Quarterly Technical Update - Q4 2024

January 2025

With You Today

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Learning Objectives

- Recognize recently released, project and proposal stage accounting and financial reporting guidance developed by the FASB, EITF and PCC.
- Describe timely SEC guidance, topics and resources and their general impact on accounting and financial reporting.
- Describe project and proposal stage literature that may have a broad impact on financial reporting.
- Describe evolving corporate governance activities including those of the PCAOB, CAQ and other organization’s topics and releases.

Agenda

- SEC Update
- Accounting Update
- PCAOB Update and Corporate Governance Considerations

SEC Update

Commission and Staff Updates

- Key Commission and staff departures
  - SEC Chair, Gary Gensler – January 20, 2025
  - Commissioner, Jaime Lizarraga – January 17, 2025
  - Director of the Division of Corporation Finance, Erik Gerding – December 31, 2024
  - Director of Enforcement, Gurbir Grewal – October 11, 2024

- Key announcements
  - Former SEC Commissioner, Paul Atkins, will be nominated as the next SEC Chair

- Impacts of the change in administration on the SEC, its priorities and rulemaking agenda

- Other news
  - On December 11th, the U.S. Court of Appeals for the Fifth Circuit vacated the Nasdaq Stock Market's board diversity rules*
    - Determined that the SEC had exceeded its authority under the Securities Exchange Act of 1934 when it approved the rules in August 2021
    - *See our August 18, 2021 Bulletin, SEC Approves Nasdaq's Board Diversity Disclosure and Board Recruiting Service Proposals

Conference Highlights

- Segment disclosures
- Non-GAAP measures
- Clawback
- Cybersecurity
- Pay versus performance
- Other disclosure reminders

For additional reporting insights and topics, see our [2024 AICPA & CIMA Conference on Current SEC & PCAOB Developments Highlights](#) as well as our companion publication, [2024 SEC Reporting Insights](#).

2024 AICPA & CIMA Conference on Current SEC & PCAOB Developments: Highlights

December 2024

OVERVIEW

Representatives from the Securities and Exchange Commission (SEC), Financial Accounting Standards Board (FASB), and the Public Company Accounting Oversight Board (PCAOB) shared their views on various accounting, reporting, and auditing issues at the annual AICPA & CIMA Conference on Current SEC and PCAOB Developments ("Conference") held in Washington, D.C. on December 9-12, 2024.

This year's Conference focused on recent rulemaking, new accounting standards, as well as other accounting and reporting reminders in areas related to:

- SEC reporting matters - the SEC staff shared 1) observations on disclosures related to recent rulemaking, including clawback, cybersecurity, pay versus performance, and special purpose acquisition companies ("SPACs"); 2) its views on the interaction of the new segment reporting disclosures and SEC rules and regulations; 3) disclosure reminders related to non-GAAP measures, management's discussion and analysis ("MD&A"), and artificial intelligence; 4) guidance and best practices when submitting waiver requests.
- Accounting matters - the SEC staff provided guidance and reminders on upcoming accounting standards, including Accounting Standards Update (ASU) No. 2024-03 related to the disaggregation of income statement expenses, and International Financial Reporting Standards (IFRS) 18, *Presentation and Disclosure in Financial Statements*. The SEC staff also discussed disclosures related to the statement of cash flows and supplier finance arrangements, certain accounting matters, and tips when consulting with the Office of the Chief Accountant ("OCA").
- Audit matters - the SEC staff discussed error assessments and independence, and the PCAOB staff discussed inspection results, priorities, and year-end reminders.

This publication shares insight into these matters and other accounting and reporting issues addressed at the Conference. Reference our companion publication, [2024 SEC Reporting Insights](#), for a more comprehensive discussion of key disclosure and reporting reminders for upcoming filings, the SEC's rulemaking, and other activities that affect financial reporting, many of which were highlighted at the Conference.

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Segment Disclosures (ASU 2023-07)

- Permits additional measures of segment performance to be disclosed
  - Must continue to disclose the measure most consistent with U.S. GAAP
- All measures of segment performance disclosed must comply with ASC 280
  - Regularly reviewed by used by CODM to allocate resources and assess performance
  - Disclosures required for each measure of segment performance:
    - How CODM uses the measure to assess performance and allocate resources
    - Significant segment expenses* and other segment items included in the measure of performance provided to the CODM
    - Reconciliation to pre-tax income
- More disclosures required when an additional measure disclosed is non-GAAP*

*Consider whether additional disclosure is required by S-X 4-01(a)

For additional guidance on the new segment reporting disclosures, see our BDO Knows: New Segment Reporting Disclosures

S-X 4-01(a)

"The information required with respect to any statement shall be furnished as a minimum requirement to which shall be added such further material information as is necessary to make the required statements, in the light of the circumstances under which they are made, not misleading."

Segment Disclosures - Additional Non-GAAP Measures of Performance

Incremental Disclosures

- Must comply with SEC's non-GAAP rules
  - Disclose why the measure is useful to investors
  - Reconciliation to the nearest U.S. GAAP measure
  - Must not be misleading
- May be presented:
  - Outside of the financial statements (e.g., MD&A)
    - Financial statements may not include a cross reference to information outside of the financial statements
  - In the financial statement footnotes
    - Incremental disclosures may be labeled "unaudited"
    - Disclosures to comply with ASC 280 (which includes the measure(s) of segment performance) must be audited

Error Assessment

- Determining whether the removal of an additional non-GAAP measure of segment performance is the correction of an error in accordance with ASC 250
  - If the measure is not presented in accordance with ASC 280, it is an error
    - Example: the CODM does not regularly review and use the disclosed measure to allocate resources and assess performance
  - If the measure does not comply with the SEC's non-GAAP rules, but complies with ASC 280, it is not an error
    - Example: the CODM regularly reviews and uses the measure to allocate resources and assess performance, but the additional non-GAAP measure is misleading

Non-GAAP Measures

Frequent topic of SEC staff comment letters

- Normal, recurring, cash operating expenses
  - The expense may meet some but not all conditions (i.e., may not be a cash expense)
  - Examples: inventory write-downs, losses on purchase commitments, lease expense when the leased assets are integral to operations, and cash compensation (including bonuses)
- Individually tailored accounting principles
  - Includes all adjustments, not just those specific to revenue
  - Examples: adjustments to change the accounting for a lease from sales-type to operating, adjustments to remove accelerated depreciation from measures other than EBITDA, and reversing the effects of purchase accounting after the acquisition
- Prominence – includes the discussion and any related tables, charts or graphs
- Labeling – avoid vague, generic language, and aggregating multiple unrelated adjustments

Clawback – Checkboxes and Disclosures

- Checkboxes – cover page of annual reports
  - The first checkbox applies to Big R, little r, and voluntary restatements (including the footnotes)
    - Does not apply to out-of-period adjustments
  - The second checkbox applies to Big R and little r restatements
    - Does not apply to voluntary restatements
- Disclosures required "*If at any time during or after the last completed fiscal year the registrant was required to prepare an accounting restatement that required recovery of erroneously awarded compensation…*" – S-K Item 402(w)
- The second checkbox and disclosures apply even if there is no recovery of compensation
  - Including when no incentive compensation was paid
- Disclosure is not dependent on the checkboxes
  - Checkboxes depend on when the error is reflected
  - Disclosures depend on when the error is determined

