them as necessary for 2025 year-end reporting. For example, entities should revisit their ASC 275, *Risks and Uncertainties*, disclosures that require, among other things, entities to discuss estimates when, based on known information available before the financial statements are issued or are available to be issued, it is reasonably possible that the estimate will change in the near term and the effect of the change will be material. Any decisions reached by the USSC after year end related to tariffs would likely require an entity with significant direct and indirect exposure to tariffs to update its ASC 275 disclosures.

Entities should also reassess the relevance and appropriateness of tariff-related disclosures included elsewhere in their Form 10-K (e.g., Risk Factors and Business sections of the 10-K). If material, an entity should discuss the impact of tariffs when explaining changes in its operating results in the Results of Operations section of its Management's Discussion and Analysis (MD&A). For example, SEC staff and other panelists discussed disclosure of material changes in results of operations, known uncertainties that could have a material impact in the future, mitigation strategies, the impact of tariffs on liquidity and capital resources, and critical accounting policies.

3.3 Preparing for potential USSC decision outcomes

Although the outcome of the USSC decision in the cases discussed in Section 3.1 is not yet known, panelists, drawing on oral arguments before the USSC, noted that a partial or full refund of tariffs paid under IEEPA is possible. They also indicated that a USSC decision invalidating the administration's

[1] We expect to update our Accounting Brief upon a ruling by the U.S. Supreme Court on the legal matter discussed in Section 3.1 to provide related accounting and financial reporting considerations.

IEEPA tariff policies might not affect previously imposed tariffs—in other words, a court ruling could apply only to future imports.

To prepare for scenarios that result in a partial or full refund of previously paid tariffs, panelists emphasized the importance of maintaining complete, accurate and detailed documentation of tariffs paid under the provisions of IEEPA.

Many entities use third parties to process their tariff-related transactions and reporting requirements. Entities in these situations should work closely with their service providers to ensure that necessary documentation exists to support any possible refunds of tariffs paid. If not, they should work on developing remedies for any documentation gaps. Lastly, entities will need to understand the process through which a refund request would be submitted and ensure they can furnish their service provider with any necessary information to facilitate this process.

4 Digital assets

The SEC staff noted that accounting for digital assets continues to be a frequent topic of consultation with OCA. The staff highlighted two recent consultations related to stablecoins:

- **Stablecoin issuers.** The staff objected to a stablecoin issuer's proposed accounting to not recognize on its balance sheet the reserve assets and redemption obligation related to its stablecoin issuances. In this fact pattern, each stablecoin was required to be fully backed by reserve assets held by certain financial institutions for the benefit of the stablecoin holder. The reserve assets were limited to specific assets such as short-term treasury bills and were segregated from the issuer's other non-reserve proprietary assets. The issuer asserted that in managing the reserve assets, it prioritizes minimizing liquidity risk to meet expected redemptions, rather than maximizing earnings through yield. The issuer believed it did not control the assets since the reserves were held in segregated accounts and subject to regulatory investment limitations.

  The SEC staff's objection was based on various factors, including that the issuer is regulated as a stablecoin issuer and is the sole obligor to redeem the stablecoins, and that the issuer controls and manages the reserve assets within the bounds of regulatory requirements and benefits from the resulting yield. The staff observed that recognizing the reserve assets on balance sheet helps investors understand the nature and value of those assets relative to the redemption obligation for outstanding stablecoins.

- **Stablecoin holders.** The staff did not object to a registrant's proposed accounting for its specific U.S. dollar-pegged stablecoin holding as a cash equivalent under ASC 230, *Statement of Cash Flows*. Under GAAP, a cash equivalent is defined as a short-term, highly liquid investment that meets two criteria. First, it must be readily convertible to known amounts of cash. Second, it must be so near its maturity that it presents insignificant risk of changes in value because of changes in interest rates. In this fact pattern, the registrant had a specific agreement with the stablecoin issuer, separate and apart from the general terms and conditions of the stablecoin issuer, that provided the registrant a guaranteed one-for-one redemption of the stablecoin to U.S. dollars within two business days. The stablecoin issuer was also subject to regulations requiring its stablecoins to be fully backed by an equivalent amount of specified liquid assets that otherwise would be considered cash equivalents.

The SEC staff acknowledged that the FASB has recently added a project to its technical agenda to consider the classification of certain digital assets as cash equivalents, as well as a separate recently added project on the accounting for transfers of crypto assets. Additionally, Mr. Hohl noted that the SEC staff has observed several other crypto-related accounting issues, and that it will be important to coordinate with the FASB on potential standard setting on certain issues that may be best considered by the Emerging Issues Task Force.

5 Segment reporting

The SEC staff shared staff views and observations on the topics below related to ASC 280, *Segment Reporting*, focused on the amendments to that guidance in Accounting Standards Update (ASU) 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*). For more information on segment reporting, see our Financial Reporting Insights, *Expanded reportable segment disclosures*.

5.1 Determination of required measure of segment profit or loss

Under ASC 280, a public entity is required to disclose the single measure of a reportable segment's profit or loss used by the chief operating decision maker (CODM) that is most closely aligned with the measurement principles in GAAP. Per ASC 280-10-50-28A (added by ASU 2023-07), if the CODM uses more than one measure of a segment's profit or loss, the public entity is permitted, but not required, to disclose such additional measures. The identification of the single measure of segment profit or loss required to be disclosed has always been important, but the related impact is more pronounced after adoption of the amendments in ASU 2023-07, given the new requirements to disclose significant segment expenses and other segment items for each reported measure of segment profit or loss. The SEC staff emphasized that careful consideration of the facts and circumstances is required in this analysis, and shared observations and views regarding the determination of the required measure in three scenarios:

