In depth

National Office

2024 AICPA & CIMA Conference: Current SEC and PCAOB Developments

US2024-07
December 12, 2024

What's inside

At a glance

Representatives from the SEC, PCAOB, and FASB, along with various other speakers and panelists, participated in the 2024 AICPA & CIMA Conference on Current SEC and PCAOB Developments (the Conference) from December 9-11. Stakeholders discussed various accounting, financial reporting, auditing, and regulatory hot topics. This *In depth* provides key highlights from the Conference.

Overview

As the political winds shift post-election, the Conference illuminated how these changes may ripple through our professional and regulatory landscape. These anticipated regulatory changes, together with technological advancements, highlighted the importance of agility to adapt in a rapidly evolving environment. Central to the discussion was the important role professional accountants play in protecting the public interest and maintaining trust in financial markets. Stakeholder engagement in the rulemaking and standard setting process emerged as a key strategy to promote diverse perspectives on the evolving framework and foster a future of integrity and innovation.

Post-election outlook

Congressman French Hill and SEC Commissioner Mark Uyeda provided insights on potential changes expected under the new administration, including regulatory rollback in the areas of digital assets, corporate governance and climate regulation; re-assessment of the structure and effectiveness of the PCAOB, and exploring the possibility of folding it, or portions of it, into the SEC; an increased focus on capital formation; and a potential decrease in what the speakers perceived as excess regulation that negatively impacts investors through increased compliance costs. Guest speakers and other panelists also discussed potential SEC and PCAOB leadership transitions highlighting different approaches to their rulemaking agendas and enforcement. Areas of discussion included potential impacts of tariffs, the 2025 tax cliff, and regulatory reform.

Important role of the accounting profession

PwC Global Assurance Leader and AICPA Board member Wes Bricker discussed the accounting profession's role in building public trust through relevance and quality. Bricker further discussed the important role the accounting profession plays in reducing information asymmetry, enhancing investor confidence, and stabilizing financial markets. Bricker emphasized the value proposition of the profession, including tangible outcomes such as reduced fraud and lower costs of capital, as well as intangible benefits such as building long-term trust in capital markets. SEC Chief Accountant Paul Munter highlighted in his remarks the professional accountant's fundamental responsibility to serve the public interest and to prioritize and protect the interests of investors, viewing them as the ultimate clients, to sustain market confidence.

Accounting and reporting matters

Representatives from the SEC's Office of the Chief Accountant (OCA) and Division of Corporation Finance (CF) discussed the following accounting and reporting topics.

Industry scope for Accounting Standards Updates (ASUs)

OCA staff addressed stakeholder questions related to the applicability of ASUs for entities that would initially be scoped into a standard by virtue of meeting the definition of a public entity or public business entity but operate in industries with specific GAAP reporting requirements (e.g., registered investment companies applying ASC 946). The staff clarified that ASUs are applicable to all entities unless specifically scoped out of the ASU or there is industry-specific guidance that would preclude certain accounting requirements in the ASU.

Classification of financial instruments (liability versus equity)

OCA staff highlighted an example that applies the guidance related to the classification of a financial instrument as a liability or equity, specifically the evaluation of whether an issued instrument is indexed to a registrant's own stock in accordance with ASC 815-40. OCA staff noted that the current accounting model is complex, and significant judgment could be required to apply the ASC 815-40 indexation guidance for certain common settlement provisions embedded in instruments, such as stock warrants. OCA staff remarked that there is currently diversity in practice on concluding whether these instruments should be classified as liabilities or equity. PwC US Chief Accountant Tom Barbieri highlighted practice issues related to the application of indexation guidance to certain provisions, including those designed to compensate investors for lost time value, and emphasized that form matters in this complex accounting model. Given the evolution of these agreements, OCA staff and Barbieri suggested this as an area for future standard setting.

Segment reporting

ASU 2023-07, *Segment Reporting – Improvements to Reportable Segment Disclosures*, is effective for calendar year public entities in 2024 year-end financial statements. Refer to our publications, FASB updates segments guidance and SEC provides greater clarity on new segments guidance, for further information on ASU 2023-07.