Checkboxes

1. Whether the financial statements included in the filing reflect the correction of an error to previously issued financial statements
2. Whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers

Clawback – First Checkbox Examples

Examples below illustrate the views of the SEC staff on the applicability of the first checkbox

Example	Answer
A registrant identifies a material error to the financial statements included in its 2023 Form 10-K. The registrant amends its 2023 Form 10-K to correct the error and checks the first checkbox. Should the registrant check the first checkbox in its 2024 Form 10-K?	No, investors were made aware of the error when the registrant checked the first checkbox in its amended 2023 Form 10-K.
A registrant identifies an immaterial error to the financial statements included in its 2023 Form 10-K. Prior to filing its 2024 Form 10-K, the registrant corrects the error in its financial statements by filing an Item 8.01 Form 8-K. Should the registrant check the first checkbox in its 2024 Form 10-K?	Yes, to inform investors of the error as the registrant has not previously checked the first checkbox.

Clawback – Examples

Example below illustrates the views of the SEC staff on the applicability of the first checkbox and S-K Item 402(w) disclosures

Example	First Checkbox	Disclosure
Before filing the 2024 Form 10-K, a registrant determines there are material errors in its 2024 interim periods for the first, second, and third quarters. The registrant corrects the errors by filing amended Form 10-Qs for each quarter. After filing the amended Form 10-Qs, the registrant files its 2024 Form 10-K which includes the supplementary financial information required by S-K Item 302 for each quarter. Which of the following apply to the registrant's 2024 Form 10-K?	No, the previously issued financial statements included in the annual report do not reflect the correction of an error	Yes, the restatement is a Big R and occurred during or after the last completed fiscal year

Cybersecurity

SEC STAFF OBSERVATIONS ON DISCLOSURES:

- Tend to emphasize quantitative materiality (the impact to operations or financial condition)
  - Registrants must also consider qualitative factors such as reputational damage and the impact on customer relationships
- Disclosure should clearly describe the process for identifying, assessing, and managing significant cybersecurity risks (if the registrant has one)
  - Simply stating that a process exists is not enough
  - Include any processes associated with third-party service providers
- Expertise - if a group is responsible for assessing and managing cybersecurity risks, the expertise of <u>each individual</u> should be described (rather than focusing on a single individual or the group in total)
  - Ensures investors have a clear understanding of the collective expertise within the organization, and the impact if the composition of the group changes

Reminder: Item 1.05 of Form 8-K

- ✓ To be used for material cybersecurity events
- ✗ Should not be used for incidents that are not material or for which a materiality assessment is not yet complete. Item 8.01 may be used to report these incidents

Pay Versus Performance

For additional guidance see our BDO Snapshot: [Pay versus Performance Disclosures]

SEC STAFF OBSERVATIONS ON DISCLOSURES:

- Net income - must disclose consolidated net income
  - SEC staff observed disclosures of consolidated net income excluding noncontrolling interests
- Company-selected measure – if the company-selected measure is non-GAAP, a registrant must disclose how it is different than the audited financial statements
  - Disclosure should clearly describe the measure, define any terms used, and avoid vague terminology
- Compensation actually paid – use the terminology specified in the rule to describe each adjustment in the calculation
  - Using other descriptions for adjustments made it challenging to assess compliance with the rule

Other Disclosure Reminders

Frequent topic of SEC staff comment letters

- MD&A
  - Pillar two
    - Disclosures should evolve over time
    - May question material impacts when there are no forewarning disclosures
  - Liquidity
    - Quantitative and qualitive descriptions for changes period over period (answer the why)
    - Negative cash flows from operations/going concern
      - Disclose plans to generate/obtain cash to fund operations
- Emerging risks
  - Artificial Intelligence
    - Avoid boilerplate disclosure – risk should be specific to the registrant
    - Disclose any basis for claims made about the impact of AI on operations/financial condition

For additional reporting reminders, see our [2024 SEC Reporting Insights]

Accounting Update

Upcoming Effective ASUs for Public Entities

Accounting Standard Updates For Public Entities

ASU	PROJECT	EFFECTIVE DATE
ASU 2023-07	Improvements to Reportable Segment Disclosures	Effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024.
ASU 2023-08	Accounting for and Disclosure of Crypto Assets	Effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years.
ASU 2024-01	Scope Application of Profits Interest and Similar Awards	Effective for annual periods beginning after December 15, 2024, and interim periods within those annual periods.
ASU 2023-09	Improvements to Income Tax Disclosures	Effective for annual periods beginning after December 15, 2024.
ASU 2023-05	Recognition and Initial Measurement in a JV Formation	Effective for joint ventures formed on or after January 1, 2025.

Upcoming Effective ASUs for Private Entities

Accounting Standards Newly Effective for 2024 for Nonpublic Entities

ASU 2023-01

Lease accounting issues with common control arrangements

- For all entities, effective starting after December 31, 2023
- Different transition methods available for entities that have already adopted ASC 842
- BDO Bulletin

ASU 2022-04

Disclosure of supplier finance program

- Effective for all entities already
- However, the rollforward disclosure is required for all entities now
- ASU 2022-04 Alert

ASU 2022-01

Fair value hedging - portfolio layer method

- Expands possibilities for hedge accounting
- Effective for all entities
- ASU 2022-01 Alert

Accounting Standards Newly Effective for 2024 for Nonpublic Entities

ASU 2021-08

Accounting for contract assets and contract liabilities from contracts with customers

- Relates to customer contracts acquired in a business combination
- Effective for all entities now
- ASU 2021-08 Alert

ASU 2020-06

Simplifying accounting for certain complex financial instruments

- Adopt using a modified retrospective method or a fully retrospective method of transition
- Understanding Complex Financial Instruments

ASU 2018-12 (and related ASUs)

Targeted improvements to the accounting for long-duration insurance contracts

- Effective for nonpublic entities now (ASU 2019-09)
- ASU 2018-12

Recently Issued ASUs

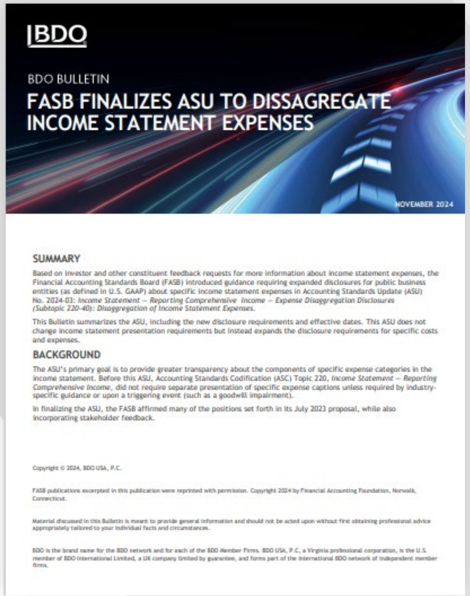
ASU 2024-03

Disaggregation of Income Statement Expenses (DISE)