- **Scenario 1: CODM uses multiple GAAP measures.** If the CODM uses multiple measures of segment profit or loss that are measured on a basis consistent with GAAP (e.g., gross profit and operating income), the SEC staff believes the measure that includes more GAAP revenue and expense line items reflected in the consolidated financial statements is the required measure. In this example, operating income would be the required measure because it includes more GAAP expense line items than gross profit.
- **Scenario 2: CODM uses one GAAP measure and one non-GAAP measure.** If the CODM uses one measure based on GAAP (e.g., operating income) and another non-GAAP measure (e.g., earnings before interest, taxes, depreciation and amortization [EBITDA]), the measure based on GAAP—in this example, operating income—is the required measure.
- **Scenario 3: CODM uses multiple non-GAAP measures and no GAAP measures.** If none of the measures of segment profit and loss used by the CODM are measured on a GAAP basis, determining the measure most closely aligned with the measurement principles in GAAP can be complex and a matter of judgment. The SEC staff noted two non-exclusive factors to consider. First, the SEC staff noted that the number and nature of adjustments is relevant, such that EBITDA would be considered closer to GAAP than adjusted EBITDA where the adjustment to EBITDA is to exclude restructuring charges. Second, the SEC staff noted that, similar to scenario 1 above, the number of revenue and expense line items included in the measure is relevant. The SEC staff provided an example where the CODM uses adjusted gross profit and adjusted operating income, with the only adjustment to each measure being the exclusion of stock-based compensation. The SEC staff believes that in this example, adjusted operating income would be the required measure, as it includes additional operating expense line items relative to adjusted gross profit.

5.2 Single reportable segment disclosures

ASU 2023-07 clarified that public entities with a single reportable segment are required to provide all segment disclosures. While the SEC staff acknowledged that an entity may include a reference to its primary financial statements to comply with certain segment disclosure requirements, the staff noted that such a reference is unlikely to meet all segment disclosure requirements, even for a single reportable segment entity managed on a consolidated basis. 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 measures of segment profit or loss to allocate resources and assess performance. Additionally, the staff emphasized that the significant segment expenses regularly provided to the CODM may be different than those on the face of the income statement, such that disclosure of additional segment expenses would be required.

The staff also noted its belief that if all significant expenses received by the CODM are included on the face of the financial statements such that a reference to the primary financial statements is appropriate, the entity should disclose that the CODM does not receive additional expense information beyond what appears on the face of the income statement.

5.3 Significant segment expenses

The SEC staff provided the following observations and reminders related to significant segment expense disclosures based on areas of frequent staff comments in reviews of public company filings:

- If a public entity determines it is not required to disclose significant segment expenses for one or more of its reportable segments, ASC 280-10-50-26C requires an explanation of the nature of the expense information the CODM uses to manage operations for such segments.
- Even when no significant segment expenses are reported, a public entity must still quantify the amount of other segment items and provide a qualitative description of such amount.
- The staff has commented on disclosures where it is unclear how a reported significant segment expense is measured or what expenses comprise that significant expense category. For example, an entity might report adjusted selling, general and administrative expense, but the disclosure does not clearly convey the nature of the adjustments. As another example, an entity might report a line item called segment cost without describing what is included in that line item.
- The staff has commented on disclosures of significant segment expenses and measures of segment profit or loss that use measurement principles that differ from GAAP, but the registrant selects a naming convention that is similar to, or the same as, a line item presented on the face of the consolidated income statement.

The staff encouraged registrants to consider providing clear disclosure of the composition of significant segment expense categories and how reported significant expenses and measures of segment profit or loss are measured when they differ from GAAP and to use naming conventions that clearly distinguish measures of segment profit or loss from other measures as necessary.

5.4 CODM-related disclosures

The SEC staff has issued comments on missing or incomplete disclosures regarding how the CODM uses reported measures of segment profit or loss in assessing segment performance and deciding how to allocate resources (ASC 280-10-50-29(f)). The staff indicated that simply indicating a CODM uses a measure to allocate resources and assess performance does not satisfy the requirement to disclose how the CODM uses the measure. Rather, disclosures should discuss how the CODM uses the measure to allocate resources and assess performance. As a reminder, the staff noted that public entities should provide this disclosure for each reported measure of segment profit or loss, which includes additional measures that are reported.

5.5 Disclosure of information not required by ASC 280

The SEC staff cautioned public entities to ensure that segment disclosures comply with ASC 280 and do not violate non-GAAP requirements either through the format of the disclosures or by including additional information beyond what is required by ASC 280. The staff provided the following examples from filing reviews:

- **Reconciliations.** As part of the required segment reconciliations under ASC 280-10-50-30(b), a public entity uses a format that adds non-reportable operating segments along with corporate and other amounts to the reportable segment amounts to arrive at a consolidated measure of segment profit or loss. In this case, the consolidated measure of segment profit or loss is not required by ASC

280 and therefore may result in a non-GAAP measure that is prohibited. Rather, the reconciliation should start with the total of the reportable segments' amounts.

- **Pseudo-consolidation and sub-grouping.** Disclosing segment information for certain non-reportable segment groupings within the public entity such as combinations of some, but not all, reportable segments, or such groupings that include certain eliminations and some corporate costs may create, effectively, an inappropriate pseudo-consolidation or a hypothetical reporting entity below the consolidated level.
- **Subtotals that are additional measures.** A public entity may use subtotals in the segment disclosures that could be viewed as additional measures of segment profit or loss. The staff reminded public entities to include all disclosures required by ASC 280-10-50-28C for each such measure. We also note that such additional measures would be subject to non-GAAP requirements. Similarly, disclosure of total or consolidated amounts of significant segment expense categories and other segment items are not required and could result in a non-GAAP consolidated subtotal.

5.6 Operating segment aggregation

In a discussion on the impacts of operating in a dynamic market, a panelist noted that registrants should closely monitor changes in business models or other changes that can have a significant impact on segment reporting. In addition to more obvious changes such as the acquisition of a business, a disposition or a restructuring, the panelist discussed other less pronounced changes in the business that can drive sudden changes in segment reporting. For example:

- A registrant that aggregates operating segments into a reportable segment based on similar economic characteristics should closely monitor changes in operating segment margins over time. The panelist noted that to qualify for aggregation, operating segments typically must have very similar long-term average gross margins. While those average margins may slowly diverge over time, the registrant may find that it can no longer aggregate the operating segments.
- A registrant may have an operating segment that has not been a reportable segment because it has not tripped the quantitative thresholds in ASC 280-10-50-12, but changing business models or economics in that or other segments may cause it to become a reportable segment.

6 Derivatives—normal purchases and normal sales scope exception

The SEC staff shared a recent consultation with OCA related to the application of the normal purchases and normal sales (NPNS) scope exception to derivative accounting under ASC 815 for certain forward natural gas sales contracts.