CF staff reiterated many of their previously-communicated views with respect to the adoption of ASU 2023-07, particularly on the ability to include multiple measures of segment profitability in the segment footnote if they are used by the chief operating decision maker (CODM) for assessing performance and allocating resources, which are reflected in the PwC publications referenced above. If the additional measure of segment profit is not prepared on a basis consistent with GAAP (e.g., a gross margin that excludes depreciation expense), it would be considered a non-GAAP measure. In accordance with ASC 280-10-50-4, some costs reflected in a company's consolidated financial statements might not be fully allocated to its operating segments. CF staff clarified that the exclusion of such costs (e.g., corporate headquarters or certain other functional department costs), in and of itself, would not render a voluntary segment measure a non-GAAP financial measure. For example, reporting an additional measure of segment operating profit prepared on a basis consistent with GAAP but excluding allocations of corporate headquarters' costs would not render it a non-GAAP financial measure.

CF staff also provided its views, which are summarized below, on certain accounting, disclosure, and audit-related considerations with respect to registrants that voluntarily include additional segment measures that are non-GAAP financial measures in their footnotes.

- An auditor would not be responsible for auditing compliance with the SEC's non-GAAP rules for those measures and might consider including an additional paragraph in the auditor's report relating to such matters.

- The supplemental disclosures required by the SEC's non-GAAP rules and guidance could be labeled "unaudited" if they are voluntarily included in the footnotes.

- An instance of noncompliance with ASC 280, *Segment Reporting*, would constitute an error subject to evaluation under ASC 250, *Accounting Changes and Error Corrections.* However, an instance of noncompliance with the SEC's non-GAAP rules and guidance would not constitute an error to be evaluated under ASC 250 but would likely prompt a re-evaluation of the registrant's disclosure controls and procedures (DCP).

Another panel discussed the numerous complexities associated with the auditing and reporting matters raised by the adoption of ASU 2023-07, and the SEC staff's views on them, including ramifications if the SEC deems a measure misleading. Accordingly, we strongly encourage registrants contemplating inclusion of additional voluntary segment measures in the footnotes to discuss potential compliance matters, including any required non-GAAP disclosures, with their auditors and SEC counsel.

Statement of cash flows

Munter noted the importance of the statement of cash flows, reiterating that it should have the same level of quality and focus as other primary financial statements, consistent with his previous public statement on improving the quality of cash flow information provided to investors. Munter further expressed support for the FASB to continue to improve the transparency of relationships between the statement of cash flows and the balance sheet and income statement.

Recent CF staff comments highlighted issues related to cash flow classification. CF staff reminded registrants about the guidance on predominant sources in ASC 230, *Statement of Cash Flows*, and that when significant judgment is applied in classifying or changing the classification of material cash flows, accounting policy disclosure may be necessary as well as the rationale behind each classification.

Observations from consultations

OCA staff shared examples of recent accounting consultations and reminded participants that the OCA staff is available for consultation on complex or innovative transactions.

Derecognition

OCA staff discussed a consultation in which a subsidiary was sold to a third party, but the subsidiary did not meet the definition of a business in ASC 805, *Business Combinations*. While the subsidiary had significant assets that were typically sold by the entity in its ordinary business activities, it also had significant other assets. The question that arose was whether the sale of this subsidiary should be accounted for under the guidance in ASC 606, *Revenue from Contracts with Customers*, or ASC 810, *Consolidation*.

ASC 810-10-40-3A(c) indicates that the deconsolidation and derecognition guidance in ASC 810 applies to a subsidiary that is not a business (or nonprofit activity) if the substance of the transaction is not addressed directly by guidance in other accounting topics including ASC 606. In this example, the other assets and liabilities held by the subsidiary included multiple items that are not typically accounted for under ASC 606 (e.g., lease contracts, receivables, trade payables, derivative contracts, and other liabilities). OCA staff considered the overall composition of assets and liabilities held by the subsidiary in determining its conclusion that the substance of this transaction was not directly addressed by ASC 606. Accordingly, OCA staff generally would not object in these facts and circumstances to accounting for the sale of the subsidiary using ASC 810.

Lag reporting

OCA staff described an example involving a registrant winding down its subsidiary and classifying some of its assets and liabilities as held-for-sale. The registrant reported the results of the subsidiary on a three-month lag, which is permissible under ASC 810. In this consultation, the registrant believed that it should discontinue the lag reporting of the subsidiary's results by recording three months of income statement activity directly to shareholders' equity and, correspondingly, adjusting the carrying amounts of the assets and liabilities to reflect the carrying amount without the lag as of the date of sale. The OCA staff noted it would object to recording the results of eliminating the lag directly to shareholders' equity.

SEC reporting

CF staff and speakers addressed rulemaking, year-end financial reporting reminders, and areas of focus in financial statement reviews.