- Disaggregation of "relevant expense captions" in a table in the notes:
  - Purchases of inventory* using the expense or cost-incurred approach
  - Employee compensation*
  - Depreciation
  - Intangible asset amortization
  - Depreciation, depletion and amortization (DD&A) recognized as part of oil and gas-producing activities
- Tabular integration of specific existing disclosure requirements
- Disclosure of selling expenses and expense reimbursements

* Practical expedients available

Applicable only to public business entities
Effective for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027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FASB FINALIZES ASU TO DISAGGREGATE INCOME STATEMENT EXPENSES

NOVEMBER 2024

SUMMARY

Based on investor and other constituent feedback requests for more information about income statement expenses, the Financial Accounting Standards Board (FASB) introduced guidance requiring expanded disclosures for public business entities (as defined in U.S. GAAP) about specific income statement expenses in Accounting Standards Update (ASU) No. 2024-03: *Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses.*

This Bulletin summarizes the ASU, including the new disclosure requirements and effective dates. This ASU does not change income statement presentation requirements but instead expands the disclosure requirements for specific costs and expenses.

BACKGROUND

The ASU's primary goal is to provide greater transparency about the components of specific expense categories in the income statement. Before this ASU, Accounting Standards Codification (ASC) Topic 220, *Income Statement – Reporting Comprehensive Income*, did not require separate presentation of specific expense captions unless required by industry-specific guidance or upon a triggering event (such as a goodwill impairment).

In finalizing the ASU, the FASB affirmed many of the positions set forth in its July 2023 proposal, while also incorporating stakeholder feedback.

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ASU 2024-03

Disaggregation of Income Statement Expenses (DISE)

Example 1: Entity with Manufacturing and Service Operations

ENTITY X
CONSOLIDATED INCOME STATEMENT
FOR THE YEARS ENDED DECEMBER 31, 20X4, 20X3, AND 20X2

	20X4	20X3	20X2
Revenues:			
Products	$ 82,144	$ 79,137	$ 75,180
Services	26,132	23,146	21,989
Total revenues	108,276	102,283	97,169
Operating expenses:			
Cost of products sold	63,456	60,898	57,244
Cost of services	10,496	9,568	8,898
Selling, general, and administrative	20,849	18,871	18,116
Total operating expenses	94,801	89,337	84,258
Operating income	13,475	12,946	12,911
Interest expense	4,971	4,213	4,297
Income before income taxes	8,504	8,733	8,614
Income tax expense	1,786	1,834	1,809
Net income	$ 6,718	$ 6,899	$ 6,805

Relevant Expense Line Items

Selling Expenses: During the years ended December 31, 20X4, 20X3, and 20X2, selling expenses were $13,425, $12,123, and $11,585, respectively. The entity's selling expenses include those expenses related to marketing and promotional activities and client relationship management.

COST OF PRODUCTS SOLD	20X4	20X3	20X2
Purchases of inventory	$ 20,213	$ 19,199	$ 16,319
Employee compensation	17,578	16,539	14,078
Depreciation	10,190	9,989	9,650
Intangible asset amortization	3,914	4,050	3,929
Warranty expense	4,394	3,952	3,894
Other cost of goods sold [a]	7,552	7,606	7,993
Changes in inventories	157	(861)	843
Other adjustments and reconciling items [b]	(542)	424	538
Total cost of products sold	$ 63,456	$ 60,898	$ 57,244

(a) Other cost of products sold consisted primarily of amounts paid to carriers for outbound freight services related to contract fulfillment and the amounts related to the measurement of a liability for an environmental obligation for the years ended December 31, 20X4, 20X3, and 20X2. Year ended December 31, 20X4 also includes inventory amounts recognized as part of a business combination.

(b) Other adjustments and reconciling items consisted of reconciling adjustments attributable to differences in the foreign exchange rates used to translate beginning inventory, ending inventory, and costs incurred from various functional currencies into the reporting currency for the years ended December 31, 20X4, 20X3, and 20X2.

COST OF SERVICES	20X4	20X3	20X2
Employee compensation	$ 6,598	$ 5,654	$ 4,354
Depreciation	763	765	742
Intangible asset amortization	642	670	650
Other cost of services [c]	2,493	2,479	3,152
Total cost of services	$ 10,496	$ 9,568	$ 8,898

(c) Other cost of services consisted primarily of operating lease and travel expenses for the years ended December 31, 20X4, 20X3, and 20X2.

SELLING, GENERAL, AND ADMINISTRATIVE	20X4	20X3	20X2
Employee compensation	$ 13,242	$ 11,379	$ 10,764
Depreciation	1,454	1,755	1,732
Property, plant, and equipment impairment	412	–	–
Intangible asset amortization	523	596	–
Other selling, general and administrative expenses [d]	5,218	5,141	5,615
Total selling, general and administrative expenses	$ 20,849	$ 18,871	$ 18,116

(d) Other SG&A consisted primarily of professional services fees and operating lease expense, for the years ended December 31, 20X4, 20X3, and 20X2.

Disaggregation of relevant expense line item and qualitative disclosures

Disaggregation of relevant expense line item and qualitative disclosures

Disaggregation of relevant expense line item and qualitative disclosures

ASU 2024-04

Induced Conversions of Convertible Debt Instruments (EITF 23-A)

CLARIFICATIONS

Conversion Criteria (Scope)	Changes to a Volume-Weighted Average Price (VWAP) Formula	Eligibility for Induced Conversion Accounting
To apply induced conversion accounting, the offer to the debt holder must guarantee them with (at a minimum) the form and amount of the consideration that they would receive under the existing conversion terms.	The incorporation, elimination, or modification of a VWAP formula would not automatically cause a settlement to be accounted for as an extinguishment. Instead, the entity would assess whether the form and amount of conversion consideration are preserved using the fair value of the entity's shares as of the offer acceptance date.	The induced conversion guidance can be applied to a convertible debt instrument that is not currently convertible, as long as it had a substantive conversion feature as of the issuance date and offer acceptance date.


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INDUCED CONVERSIONS OF CONVERTIBLE DEBT INSTRUMENTS

NOVEMBER 2024

SUMMARY

The FASB recently clarified the requirements for determining whether a convertible debt settlement is accounted for as an induced conversion, rather than an extinguishment,[1] which determines the effect of the debt's settlement on net income. Induced conversion accounting applies to conversions that both (1) occur pursuant to conversion privileges that are exercisable only for a limited time and (2) include the issuance of all the equity securities issuable under the original conversion privileges. The Accounting Standards Update (ASU) provides guidance on how the second criterion is applied in specific situations, including a clarification that induced conversion accounting applies only if the inducement offer preserves the form and amount of consideration issuable under the instrument's existing conversion privileges. The ASU also added a third criterion, which requires the debt to contain a substantive conversion feature as of the issuance and offer acceptance date.