The staff described the expansion of the liquified natural gas market, which has resulted in an evolution of the pricing terms used in certain forward natural gas sales contracts. In this fact pattern, a registrant entered into a contract for the sale of natural gas that was produced and delivered in the U.S. but priced based on the Dutch Title Transfer Facility (TTF) index, with a fixed-percentage discount. The staff noted that these terms were not common pricing terms in the U.S.

Under ASC 815, to qualify for the NPNS scope exception, any price adjustments must be clearly and closely related to the asset being sold. In evaluating whether the discounted TTF index price is clearly and closely related to natural gas being sold in the U.S., the SEC staff considered, among other factors, whether other market participants use similar pricing terms for natural gas sales at the same U.S. delivery location as the contract, and whether the fixed-percentage discount approximated the differential between delivery of the natural gas to the U.S. location and to Europe, considering costs such as liquefaction, transport and regasification of the natural gas. The staff emphasized that this assessment would not require the seller to consider the buyer's ultimate use of the gas but would consider only whether the pricing components known to the seller are consistent with delivery into a European market.

The SEC staff did not object to the registrant's conclusion that pricing based on the TTF index with a fixed-percentage discount was clearly and closely related to the natural gas being sold. The staff noted that judgment is required based on the facts and circumstances of each transaction, particularly transactions in new or emerging markets where transparency into the data needed to support the evaluation may be limited.

7 Fair value measurements

The SEC staff observed the continued growth in private credit in recent years, with lending by entities outside the traditional banking system in forms such as corporate direct lending, infrastructure debt and asset-backed financing. Such non-bank lenders (e.g., investment partnerships, private equity funds and business development companies) are typically investment companies under ASC 946, *Financial Services—Investment Companies*, which requires measurement of investments at fair value under ASC 820, *Fair Value Measurement*. Because private credit investments are inherently illiquid and have limited observable market data to determine fair value, preparers often use Level 3 inputs to determine the fair value. Under ASC 820, the determination of fair value is required to reflect assumptions that market participants would use when pricing the asset or liability, including assumptions about risks. Entities are required to develop these unobservable inputs by using the best information available under the circumstances, which often includes an entity's own proprietary data. The staff noted that when an entity uses its own data to develop unobservable inputs, it should adjust that data to reflect market participant assumptions, including the consideration of risk, such as the effect of an increase in borrower credit risk on the price that a hypothetical market participant would pay to purchase that investment.

The SEC staff also provided a reminder that when an entity determines that a transaction price represents fair value upon initial recognition but the entity's subsequent measurement valuation model produces an initial fair value estimate that differs from the transaction price, the valuation model should be calibrated to support a valuation technique that reflects market conditions. The staff 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. The staff also highlighted Rule 2a-5 of the Investment Company Act of 1940 on good-faith fair value determinations, emphasizing the importance of assessing and managing material risks, selecting and testing fair value methodologies, and evaluating any pricing services used.

Finally, the SEC staff highlighted the International Organization of Securities Commissions' recent publication, *Statement on the Importance of High-quality Valuation Information Included in Financial Reporting*, which emphasized the need for international consistency of valuation information to provide investors with relevant and reliable financial information.

8 Tax regulatory landscape

Panelists discussed recent changes in tax laws and disclosure requirements related to income taxes and their implications for the reporting and disclosure of income taxes under ASC 740, *Income Taxes*. The discussion focused on three major topics that entities will need to address for their year-end reporting:

- Implementation of ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*
- Implementation issues related to the Organization for Economic Co-operation and Development's (OECD) Pillar Two global tax initiative (Pillar Two)
- Accounting for the impact of HR1, *One Big Beautiful Bill Act* (OBBBA)

Challenges discussed in addressing these issues include data accumulation, the potential effects of greater data transparency and continued uncertainty in the application of both the OBBBA and Pillar Two.

8.1 Implementation of ASU 2023-09

ASU 2023-09 is effective for calendar 2025 year-end reporting for public business entities. The ASU requires further disaggregation of the effective tax rate reconciliation and enhanced disclosure of other information, such as income taxes paid. For a detailed discussion of the new disclosure requirements under ASU 2023-09, see our Financial Reporting Insights, *ASU 2023-09—Expanded Income Tax Disclosure Requirements*.

Panelists noted some difficulties in collecting the data required to comply with ASU 2023-09 disclosures, in part because this information may not reside within existing tax reporting systems. Such data may need to be compiled from other systems and added to the tax reporting system before being mapped to the ASU's corresponding disclosure requirements. As a result, impacted entities may need to update their policies and controls (if they have not already done so) regarding the compilation and mapping of this data to ensure completeness, accuracy and compliance with the ASU's disclosure requirements.

The enhanced disclosures required by ASU 2023-09 are intended to provide users of financial statements with greater transparency about the components of an entity's income tax expense and its tax management policies, which is expected to generate more scrutiny from stakeholders (e.g., analysts) as they compare the new data to the entity's historical trends and that of peers. As a result, panelists recommended that entities ensure collaboration among tax, financial reporting and investor relations personnel when developing messaging about the components of the enhanced disclosures and how they may change over time and differ from that or their peers.

Entities may implement the amendments in ASU 2023-09 using either a prospective or retrospective method, each of which presents distinct advantages and disadvantages. Panelists pointed out that surveys show entities are evenly divided in their choice of adoption approach.

8.2 Implementation issues related to Pillar Two

Panelists discussed several implementation issues related to the Undertaxed Profits Rule (UTPR) and the wider tax initiative. As a reminder, UTPR is one of the enforcement mechanisms under the OECD's Pillar Two Global Anti-Base Erosion framework, which introduces a 15% global minimum tax for large multinational enterprises. Pillar Two applies to groups with consolidated revenues of at least €750 million. It acts as a backstop when the Income Inclusion Rule (IIR) does not fully capture the required "top-up tax" on low-taxed profits. If a subsidiary in a low-tax jurisdiction pays less than the 15% minimum and the parent jurisdiction does not apply the IIR, the UTPR allows other jurisdictions where the group operates to collect the shortfall.