Recently adopted rules

Throughout its remarks on recently adopted rules, CF staff reminded registrants about the importance of XBRL tagging in the proper format. Tag data requirements assist investors in readily assessing disclosures and facilitate analyzing disclosure requirements by CF staff.

Pay versus performance disclosures

CF staff discussed the implementation of the pay versus performance rule and referenced the compliance and disclosure interpretations (C&DIs) related to Regulation S-K Item 402(v). CF staff highlighted common issues, including questions related to the registrant-selected measure and the calculation of executive compensation actually paid. For more background on the disclosure rules and related guidance, see our publication, *SEC adopts pay versus performance disclosure rules*.

Clawback rules and "checkbox" disclosures

CF staff noted they continue to receive questions about the "checkbox" requirements on Form 10-K in the clawback rules. With regard to both checkboxes, the staff provided insights and observations for certain scenarios:

- If a registrant determines that restatements of quarterly filings are required before filing its Form 10-K, the clawback checkboxes on Form 10-K may remain unchecked if the restatements do not impact the annual financial statements for annual periods included in the prior Form 10-K.
- If a registrant corrects an error by filing a Form 10-K/A and appropriately checks the boxes in that Form 10-K/A, it would not need to check the boxes again in the Form 10-K for the following fiscal year.
- Conversely, if a registrant reports the correction of an error through filing another form that does not include the checkboxes (e.g., Form 8-K), the registrant would need to check the boxes in the Form 10-K for the following year to inform investors that the financial statements for previous years in the filing reflect an error correction.

CF staff further reminded registrants that the recovery analysis disclosures required by Regulation S-K Item 402(w), in particular describing the reasons why the recovery policy yielded its result, are required even if no recovery is determined to be required (e.g., because there was no incentive-based compensation for the affected period or because the error would not have changed the incentive-based compensation). For more on the clawback rules, see our publication, *SEC adopts executive incentive compensation clawback rules*.

Special purpose acquisition companies (SPACs)

In January, the SEC adopted new rules and amendments to enhance investor protections related to SPACs, aligning financial reporting requirements of a de-SPAC with those of a traditional IPO. Refer to our publication, *SEC updates rules for SPAC filings*, for further information.

In a de-SPAC transaction when a public registrant (Pubco) becomes the parent of both the SPAC and the target business, CF staff clarified that Pubco financial statements must be included in the registration statement. Upon effectiveness of its registration statement, Pubco is required to file periodic reports with the SEC even before the transaction closes. For Pubco registration statements filed after the de-SPAC transaction, the SPAC financial statements are required and must be audited and reviewed in accordance with PCAOB standards until the Pubco financial statements include the period of the de-SPAC transaction.

Cybersecurity

Speakers provided a reminder that the SEC's cybersecurity rule requires disclosure of material cyber incidents on Item 1.05 of Form 8-K within four business days of determining the incident was material. If a registrant elects to voluntarily disclose a cyber incident (e.g., an incident it has determined was not material, or an incident for which it has not yet made a materiality determination), panelists, including a member of the SEC staff, encouraged registrants to make these voluntary disclosures under Item 8.01 of Form 8-K instead of Item 1.05. If a registrant later concludes that the incident is material, it must then file an Item 1.05 Form 8-K within four business days of making that materiality determination. Refer to Erik Gerding's statement for further details.

Speakers stressed the importance of considering qualitative and quantitative factors in determining the materiality of a cyber event, including not only the financial impact but also potential effects on reputation and contractual obligations. Speakers discussed the importance of registrants having a clear materiality policy for assessing cyber events, cybersecurity expertise on the disclosure committee, and maintaining robust DCP. In addition, speakers also highlighted the importance of updating risk factor disclosures (Regulation S-K Item 105) following a material cyber incident. Refer to our publication, *SEC adopts cybersecurity disclosure rules*, for more information on the cybersecurity rules. For insights on assessing materiality, see our publication, *Making materiality judgments in cybersecurity incident reporting*. And for other insights on the rule, refer to our landing page.

Disclosure reminders and comment letter trends

CF staff shared comment letter trends and best practices when a registrant is responding to a comment letter. CF staff reminded participants that it looks at all information available in the public domain when reviewing filings, including analyst reports, earnings transcripts, statements by directors and officers, and critical audit matters (CAMs) in audit opinions. Refer to PwC's summary of the comment letter process and listen to our podcast series on 2024 SEC comment letter trends for further information.