Entities may adopt the standard retrospectively for all prior periods presented in the financial statements or prospectively. The new guidance applies to fiscal years and interim periods within fiscal years beginning after December 15, 2025. Early adoption is allowed for entities that have adopted ASU 2020-06.[2]

BACKGROUND

A settlement of a convertible debt instrument is an induced conversion if it occurs based on conversion privileges that are changed to induce early conversion by the holder and are exercisable only for a limited time. Under that settlement, an entity recognizes an inducement expense computed as of the offer acceptance date as follows:

The fair value of all securities and other consideration transferred in the transaction (measured at the offer acceptance date) − The fair value of all securities and other consideration under the instrument's existing conversion privileges = Inducement Expense

[1] See ASU 2024-04, *Debt—Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments.*

[2] *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*

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FASB Projects

Key Projects on the FASB Agenda

STAGE	PROJECTS
Final ASU issued in Q1	▶ Disaggregation—Income Statement Expenses: Clarifying the Effective Date
Board Redeliberations	▶ Determining the Accounting Acquirer (EITF 24-A) ▶ Share-based Consideration Payable to a Customer ▶ Derivatives – Scope Refinements ▶ Hedge Accounting Improvements
Comment letter period open	▶ Software Costs (Due by January 27, 2025) ▶ Interim Reporting (Due by March 31, 2025) ▶ Government Grants (Due by March 31, 2025) ▶ Environmental Credit Programs (Due by April 15, 2025)
Exposure Draft expected by Q1 2025	▶ Accounting for Debt Exchanges (EITF 24-B) ▶ Codification Improvements (Evergreen)
Invitation to Comment	▶ Financial Key Performance Indicators (Due by April 30, 2025) ▶ Recognition of Intangibles (Due by May 30, 2025) ▶ Agenda Consultation (Due by June 30, 2025)

COMMENT PERIOD OPEN

Accounting for and Disclosure of Software Costs

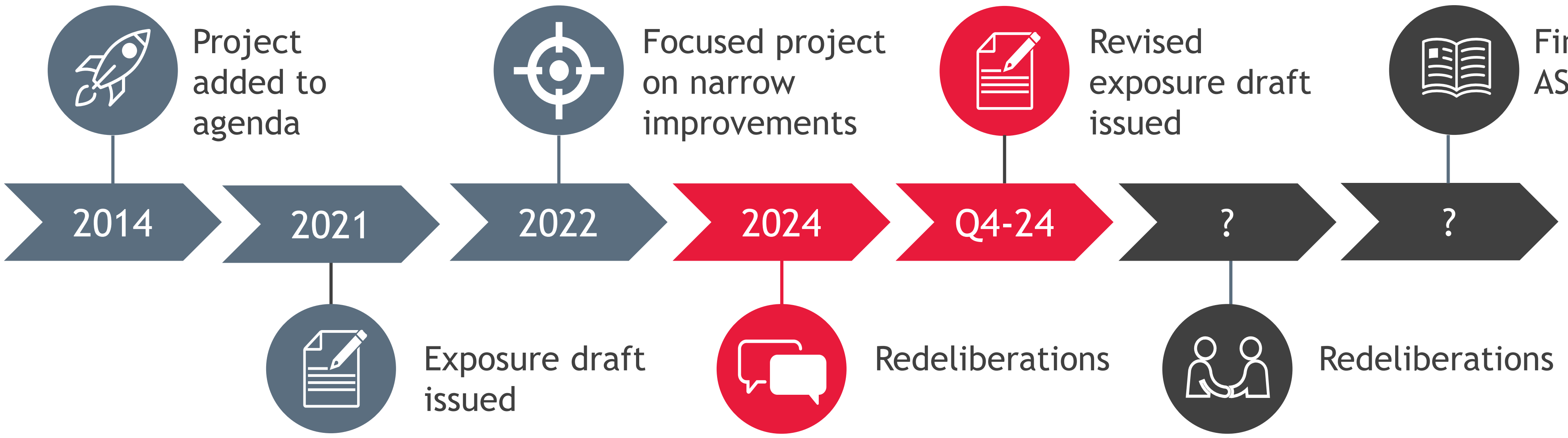
Comments are due by January 27, 2025

	CURRENT U.S. GAAP	PROPOSAL
INTERNAL-USE SOFTWARE (ASC 350-40)	▶ Scope: costs to develop or purchase software solely for internal use, to develop hosting arrangement platforms or implement a cloud-computing arrangement ▶ Capitalization or expense focuses on project stages and activities	Targeted improvements: ▶ Remove references to project stages ▶ Begin capitalization when both criteria are met: • Management has authorized and committed to funding the software project • It is probable that the project will be completed, and the software will be used to perform the function intended - Consider whether there is significant uncertainty associated with development ▶ Separately present cash paid for capitalized internal-use software as investing outflows in the cash flow statement
EXTERNAL-USE SOFTWARE (ASC 985)	▶ Costs to develop software to be sold or licensed to customers ▶ Capitalization or expense focuses on technological feasibility	▶ No changes to recognition or measurement ▶ Clarified that specific disclosures in ASC 350 do apply to external-use software

COMMENT PERIOD OPEN

Interim Reporting

Comments are due by March 31, 2025



- Adds a principle to ASC 270 that would require entities to disclose events and changes after the most recent fiscal year end that have a material impact on the entity
- Clarifies that ASC 270 applies to all interim financial statements and notes presented in accordance with U.S. GAAP and that interim financial statements can take various forms
- Creates a comprehensive list in ASC 270 of required interim disclosures but is **not intended to change** what is required

COMMENT PERIOD OPEN

Government Grants

- Scope: Transfers of monetary and tangible nonmonetary assets from a government to a **business entity**, including forgivable loans
  - Excludes transactions in the scope of ASC 606 (revenue) and ASC 740 (income taxes), below-market rate loans, and government guarantees
- A government grant should be recognized when it is probable that **both**:
  - The entity will comply with the conditions of the grant
  - The grant will be received

GRANTS RELATED TO INCOME

Recognized in the income statement when the entity incurs the grant-related costs, as either other income, or deducted from the related expense

GRANTS RELATED TO ASSETS

Recognized as either deferred income or as a reduction from the carrying amount of the asset, and recognized into income on a systematic basis over asset life

Comments due by March 31, 2025

Transition: prospectively to new grants that are not completed or are entered afterwards OR retrospectively