Panelists noted that the U.S. has explicitly declined to adopt the UTPR in domestic law. Instead, the U.S. negotiated a "side-by-side" arrangement with G7 countries in mid-2025. Under this understanding, U.S.-parented multinational groups would be fully excluded from both the IIR and the UTPR, recognizing that the U.S. already has its own minimum tax regime (e.g., Global Intangible Low-Taxed Income and Corporate Alternative Minimum Tax). This agreement led to the removal of a proposed retaliatory measure (proposed Section 899 in the OBBBA) from U.S. legislation, which would have imposed extra taxes on foreign companies applying UTPR to U.S. entities.

Negotiations are ongoing between the U.S. and other large, industrialized nations regarding a carve-out of U.S.-domiciled entities from any UTPR taxes enacted by those countries. A panelist noted that even if these negotiations result in a political agreement before the end of 2025, the actual changes to tax laws related to these agreements will likely not be deemed enacted under ASC 740 until 2026. Accordingly, entities should record any UTPR taxes based on taxes and rates currently enacted as of the balance sheet date and record the effects of any changes to the tax or its rate in the period when such changes are considered enacted under ASC 740. Entities should monitor developments in this area and consider the need for financial statement disclosure of events that occur after year end but before their financial statements are issued or available to be issued, in accordance with ASC 855.

Compliance with the 15% effective tax rate under the Pillar Two initiative is assessed on a jurisdiction-by-jurisdiction basis. Several safe harbors exist related to determining the applicability of any UTPR. The applicability of these safe harbors is determined based on the entity's country by country reporting (CbCR) of its financial information. Entities should ensure that amounts reported under CbCR are complete and accurate. Additionally, while generally confidential, such CbCR reports may become public in certain jurisdictions. As with ASU 2023-09, entities should prepare for the increased scrutiny that this data may receive and provide consistent messaging about such information.

8.3 Accounting for the impact of the OBBBA

Panelists discussed the need for entities to complete their accounting for the OBBBA. They noted that, in accordance with ASC 740, entities would have initially recorded the effects of the OBBBA in their quarterly results that included the date the law was enacted (July 4, 2025). However, they stated that the U.S. Department of the Treasury has yet to issue implementation guidance related to certain provisions of OBBBA. They noted that final regulations on topics such as expensing qualified research and development expenses and bonus depreciation could change how entities initially accounted for these provisions of the OBBBA.

Panelists recommended that entities assess any uncertainty arising from the lack of guidance and apply the guidance in ASC 740 regarding uncertain tax positions when finalizing their accounting for the effects of the OBBBA. For more information on the impact of the OBBBA on financial reporting and the accounting for uncertainty in income taxes, see our Article, *Accounting for the income tax impacts of the One Big Beautiful Bill Act*, and our Financial Reporting Insights, *Accounting for Income Taxes—Uncertain Tax Positions*, respectively.

9 FASB standard-setting updates

Representatives from the FASB discussed the board's recent standard-setting activity. They noted that substantially all items on last year's technical agenda have been completed or would be completed by early next year. They also discussed the status of current research agenda projects, including the 2025 Agenda Consultation, and recent projects added to the FASB's technical agenda and stressed the importance of stakeholder feedback across these activities.

9.1 Update on the FASB's agenda-setting process

In January 2025, the FASB issued an Invitation to Comment (ITC) as part of its ongoing Agenda Consultation project, which will establish the board's standard-setting agenda for the next several years. Through feedback received on this ITC, the FASB has identified 72 issues to date, which the board will continue to discuss at meetings through mid-2026 to decide whether to add projects to its technical agenda or take other actions in response to stakeholder feedback. Based on feedback from the agenda consultation ITC, the FASB has already added the following projects to its technical agenda:

- Equity Method of Accounting: Targeted Improvements
- Classification of Certain Digital Assets as Cash Equivalents
- Accounting for Transfers of Crypto Assets

Mr. Jones noted that, in addition to progress on research agenda projects, the FASB received valuable feedback from stakeholders about two ITCs released in 2024 concerning the accounting for intangibles and financial key performance indicators. He explained that the FASB has conducted a public meeting for each topic, and that the FASB staff is continuing its work as the board decides whether standard setting is needed in these areas.

9.2 FASB standard setting during 2025

Representatives from the FASB discussed the following recently issued ASUs:

- **Measurement of Credit Losses for Accounts Receivable and Contract Assets.** ASU 2025-05, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets*, introduces a practical expedient and, for entities other than public business entities, an accounting policy election to simplify the application of ASC 326, *Financial Instruments—Credit Losses*, to current accounts receivable and current contract assets arising from revenue transactions accounted for under ASC 606. For additional information on this ASU, refer to our article, *Amended guidance for measuring credit losses on short-term receivables*. Also look for our soon-to-be-updated guide, *A guide to accounting for investments, loans and other receivables*..
- **Targeted Improvements to the Accounting for Internal-Use Software.** ASU 2025-06, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software*, modernizes the accounting for internal-use software costs to reflect the evolution of software development practices and address stakeholder concerns about the operability and relevance of existing guidance. For more information on this ASU, see our Financial Reporting Insight, *FASB modernizes the accounting for internal-use software costs*.
- **Derivatives Scope Refinements and Scope Clarification for Share-Based Noncash Consideration from a Customer in a Revenue Contract.** ASU 2025-07, *Derivatives and Hedging (Topic 815) and Revenue from Contracts with Customers (Topic 606): Derivatives Scope Refinements and Scope Clarification for Share-Based Noncash Consideration from a Customer in a Revenue Contract*, introduces two sets of amendments designed to reduce complexity and diversity in practice:
  - Derivatives scope refinements that expand an existing scope exception to exclude certain contracts from derivative accounting
  - Clarification that ASC 606 governs the accounting for share-based noncash consideration received from a customer (i.e., consideration is accounted for under ASC 606 unless and until the right to receive or retain it becomes unconditional, at which point other generally accepted accounting principles (GAAP) may apply)