Non-GAAP measures

Non-GAAP measures continue to be one of the most frequent topics addressed in comment letters. The SEC's rules in Regulation G and Regulation S-K Item 10(e), as supplemented by staff guidance in the non-GAAP C&DIs, remains unchanged, yet comments persist. CF staff observed that issues range from noncompliance with non-GAAP rules (e.g., undue prominence of non-GAAP measures) to more complex matters such as misleading measures under Regulation G. For more on non-GAAP measures and the staff's interpretive guidance, see our publication, *To GAAP or to non-GAAP*.

Management's Discussion and Analysis (MD&A)

CF staff frequently comment on disclosures in the MD&A. Speakers highlighted recent trends related to results of operations, critical accounting estimates, impacts from market events, liquidity, and capital resources. CF staff noted a common issue identified in MD&A discussions is the tendency for registrants to merely state changes in financial figures, such as accounts receivable or payable, without providing a deeper analysis and discussion in both quantitative and qualitative terms. An example suggested including an analysis of liquidity-related metrics, such as days sales or days payables outstanding, to offer insights into a registrant's financial condition and cash flows and why there were changes period over period.

Similarly, CF staff noted that registrants with negative operating cash flows often provide insufficient discussion about their ability to generate or obtain enough cash to meet short-term requirements. CF staff further observed that there is a lack of detailed disclosure on how registrants with negative operating cash flows plan to fund operations and pay bills when not generating cash, or how they will address cash deficiencies.

CF staff also stated that when Pillar Two is or may be material to a registrant, the staff would expect MD&A to include quantification of the reasonably likely impact that the adoption of the tax law change will have on its results of operations and financial condition. The quantification may include a range of reasonably likely outcomes when uncertainties are present at the time of reporting. See Pillar Two below for further detail.

Other SEC reporting topics

Trends in Rule 3-05 waiver requests

CF staff shared best practices for submitting Regulation S-X Rule 3-05 financial statement (i.e., financial statements of a significant acquired business) waiver requests, emphasizing transparency and the importance of including sufficient details (e.g., all information related to the significance tests). CF staff noted a reduction in waiver volume; however, waiver requests received tend to be highly complex and fact specific. Consistent with prior years, the most commonly requested waivers pertained to Rule 3-05 and the related rules under S-X Article 11. The definition of a business under Rule 11-01(d) differs from the definition of a business in ASC 805; therefore, a transaction could constitute an asset acquisition under GAAP but meet the definition of a business under Rule 11-01(d) depending on the specific facts and circumstances. For example, CF staff highlighted that Rule 11-01(d) has a presumption that a separate entity, subsidiary, or division is a business. Listen to our podcast, *2024 SEC comment letter trends: Business combinations*, for further information on the definition of a business in GAAP as compared to SEC rules.

AI and disclosure guidance

CF staff reiterated perspectives shared by the CF Director earlier this year, State of Disclosure Review, noting that there is a significant increase in AI-related disclosures in registrant filings reflecting a growing recognition of AI's impact on business operations and the associated risks. CF staff reiterated the importance of avoiding boilerplate disclosures and encouraged registrants to provide specific and tailored information about material AI risks. Disclosures should reflect the unique circumstances and challenges of each registrant, considering factors such as registrant size and the stage of AI integration. When AI risks are material, the staff also recommended that registrants consider disclosures about risk management and governance practices.

Foreign private issuers (FPIs)

CF staff clarified that SAB Topic 4.C, *Change in Capital Structure*, applies to FPIs that prepare financial statements in accordance with IFRS. SAB Topic 4.C requires that changes in capital structure occurring after the date of the latest reported balance sheet but before the release of the financial statements or the effective date of a registration statement (whichever is later) must be given retroactive effect in the balance sheet. Listen to our podcast, *Foreign private issuers – SEC comment letter trends and more*, for further information.

FASB standard setting update

The FASB Chair, Technical Director, and Deputy Technical Director discussed the importance of the FASB's stakeholder outreach, its impact on the technical agenda, and the progress made over the last several years. The FASB Chair noted that they have started to solicit feedback from stakeholders about future standard setting projects ahead of issuing a formal invitation to comment (ITC) on its next agenda consultation. ITC documents are issued by the FASB staff to solicit stakeholder feedback about the standard setting process, the future standard setting agenda, or individual projects. The FASB Chair asked commenters to critically think about relevant topics and comments, and to classify their feedback into two categories: (1) whether there are ramifications to potential solutions presented or (2) the complexity of applying the proposed guidance. The FASB Chair also discussed the ITC on financial key performance indicators and a forthcoming ITC on accounting for intangibles.