COMMENT PERIOD OPEN

Environmental Credits – Assets

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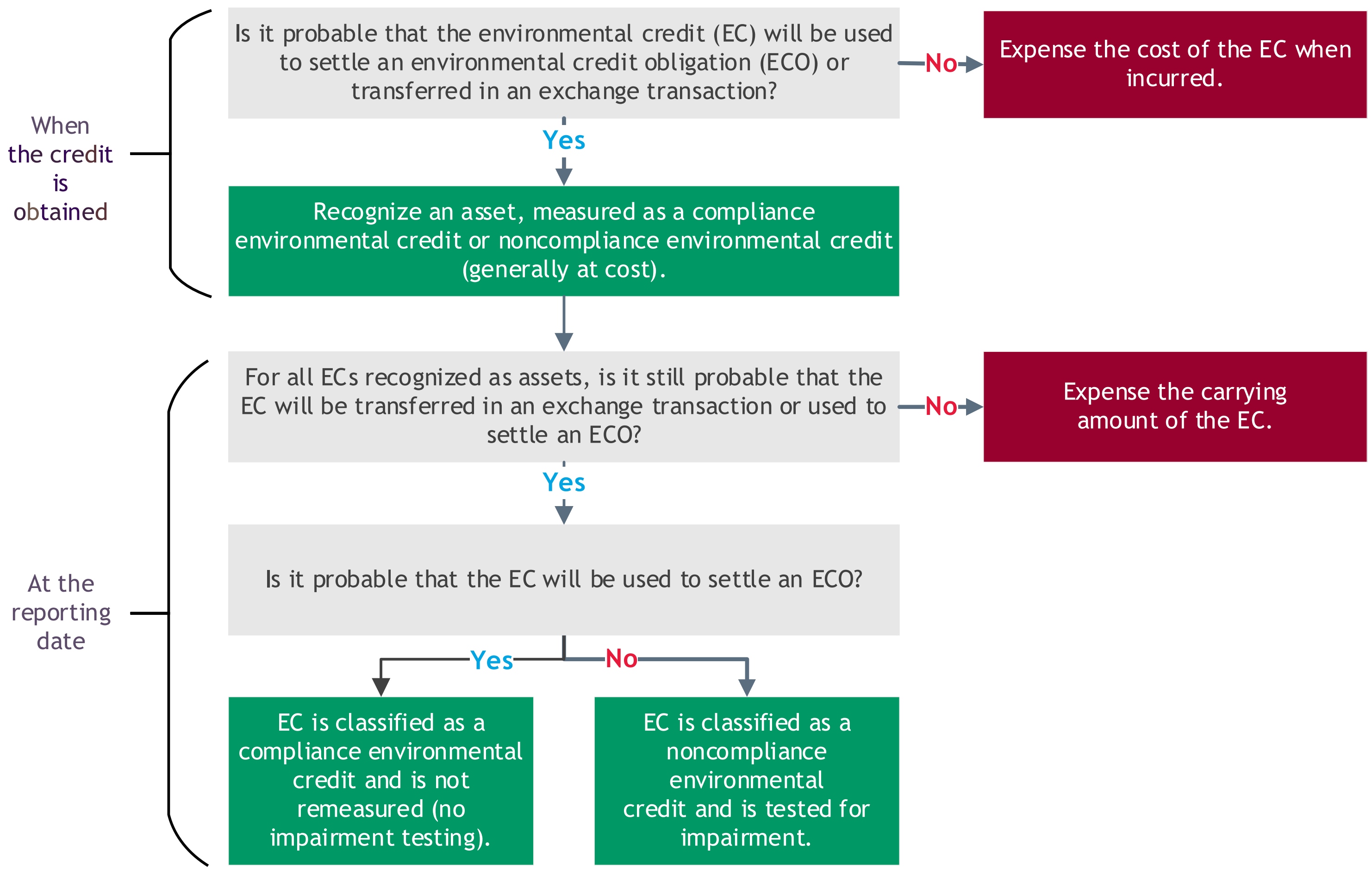
Scope	▶ An enforceable right that lacks physical substance and is not a financial asset. ▶ Intended to prevent, control, reduce, or remove emissions or other forms of pollution. ▶ Can be separately transferred in an exchange transaction. ▶ Not an income tax credit and cannot be used to reduce income taxes.
Cost	▶ "Cost" generally refers to historical cost (see ASC 805-50). ▶ Credits that are internally-generated or received by grant from a regulator are limited to transaction costs. ▶ Credits obtained in a transaction measured in accordance with other U.S. GAAP follow that measurement.
Fair Value Election	▶ An entity may elect to measure noncompliance credits at fair value (irrevocable election) that meet certain criteria.



COMMENT PERIOD OPEN

Environmental Credit — Obligations

Have events occurred as of the reporting date that result in an environmental credit obligation (ECO) liability?

No → ECO measurement requirements do not apply.

Yes ↓

Recognize an ECO liability and measure the liability as follows:

Funded Portion

Measure the funded portion of the ECO liability using the carrying amount of compliance environmental credits at the reporting date.

Unfunded Portion

Measure the unfunded portion using the fair value of the environmental credits necessary to settle that portion at the reporting date, unless:

- The entity intends to settle the unfunded portion in cash.
  - Measure the unfunded portion using the cash settlement amount prescribed by the compliance program.
- The entity intends to settle the unfunded portion using either environmental credits from (a) an existing unconditional purchase commitment (fixed quantity at a fixed or (b) an unconditional right to environmental credits as part of a compliance program.
  - Measure the unfunded portion using the estimated cost basis of the environmental credits to be obtained.

Scope	The proposal defines an ECO liability as an obligation that both: ▶ Arises from laws, statutes, or ordinances represented to prevent, control, reduce, or remove emissions or other forms of pollution ▶ May be settled with environmental credits

Comments are due by April 15, 2025

TENTATIVE DECISIONS - EXPOSURE DRAFT EXPECTED Q1 2025

Accounting For Debt Exchanges

Proposed Amendments

Requires a debt exchange with multiple creditors to be accounted for as a debt extinguishment and issuance of new debt when both:

- The existing debt has been repaid under the original terms or repurchased at market terms
- The new debt was issued at market terms following the issuer’s normal marketing process for new debt issuances

Adoption and Disclosure

- Applied prospectively
- Early adoption is permitted
- Disclose the nature of and reason for change in accounting principal

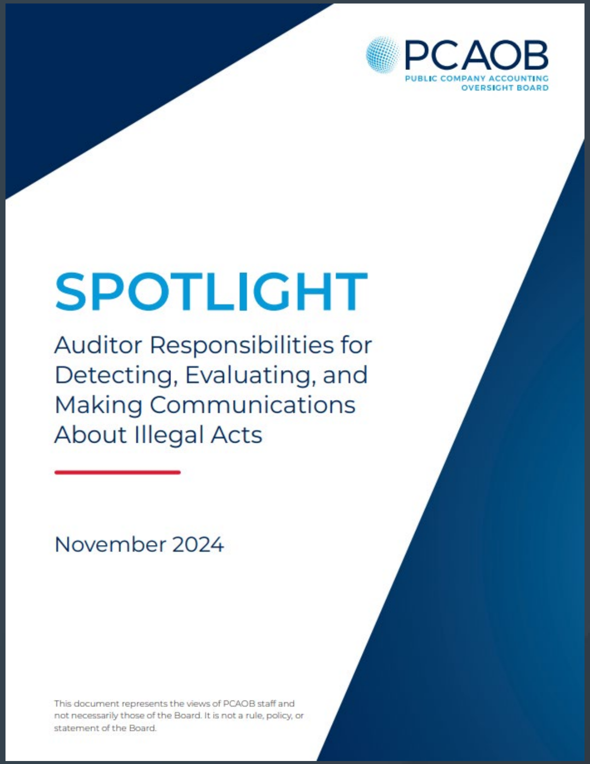
PCAOB Update & Corporate Governance Considerations