  For more information on this ASU, see our article, *FASB issues ASU on derivatives scope refinements*.
- **Purchased Loans.** ASU 2025-08, *Financial Instruments—Credit Losses (Topic 326): Purchased Loans*, expands the population of acquired financial assets subject to the "gross-up approach" in ASC 326. The ASU addresses stakeholder concerns that applying current GAAP leads to double counting expected credit losses for acquired financial assets recorded at fair value, since these losses are already included in the fair value measurement. For more information on this ASU, see our article, *FASB issues ASU on purchased loans*.
- **Hedge Accounting Improvements.** ASU 2025-09, *Derivatives and Hedging (Topic 815): Hedge Accounting Improvements*, clarifies certain aspects of the guidance on hedge accounting and addresses several incremental hedge accounting issues arising from the global reference rate reform initiative. The amendments in this ASU address five issues that are intended to better enable entities to achieve and maintain hedge accounting for highly effective economic hedges of forecasted transactions. For more information on this ASU, see our article, *FASB issues ASU on hedge accounting improvements.*
- **Accounting for Government Grants Received by Business Entities.** ASU 2025-10, *Government Grants (Topic 832): Accounting for Government Grants Received by Business Entities*, establishes authoritative guidance on the accounting for government grants received by business entities, largely leveraging the accounting model in International Accounting Standard 20, *Accounting for Government*

Grants and Disclosure of Government Assistance. For more information on this ASU, see our article, *FASB issues guidance on accounting for government grants.*

Additionally, the FASB staff indicated the board expects to issue an ASU under its Accounting for Environmental Credit Programs project in the first quarter of 2026 that mostly retains the overall approach included in its proposed ASU issued in December 2024. The objective of this project is to improve the financial accounting for and disclosure of environmental credits and environmental credit obligations. The final ASU is expected to provide recognition, measurement, presentation and disclosure requirements for all entities that purchase or hold environmental credits or have a regulatory compliance obligation that may be settled with environmental credits.

9.3 Implementation considerations for certain ASUs

At the Conference, panelists from both the preparer and practitioner communities discussed various challenges and shared observations regarding the implementation of certain ASUs issued during the past 13 months. For example:

- As previously noted, ASU 2025-07 expands an existing scope exception so that some contracts are no longer subject to derivative accounting. Multiple panels noted that once ASU 2025-07 is implemented, there may be questions about how to properly account for those transactions that have been scoped out of ASC 815. For example, one panelist observed that many entities have entered into financing-type arrangements related to litigation, research and development, or potential tariff refund arrangements. Historically, many of those arrangements met the definition of a derivative and would be reported at fair value each reporting period, with changes in fair value recognized in earnings. Following the adoption of ASU 2025-07, entities will need to determine how to account for those arrangements.
- As mentioned above, ASU 2025-06 updates the accounting for internal-use software costs. The updated capitalization model better reflects current software development approaches. However, in doing so, panelists noted that the ASU adds areas of judgment and complexity in determining when cost capitalization should begin, including the requirement to consider whether there is significant uncertainty associated with the development activities of the software.
- Panelists also discussed implementation considerations related to ASU 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses* (DISE). ASU 2024-03 requires public business entities to disclose more disaggregated information about certain costs and expenses in the notes to their financial statements. While not effective until 2027 for most entities, panelists noted that DISE is likely to require significant implementation effort, including updates to current systems in some cases. One panelist suggested that entities should create cross-functional teams and discuss implementation with industry peers to develop efficient implementation strategies, including defining selling expenses and establishing policies, processes, and controls related to the development of reasonable estimates and allocations. For more information on this ASU, see our Financial Reporting Insights, *New expense disaggregation disclosure requirements*.

10 SEC reporting updates

10.1 Financial Reporting Manual update

The SEC staff shared that after three significant updates published in June, August and December this year, Corp Fin's Financial Reporting Manual (FRM) is currently up to date, aligning the FRM with the latest SEC and PCAOB rules and regulations. The most recent update addressed the impact of the SEC 2024 rulemaking on special purpose acquisition companies, including updated staff guidance on the disclosure of net tangible book value, as adjusted. Other recent updates primarily reflected the following items:

- Amendments to Regulation S-X related to acquisitions, guarantors and issuers of guaranteed securities
- Amendments to Regulation S-K related to MD&A, supplementary financial information and the elimination of selected financial data
- Changes to auditing standards issued by the PCAOB and certain clarifications related to independent accountants' involvement in SEC reporting
- FRM structural improvements, including section refinement and consolidation to provide clarity in organization

10.2 Non-GAAP financial measures

- **Potentially misleading measures.** The SEC staff discussed the fact that judgment is required when determining whether an individual non-GAAP financial measure is potentially misleading under Rule 100(b) of Regulation G. In this regard, the staff noted that the reason why a measure is publicly disclosed (e.g., management uses the measure or management asserts that investors expect to see the measure) generally does not, on its own, overcome the prohibition in Regulation G. The staff also reminded registrants that they should feel free to contact the staff reviewing a filing to understand staff comments indicating that a non-GAAP measure was deemed to be potentially misleading.
- **Revising non-GAAP measures due to staff comments.** When the staff objects to presentation of a non-GAAP measure, the staff generally expects the registrant to immediately remove the measure from its disclosures (i.e., from the next filing and other future public disclosures, including in any prior periods shown for the purpose of comparability). However, the staff encouraged registrants to discuss the specific facts and circumstances if immediately removing or revising a non-GAAP measure could be overly burdensome or impracticable (e.g., if the staff objects to a measure just days before a scheduled earnings release).
- **Management performance measures under IFRS 18.** The staff observed that before a measure can meet the definition of a management performance measure (MPM) in IFRS 18, the measure must first be used in public communications outside of the financial statements. Such public communications outside the financial statements are subject to the SEC's non-GAAP requirements, when applicable. Only after meeting the SEC's non-GAAP requirements in the public communication does a measure become an MPM required to be disclosed in the notes. Due to the MPM being required by IFRS 18 to be disclosed in the notes at that point, the MPM is not a non-GAAP measure for purposes of the required disclosure in the notes. The staff noted that prior discussions on this matter are summarized in the meeting minutes of the May 2025 meeting of the Center for Audit Quality's International Practices Task Force.