The FASB Deputy Technical Director also discussed the recently issued accounting standard on the disaggregation of income statement expenses (DISE). The FASB Chair acknowledged that the implementation may require a significant level of effort for some entities even after it was scaled to directly address what stakeholders expressed was most important. Refer to our publication, *FASB issues new disaggregated expense disclosure requirements (DISE)*, for more information.

The speakers also discussed a number of proposed standards currently in the exposure draft stage and certain ongoing projects on the technical agenda. See the FASB website for more on its agenda.

SEC enforcement

The Chief Accountant of the SEC's Division of Enforcement discussed themes arising from cases brought by the Commission over the past year. He emphasized the role of audit committees and corporate governance, noting the significance they have on setting the tone across an organization. He also highlighted the importance of transparency and noted that all information provided to investors needs to be reasonable, correct, and complete. See our publication, *Trends in SEC enforcement actions*, and the SEC's Announcement of Enforcement Results for Fiscal Year 2024 for further details of recent enforcement actions.

Firm culture and governance

As mentioned in his public statement earlier this year, Munter and OCA staff reiterated the importance of a strong ethical culture and a tone at the top that values ethical behavior, highlighting that the behaviors of individuals are most influenced by the people directly around them. Munter and OCA staff noted instances of unethical behavior and indicated that the recurrence of ethical lapses have adverse consequences to the accounting profession and public trust. PCAOB Chair Erica Williams emphasized in her remarks the importance of firm culture and its correlation to audit quality, referencing the recently published *Spotlight: Audit Firm Culture*.

PCAOB and audit quality update

Chair Williams' remarks highlighted the PCAOB's investor protection mission and the fact that audits are critical to the integrity of capital markets and should not be viewed as mere commodities. She emphasized significant improvements in the aggregate Part 1.A deficiency rate at the largest firms as compared to prior years and noted that the PCAOB's efforts to enhance audit quality are taking effect, although continued focus and effort are necessary to maintain and build on the progress made. PCAOB staff underscored the necessity for strict enforcement measures to address serious misconduct that harms investors, outlined *2025*

Inspection Priorities, and articulated the importance of technology with an increased focus on data, governance, and control. Barbara Vanich, PCAOB Chief Auditor and Director of Professional Standards, emphasized that the PCAOB has been active in standard setting and rulemaking this year, pointing to the PCAOB's standard setting agenda for the most up-to-date information. Additionally, Vanich provided some year-end reminders for auditors, including an increased focus on CAMs. Vanich also referred to the PCAOB's recently issued guidance on various topics such as illegal acts, gen AI in audits and financial reporting, and root cause analysis.

Pillar Two

The objective of Pillar Two is for large multinational enterprises to pay a minimum level of tax (a threshold effective tax rate of 15%) on the income arising in each jurisdiction where they operate. Speakers provided a brief overview of how entities are implementing Pillar Two tax legislation, including challenges navigating tax, accounting, and internal controls. The panel discussion included an overview of the Organisation for Economic Cooperation and Development (OECD) Pillar Two framework and scope, the mechanisms by which the tax is collected, and the data necessary to support the top-up tax and safe harbor calculations. The speakers emphasized the importance of "early and often" collaboration and communication by tax and accounting departments with their external service providers and auditors to address the complexities involved with the various regulations. Refer to our publication, *Accounting for Pillar Two: Frequently asked questions*, for further information.

Sustainability reporting and assurance

Speakers highlighted sustainability reporting and assurance requirements that may impact registrants, including the recent California legislation, the Corporate Sustainability Reporting Directive in the European Union, the stayed SEC climate disclosure rule, the reporting standards issued by the International Sustainability Standards Board, the sustainability assurance standards issued by the International Auditing and Assurance Standards Board, and the ethics and independence standards issued by the International Ethics Standards Board for Accountants. For more information related to the various sustainability reporting and assurance requirements, refer to our landing page.

To have a deeper discussion, contact:

Pete Driscoll	**Lorraine Jordaan**	**Kyle Moffatt**
Partner	Partner	Partner
Email: pete.driscoll@pwc.com	Email: lorraine.jordaan@pwc.com	Email: kyle.moffatt@pwc.com
Kevin Vaughn	**Ross Drucker**	**Ryan Blacker**
Partner	Partner	Director
Email: kevin.vaughn@pwc.com	Email: ross.j.drucker@pwc.com	Email: ryan.w.blacker@pwc.com

For more PwC accounting and reporting content, visit us at viewpoint.pwc.com. On the go? Take our PwC accounting podcast series with you at the Viewpoint podcasts page or wherever you listen to your podcasts.