PCAOB Spotlight

AUDITOR RESPONSIBILITIES FOR DETECTING, EVALUATING, AND MAKING COMMUNICATIONS ABOUT ILLEGAL ACTS

- This staff publication focuses auditors on relevant considerations when performing procedures to detect, evaluate, and make communications about illegal acts by a company under audit.
- Staff outreach performed in connection with the Board's proposal on the auditor's responsibility with respect to a company's noncompliance with laws and regulations indicated that an overview of existing audit requirements regarding detecting, evaluating, and making communications about illegal acts by a company in an audit of financial statements may be beneficial.
- Under federal securities laws, auditors have a longstanding responsibility to:
    1. Detect illegal acts;
    2. Evaluate information indicating that an illegal act has or may have occurred;
    3. Determine whether it is likely that an illegal act has occurred, and, if so, to consider the possible effect of the illegal act on the financial statements of the company; and
    4. Make appropriate communications about illegal acts – unless "clearly inconsequential" – to management, the audit committee, and possibly the U.S. Securities and Exchange Commission

Note: PCAOB paused finalization of proposed NOCLAR rule indicating no further action until 2025.


PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

SPOTLIGHT

Auditor Responsibilities for Detecting, Evaluating, and Making Communications About Illegal Acts

November 2024

This document represents the views of PCAOB staff and not necessarily those of the Board. It is not a rule, policy, or statement of the Board.

Click here to access the publication

PCAOB Audit Focus

CRITICAL AUDIT MATTERS

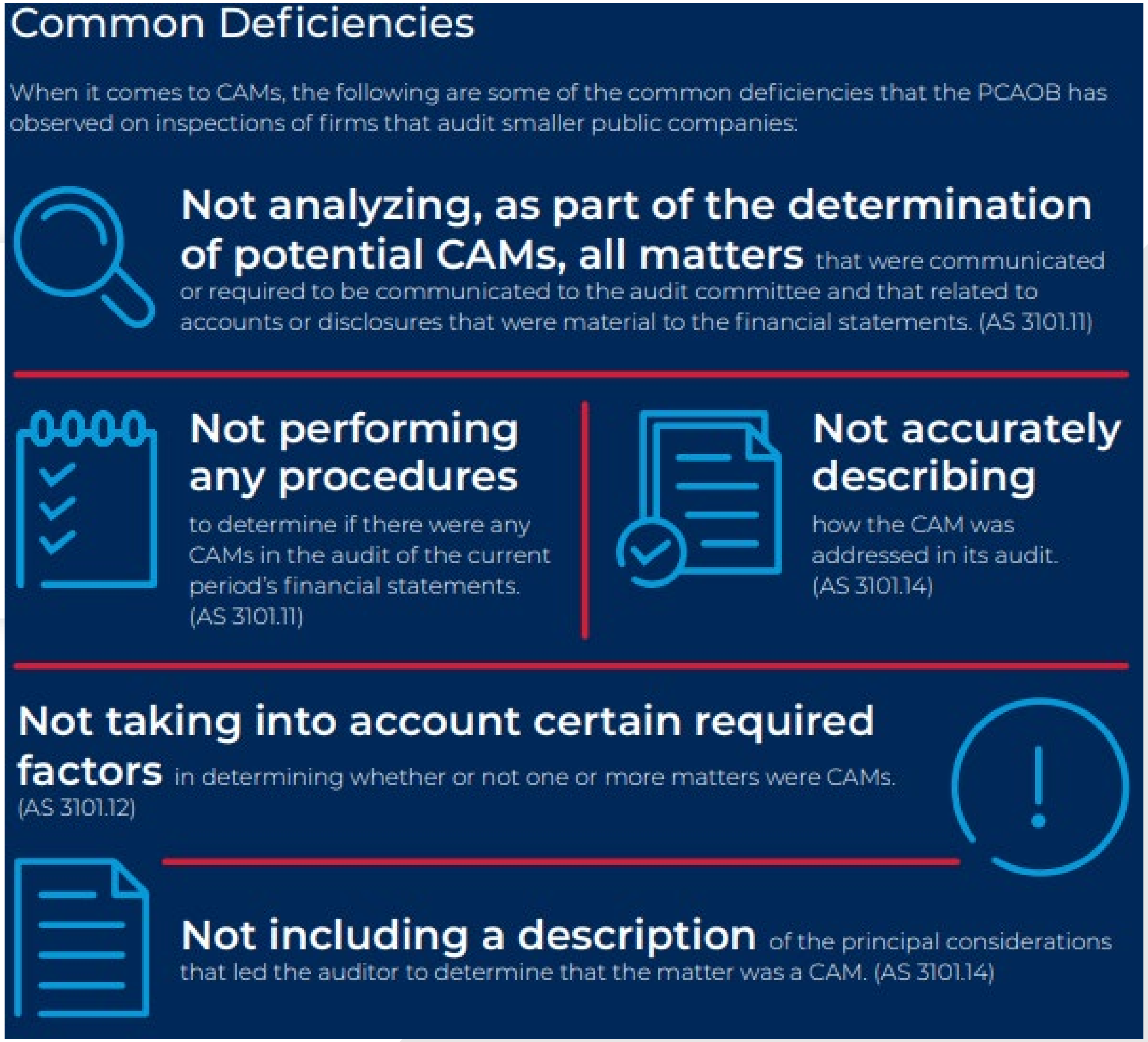
- *Audit Focus* is a new series of PCAOB staff publications that aims to provide easy-to-digest information to auditors, especially those who audit smaller public companies.

First Edition: CAMs

- PCAOB staff continues to identify a large number of deficiencies related to critical audit matters (CAMs). This edition of Audit Focus highlights:
  - Key reminders on determination, communication, and documentation of CAMs.
  - The staff's perspectives on some of the common deficiencies, such as not accurately describing how a CAM was addressed in the audit.
  - Good practices that the staff has observed related to CAMs, such as use of practice aids.

- Click here to access the publication

Note: The PCAOB has a rulemaking project to consider whether there is a need for more guidance, changes to the PCAOB standard or other regulatory action to improve CAM reporting.