10.3 Financial statement presentation

The SEC staff reported an increase in the number of financial statement presentation comments in filing reviews in recent years, and provided the following reminders:

- **Statement of cash flows.** The staff noted that registrants should ensure that the statement of cash flows is sufficiently detailed and clearly breaks out any material components. For example, operating activities should, at a minimum, reflect separate line items for changes in receivables, inventory and payables. The staff has also issued comments where amounts are aggregated that should be presented separately, such as when items are incorrectly presented on a net basis rather than a gross basis, or when dissimilar items are combined (e.g., other assets and other liabilities).
- **Related party transactions.** The staff noted that non-SRC registrants should present amounts of all material related party transactions on the face of the balance sheet, income statement or statement of cash flows as required by Rule 4-08(k) of Regulation S-X.
- **Income statement presentation.** The staff reminded registrants to consider annually whether their revenue and expense line items continue to comply with Rule 5-03 of Regulation S-X, which sets forth the required income statement captions for companies in non-specialized industries. The staff noted that changes to the registrant's income statement presentation may be necessary due to changes in the underlying business, such as the introduction of a new product or service. The staff also reiterated its longstanding view that to the extent software licenses are a separate performance obligation under ASC 606, license revenue should be presented as product revenue under Rule 5-03(1)(a), separately from services such as post-contract customer support.
- **Incentives classification and disclosures.** The SEC staff continues to focus on disclosures related to incentives provided by an agent to end users. For example, a technology company that operates a platform to connect end users with suppliers may offer incentives to the end users. Under ASC 606, an entity is required to determine whether such incentive payments should be classified as a reduction in revenue or as an expense. The staff noted that this determination can be quite challenging, and may require a careful analysis to identify the agent's customer, whether the agent has an explicit or implicit promise to the supplier to provide an incentive to the end users, or if the supplier has a valid expectation the agent would provide the incentive. The staff may issue comments to understand a registrant’s conclusion that an incentive payment can be classified as a marketing expense rather than contra-revenue. The staff also noted that any material amount of incentives classified as a marketing expense should be quantified and discussed in a registrant’s MD&A, as the staff believes it is important for investors to understand the impact of incentives on a company's operating results.

10.4 Summarized quarterly financial information

The SEC staff stated that it would not object if summarized quarterly financial information provided pursuant to Item 3-02(a) of Regulation S-K in a prior Form 10-K is omitted from the following period’s Form 10-K. For example, if a 2025 Form 10-K includes summarized quarterly financial information to show retrospectively revised quarterly amounts that had changed since they were originally reported in earlier Form 10-Q filings due to discontinued operations in the third quarter of 2025, disclosure of those 2025 quarterly amounts is not required to be repeated in the 2026 Form 10-K, assuming there were no other retrospective revisions triggering disclosure.

10.5 Smaller reporting company and filer status determinations

Under Rule 12b-2 of the Securities Exchange Act of 1934 (“Exchange Act”), an issuer can qualify as a smaller reporting company (SRC) by meeting either the public float test or the revenue test:

- **Public float test.** The issuer must have a public float of less than $250 million.
- **Revenue test.** The registrant must have annual revenues of less than $100 million for the most recently completed fiscal year and either no public float or a public float of less than $700 million.

An issuer determines whether it is an SRC on an annual basis on the last business day of its second fiscal quarter (the annual SRC eligibility assessment). The resulting SRC determination is not effective immediately but rather applies to the Form 10-Q and Form 10-K filings for reporting periods in the subsequent fiscal year.

An issuer's filer status determination is a separate, but related, analysis. Under the annual filer status determination in Rule 12b-2, an issuer that is eligible at fiscal year end to use the requirements for SRCs specifically under the revenue test is a non-accelerated filer for that fiscal year's Form 10-K and all Form 10-Q filings for reporting periods in the subsequent fiscal year.

In August 2025, the SEC staff issued Exchange Act Rules Compliance & Disclosure Interpretation (C&DI) 130.05, which explains the timing of the transition from a non-accelerated filer to an accelerated filer or large accelerated filer due to the issuer no longer meeting the criteria of the SRC revenue test. According to the C&DI, an issuer that previously qualified as an SRC under the revenue test (and therefore remains categorized as an SRC in the current year), but does not satisfy the revenue test during the annual SRC eligibility assessment for the current year, will not automatically be reclassified as an accelerated or large accelerated filer when performing the annual filer status determination at fiscal year end. Instead, the issuer will continue to be classified as a non-accelerated filer for filings due in the year following its failure to meet the revenue test. This is because the filer status is tied to the issuer's eligibility to apply the requirements for SRCs under the revenue test as of fiscal year end.

At the Conference, the SEC staff confirmed that the guidance in C&DI 130.05 remains applicable when there is a change in no longer meeting the revenue test during the current annual assessment, regardless of whether the issuer continues to qualify as an SRC under the public float test. For example, if an issuer met both the revenue test and public float test for SRC status in 2024, but meets only the public float test at the 2025 reassessment date, the issuer would be an SRC in 2006 because it met the public float test, but would also still be eligible to use the requirements for SRCs under the revenue test for the rest of 2025, including at year end when it determines its filer status. Therefore, this issuer would continue to be classified as a non-accelerated filer for filings due in 2026, up to the 2027 year-end filer status determination date. Further, if the facts for this issuer were unchanged as of the SRC eligibility assessment date in 2026, the staff noted that the issuer would remain an SRC under the public float test but would be an accelerated filer for the 2026 Form 10-K and all other filings due in 2027, as it would no longer be eligible to use the requirements for SRCs under the revenue test as of the 2026 year-end filer status determination date.

The SEC staff further observed that when an issuer ceases to qualify as an SRC under the revenue test at the time of its annual assessment, it will not be considered a large accelerated filer for filings due in the following year (e.g., filings due in 2026 in the example fact pattern above). Consequently, provided no other disqualifying criteria apply, the issuer may maintain its emerging growth company status.

Finally, the SEC staff confirmed that because C&DI 130.05 relates only to the interaction between the SRC revenue test and filer status determinations, the C&DI is not relevant to an issuer that qualified as an SRC solely under the public float test in the year immediately preceding the current year assessment.