PCAOB Adopts Rule Amendment To Enhance Usefulness of Audit Firm Registration Info

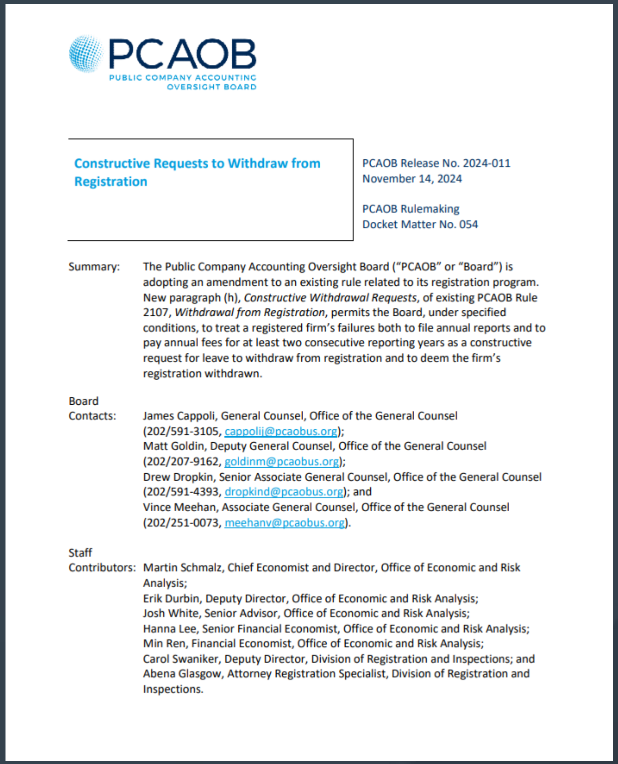
The amendment enables the Board to address situations in which a registered firm has ceased to exist, is nonoperational, or no longer wishes to remain registered, as demonstrated by its failures to file annual reports (via PCAOB Form 2) and pay annual fees for at least two consecutive reporting years.

Key Components of the Amendment

- The amendment creates a new procedural mechanism that would permit the Board, under specified conditions, to:
  - Treat a PCAOB-registered firm's failures both to file annual reports with the PCAOB and to pay annual fees to the PCAOB for at least two consecutive reporting years as a constructive request for leave to withdraw from PCAOB registration; and
  - Deem the firm's registration withdrawn.

Effective Dates and More Information

- Approved by the SEC on January 2, 2025.
- Amended rule will take effect initially for annual reports and annual fees that are due in 2025, meaning that a registered firm that does not file an annual report and does not pay an annual fee for both the 2025 and 2026 reporting years could be deemed withdrawn from registration under Rule 2107(h) beginning in the fall of 2026.


PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

Constructive Requests to Withdraw from Registration

PCAOB Release No. 2024-011
November 14, 2024

PCAOB Rulemaking
Docket Matter No. 054

Summary: The Public Company Accounting Oversight Board ("PCAOB" or "Board") is adopting an amendment to an existing rule related to its registration program. New paragraph (h), *Constructive Withdrawal Requests*, of existing PCAOB Rule 2107, *Withdrawal from Registration*, permits the Board, under specified conditions, to treat a registered firm's failures both to file annual reports and to pay annual fees for at least two consecutive reporting years as a constructive request for leave to withdraw from registration and to deem the firm's registration withdrawn.

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Carol Swaniker, Deputy Director, Division of Registration and Inspections; and
Abena Glasgow, Attorney Registration Specialist, Division of Registration and Inspections.

Click here to view the rule

SEC Approves PCAOB 2025 Budget

The SEC approved the fiscal year 2025 PCAOB budget of $399.7M budget. The budget, guided by the PCAOB's 2022-2026 Strategic Plan and its mission to protect investors, is designed to support the PCAOB's responsibilities under the Sarbanes-Oxley Act and its strategic goals.

The budget provides funding the work of 945 PCAOB professionals.

The accounting support fee totals $374.9 million, of which $346.1 million will be assessed on public company issuers and $28.8 million will be assessed on registered broker-dealers.

Click here to access the budget

$ in thousands

Cost Category	2023 Actuals	2024 Budget	2025 Budget
Personnel			
Salaries /1	199,984	228,710	242,579
Employee Benefits /2	30,711	36,524	37,856
Payroll taxes /3	11,627	13,331	14,144
Training /4	2,337	3,750	3,869
Recruitment and Relocation /5	4,011	3,463	1,525
Subtotal	248,670	285,778	299,973
Non-personnel			
Administrative Expenses /6	8,583	10,183	11,162
Consulting and Professional Fees /7	21,091	37,369	33,989
Facilities /8	20,526	20,388	19,362
IT Expense & IT Capital Expenditures / 9	17,280	14,134	18,261
Travel and Other Expenses /10	11,190	15,378	16,499
Subtotal	78,670	97,451	99,273
Facilities Capital Expenditures / 11	22	1,422	460
Total Outlays	**327,362**	**384,650**	**399,706**
Change to Working Capital Reserve, Net of Other Income and Reconciliations /12			(23,522)
Less: Prior Year Registration and Annual Fees /13			(1,276)
Total Accounting Support Fees /14			**374,908**
Accounting Support Fee - Issuers			346,077
Accounting Support Fee - Broker-Dealers			28,830

Details may not add to totals due to rounding

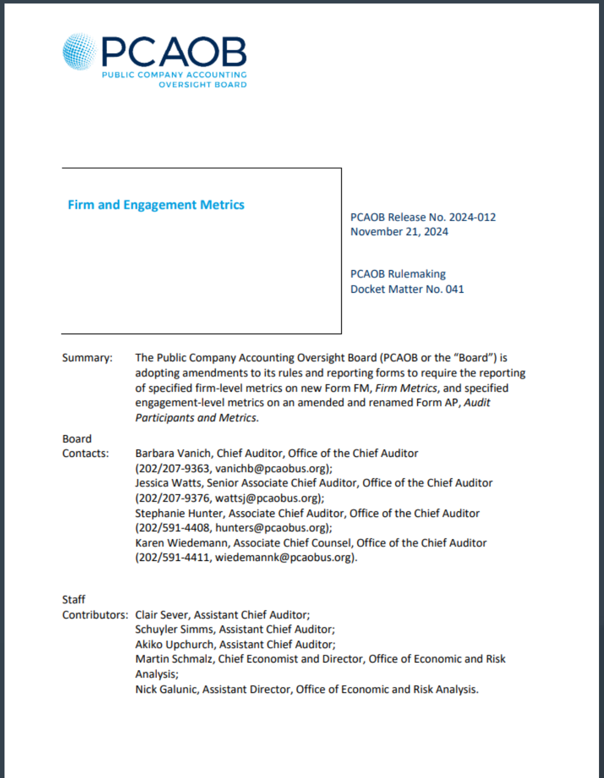
PCAOB Adopts Firm and Engagement Metrics Requirements

- The PCAOB has adopted new requirements for firm and engagement metrics for registered public accounting firms auditing accelerated or large accelerated filers. These firms must publicly report metrics in eight areas: partner and manager involvement, workload, training hours, audit personnel experience, industry experience, retention, audit hours allocation, and restatement history.

- Firm-level metrics will be reported annually on a new Form FM, while engagement-level metrics will be reported on a revised Form AP, renamed "Audit Participants and Metrics." Optional limited narrative disclosures are allowed for context.