10.6 SEC reporting for acquisitions and capital markets transactions

The SEC staff shared several observations regarding reporting requirements for different transactions, including acquisitions, spinoffs, put-together transactions,[2] initial public offerings and other capital markets transactions. In addition to any pre-filing consultation with OCA on accounting issues, the staff encouraged registrants to consult with Corp Fin's Office of the Chief Accountant (CF-OCA) as appropriate prior to the submission of a registration statement to ensure it includes the right set of financial statements, for example, and to make the staff review process more efficient. The staff noted its expectation that a registrant include its independent accountants, including representatives from their

[2] When multiple businesses are combined into a newly formed registrant in connection with an initial public offering of the combined operations it is sometimes referred to as a "put-together transaction."

national office as appropriate, throughout the interpretive request process, as the staff believes that an understanding of the registrant's accounting conclusions is often relevant to reporting issues such as the identification of the registrant's predecessor.

10.6.1 Rule 3-05 waiver requests

The SEC staff stated that it continues to receive a steady volume of waiver requests related to the reporting requirements for business acquisitions under Rule 3-05 of Regulation S-X, with no significant changes in the nature of requests since the staff shared observations from, and best practices for, these waiver requests in 2024. The staff reminded registrants that Rule 11-01(d) of Regulation S-X presumes that a separate entity, a subsidiary or a division is a business. Although this presumption can be rebutted based on specific facts and circumstances, the staff has rarely seen it overcome.

10.6.2 Spinoff transactions

The SEC staff noted an increase in spinoff transactions and related consultations, for example, related to the basis of preparation of predecessor financial statements because the financial statements of a predecessor in a spinoff can differ from transaction to transaction. The staff noted that when evaluating these spinoff transactions, the staff takes into account the legal form of the transaction as well as other considerations, including the historical operations of the business being spun off and whether investors have previously seen separate financial results for the spun business. The staff provided its views on two recent examples of spinoff transactions:

- **Spinoff of a reportable segment.** A registrant was spinning off one of multiple lines of business that were not conducted within distinct legal entities, but rather were comingled in hundreds of legal entities for statutory purposes and tax planning strategies. Based on the considerations below, the staff did not object to the predecessor financial statements of the spinnee reflecting only the assets, liabilities and operations being spun (i.e., the reportable segment). The staff noted that the line of business to be spun off was a separate reportable segment operating independently of the other lines of business. Additionally, the spinoff would be effectuated by contributing various legal entities to the spinnee after the lines of business retained by the registrant were removed from those entities, such that the spinnee would not directly or indirectly own any assets, liabilities or operations retained by the current registrant at any point. The staff also noted in this fact pattern that including the full historical results of the legal entities spun off in the predecessor financial statements would have been quantitatively distortive to those financial statements.
- **Spinoff of a legal entity.** A registrant was spinning off a legal entity that held all the historical operations within a single foreign country, with that entity becoming a new registrant. A few business lines that historically operated within this legal entity would not be spun off but rather would remain with the current registrant. However, all business lines within the legal entity were complimentary, had shared services, shared financing, and the same CEO and management. In this fact pattern, the staff concluded that the predecessor financial statements should include all the assets, liabilities and operations of the historical legal entity (i.e., should include the results of the business lines that were retained by the existing registrant) to provide a complete presentation, consistent with how the transferred operations were historically managed and operated.

The SEC staff also discussed the financial statement requirements in a reverse spinoff, noting that the related registration statement would generally require two sets of financial statements—the financial statements of the existing registrant (as predecessor to the legal spinnee) and the carve-out financial statements of the legal spinnee—with the operations retained by the existing registrant reflected as a disposition in the pro forma financial information. The staff noted that in very limited circumstances where an existing registrant is spinning off substantially all of its operations in a reverse spin, the staff may allow the registration statement to include only the registrant's consolidated financial statements (without separate carve-out financial statements of the legal spinnee).

10.6.3 Determination of reporting predecessor

The SEC staff highlighted that in a business combination, the predecessor is often identified as the accounting acquirer, but that in a put-together transaction, a newly formed entity (NewCo) may be identified as the accounting acquirer but one of the operating entities would be identified as the predecessor due to the significance of the put-together entities in comparison to the NewCo. The staff also noted that, while uncommon, it is possible to have multiple predecessors in a put-together transaction. The staff discussed the need to consider all facts and circumstances to appropriately determine the predecessor(s), including, but not limited to, the order in which the entities were acquired, fair value and size of the entities, and the historical and ongoing management structure.

The SEC noted that it has received questions regarding the determination of a registrant's predecessor when it enters into a license arrangement, particularly in the life sciences industry. The SEC staff noted that in certain circumstances, a license arrangement may be viewed as providing the licensee with operating rights that represent the acquisition of a business for SEC reporting purposes. This may result in scenarios where the licensor (or a carve-out of the licensor's operations) is considered a licensee registrant's predecessor because the registrant is succeeding to the acquired business and the registrant's own operations before the succession appear insignificant relative to the operations of the acquired business. The staff stated that it considers several factors when evaluating whether a license agreement or purchase of intellectual property (IP) would result in the licensor or seller, respectively, being considered the predecessor, such as the stage of the development process (financial statement information may be more relevant the further an entity is in the development process); terms of the license, including what a licensee is allowed to do with the IP and how that compares with the licensor's use of technology; and whether the license constitutes substantially all of an assumed or acquired business. The staff described three recent fact patterns to illustrate its views:

- **Fact pattern 1.** A newly-formed registrant entered into an in-license agreement to use the licensor's existing drug discovery work to continue the development process. The staff believed the registrant succeeded to the operations assumed from the licensor and therefore viewed the predecessor of the registrant to be the carve-out of the licensor for the related drug discovery work. In this fact pattern, the SEC staff did not require full carve-out financial statements, but rather accepted audited disclosure in the notes accompanying the financial statements of the amount of research and development expense, given the registrant's assertion that a carve-out income statement and statement of cash flows would consist of one line item related to research and development expense, and there were no associated assets or liabilities.
- **Fact pattern 2.** A licensor that had developed a drug to treat a specific health condition licensed the related IP to a newly-formed registrant that intended to use the IP for the development and commercialization of a drug to treat a different health condition. The license allowed the registrant to use the IP for any potential use, including the historical use of the licensor. Additionally, the registrant was able to use data from clinical trials run by the licensor. The SEC staff concluded the registrant succeeded to the related historical operations of the licensor and therefore predecessor financial statements of the licensor (or a carve-out of the licensor's operations) should be presented. Due to unique challenges related to preparing full carve-out financial statements in this fact pattern, the staff permitted the registrant to present abbreviated financial statements of the business.
- **Fact pattern 3.** In a spinoff transaction, a registrant transferred cash, equity instruments and certain tax liabilities to a newly-formed entity (SpinCo). The registrant had previously licensed its drug discovery program to a third party but terminated that license in connection with the spinoff. SpinCo entered into a new license arrangement with the same third party. The SEC staff concluded that SpinCo did not succeed to any operations, and therefore did not have a predecessor or related financial reporting requirements, due to several facts:
  - The third-party licensee had not expressed an interest in the registrant's historical or ongoing drug discovery work.

- No aspect of the registrant's research and development work was transferred to SpinCo.
- SpinCo's business model focused on acquiring other biotech companies to conduct drug discovery work.

10.6.4 Change in reporting entity in an initial registration statement

The SEC staff highlighted the guidance in Section 13410.4 of the FRM added in August 2025, which states that the staff will not object to consolidated or combined financial statements (rather than separate financial statements) when a change in reporting entity or reorganization of entities under common control has occurred or will occur before effectiveness of an initial registration statement. The staff noted that prior to this update, the FRM stated that registrants should consult with CF-OCA on a pre-filing basis on this issue.

This FRM guidance also states that when the registrant was not yet organized as of the date of the most recent balance sheet date, separate financial statements are necessary. However, the guidance also highlights that under the two specific scenarios described in Section 1160.1 of the FRM, a recently organized shell company could omit the registrant's financial statements. The SEC staff reminded registrants to properly label the separate financial statements of the registrant and the entities to be reorganized and to transparently disclose the effects of the forthcoming reorganization, including in the capitalization table and pro forma financial information.

10.6.5 Deregistration of co-registrants after de-SPAC transactions

A panelist observed that there has been a recent uptick in special purpose acquisition company (SPAC) transactions in the marketplace. The SEC staff noted that when filing a registration statement for a de-SPAC transaction, each target company is a co-registrant that picks up a reporting obligation under the Securities Exchange Act of 1934 (Exchange Act) when the de-SPAC registration goes effective. In April 2025, the SEC staff published C&DI 253.03, which states that the staff will not object if each target company files a Form 15 to suspend its reporting obligations under Section 15(d) of the Exchange Act in reliance on Rule 12h-3, as long as the target company is wholly owned by the combined company and the target company remained current in its reporting obligations through the date of filing the Form 15. At the Conference, the staff clarified that a target company that files a Form 15 after year end but before its annual report on Form 10-K is due is not required to file that Form 10-K for the recent year end.

11 Securities law updates

11.1 Disclosure-related rulemaking

Chairman Atkins addressed the future of the regulatory and reporting landscape stating that "we will scrape the barnacles off our hull" by revisiting disclosure requirements through the SEC's disclosure rationalization rulemaking project, among other potential projects. He also emphasized ongoing prioritization of deregulation and modernization of rules to enhance access to capital markets through thoughtful streamlining of reporting while focusing on the maintenance of investor protection. Panelists subsequently discussed considerations related to potential rulemaking in multiple areas, including:

- **Executive compensation.** Panelists expressed a broad interest in streamlining and clarifying the executive compensation disclosure requirements. However, they also acknowledged that certain elements of the executive compensation disclosures are statutorily mandated, which may limit the extent of changes the SEC can implement. The panel also discussed areas of frequent stakeholder comment in response to the SEC's roundtable on executive compensation disclosure requirements in June, including pay versus performance, pay ratio disclosures and the summary compensation table. Additionally, a panelist observed that investor demand may still drive registrants to voluntarily disclose information, noting that investor feedback at the roundtable included calls for more useful information rather than less information.

- **Quarterly reporting.** Several panels discussed potential rulemaking by the SEC that would shift reporting requirements for registrants from quarterly to semi-annual updates, while still allowing registrants the option to continue with quarterly reports if they prefer. Panelists cited potential benefits associated with reducing the frequency of periodic reporting requirements, including lowering compliance costs and diminishing the focus on short-term results prompted by quarterly guidance. They further expressed that, regardless of any changes to mandatory reporting, many registrants would likely choose to provide some form of quarterly reporting. Additionally, panelists underscored that any change to existing periodic reporting obligations would be complex and require careful rulemaking, due to the breadth of requirements currently tied directly or indirectly to quarterly reporting.

11.2 Shareholder proposals

In addition to Chairman Atkins emphasizing shareholder proposal reform as one of his priorities for SEC rulemaking, multiple panels addressed related topics, including recent updates to the SEC staff's no-action process. Historically, companies could request no-action relief from the SEC staff if they wanted to exclude shareholder proposals from proxy statements. The SEC staff would then thoroughly examine the matters involved and offer informal, non-binding staff views on the request. In November, the SEC staff announced that during the 2025-2026 proxy season, it will not respond substantively to no-action requests related to any basis for exclusion other than Rule 14a-8(i)(1). However, upon request, the staff will respond with a letter indicating that, based solely on the company's or counsel's representation, Corp Fin will not object if the company omits the proposal from its proxy materials. Panelists observed that, due to this change, issuers will not have the benefit of the SEC staff's views regarding the exclusion of certain shareholder proposals from proxy statements. Given the increased litigation risk related to excluding a proposal absent comfort from the SEC staff providing its views, panelists noted it is likely that more shareholder proposals will appear in proxy statements.

11.3 Foreign private issuer concept release

The SEC staff stated that it continues to receive and review comment letters on the Concept Release on Foreign Private Issuer Eligibility published by the SEC in June 2025, which requested input on potential changes to the definition of a foreign private issuer (FPI) and an FPI's eligibility for certain reporting accommodations and exemptions relative to domestic registrants. Other panelists noted that there has been a significant increase in FPIs incorporated in jurisdictions with less robust regulatory oversight than when the FPI definition was originated, which may give rise to concerns about the adequacy of investor protections as related to FPIs. Panelists noted the SEC is considering changes that could require more event-driven disclosures and possibly tighten eligibility criteria based on jurisdictional standards and trading volumes. Panelists noted that feedback from stakeholders has been mixed, with some advocating stricter rules and others warning of adverse market impacts.

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