- Due to stakeholder feedback, the PCAOB:
  - Reduced the metric areas from eleven to eight
  - Simplified calculations
  - Increased narrative disclosure length
  - Updated the effective date
  - Pending SEC approval, the earliest effective date of the firm-level metrics will be October 1, 2027, with the first reporting as of September 30, 2028, and engagement-level metrics for the audits of companies with fiscal years beginning on or after October 1, 2027.
  - For these new requirements, the implementation will be phased, giving firms auditing less than 100 issuers additional time to comply.

Note: This is subject to SEC approval.



PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

Firm and Engagement Metrics

PCAOB Release No. 2024-012
November 21, 2024

PCAOB Rulemaking
Docket Matter No. 041

Summary: The Public Company Accounting Oversight Board (PCAOB or the "Board") is adopting amendments to its rules and reporting forms to require the reporting of specified firm-level metrics on new Form FM, *Firm Metrics*, and specified engagement-level metrics on an amended and renamed Form AP, *Audit Participants and Metrics*.

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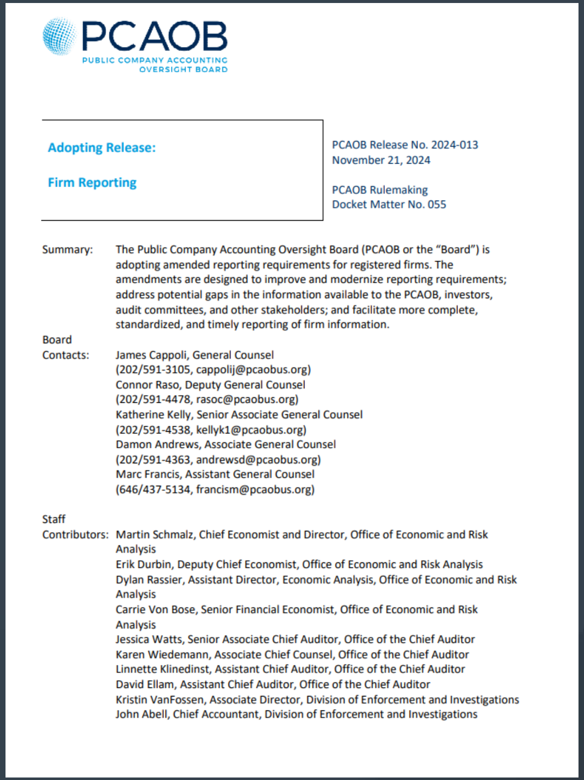
Click here to view the rule

PCAOB Adopts Amendments Related to Firm Reporting

- The PCAOB has adopted amendments with respect to audit firms' annual reporting of financial, governance, and network information as well as expanded and more regimented special reporting, including cybersecurity incidents, required for all PCAOB-registered firms.

- Key changes include:
  - Financial Information: All firms must report additional fee information on Form 2, with the largest firms also submitting confidential financial statements.
  - Governance Information: Firms must disclose more about leadership, legal structure, ownership, and quality control roles on Form 2.
  - Network Relationships: Firms must detail network arrangements, including structure, resource access, and audit information sharing.
  - Special Reporting: Annually inspected firms must confidentially report material events affecting their organization and audit services.
  - Cybersecurity: Significant cybersecurity events must be reported confidentially on Form 3, with periodic public reporting of cybersecurity policies on Form 2.
  - Updated description of QC policies and procedures: A new form will require any firm that registered with the Board prior to the date that the PCAOB's new quality control (QC) standard becomes effective (December 15, 2025) to submit an updated statement of the firm's quality control policies and procedures pursuant to the QC standard.

Note: This is subject to SEC approval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PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

Adopting Release:

Firm Reporting

PCAOB Release No. 2024-013
November 21, 2024

PCAOB Rulemaking
Docket Matter No. 055

Summary: The Public Company Accounting Oversight Board (PCAOB or the "Board") is adopting amended reporting requirements for registered firms. The amendments are designed to improve and modernize reporting requirements; address potential gaps in the information available to the PCAOB, investors, audit committees, and other stakeholders; and facilitate more complete, standardized, and timely reporting of firm information.

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John Abell, Chief Accountant, Division of Enforcement and Investigations

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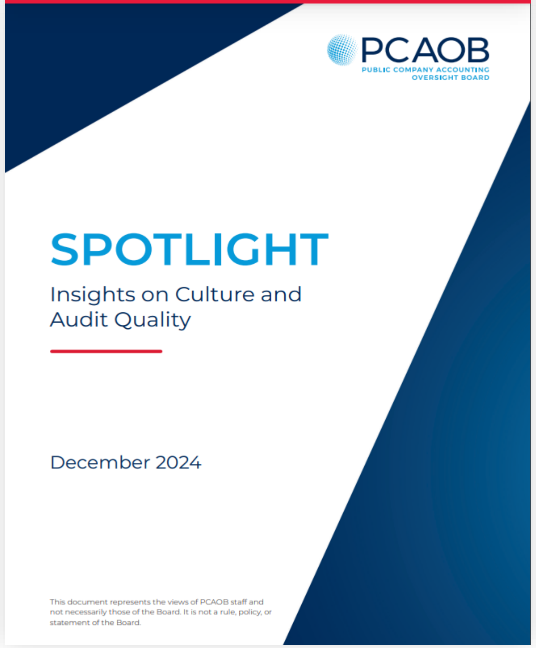
Other Recent PCAOB Guidance Issued

INSIGHTS ON CULTURE AND AUDIT QUALITY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Insights on Culture and Audit Quality

December 2024

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INVESTOR ADVISORY BULLETINS

Audit Committee and Independent Auditor Dialogue

Opportunity to Comment on Proposal to Enhance How Auditors Address Certain Assessed Risks of Material Misstatement

Request for Public to Submit Examples of Critical or Key Audit Matters

Click here for more

AUDIT FOCUS: AUDIT COMMITTEE COMMUNICATIONS


Audit Focus

Audit Committee Communications

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

PCAOB staff continues to identify a large number of deficiencies related to auditor communications with audit committees, also known as audit committee communications. This edition of Audit Focus highlights key reminders for auditors from the PCAOB standards and staff guidance related to audit committee communications, provides the staff's perspectives on common deficiencies in auditors' work, and shares good practices that the staff has observed.

About the Audit Focus Series

Audit Focus is a series of PCAOB publications that aims to provide easy-to-digest information to auditors, especially those who audit smaller public companies. Each edition of Audit Focus reiterates the applicable auditing standards and/or staff guidance, as well as offers reminders and good practices tailored to PCAOB-registered auditors of smaller public companies – all with an eye toward protecting investors and improving audit quality.

APPLICABLE PCAOB STANDARDS

AS 1301, *Communications with Audit Committees*, requires the auditor to communicate with the audit committee regarding certain matters related to the conduct of the audit and to obtain certain information from the audit committee relevant to the audit. The standard outlines specific objectives for the auditor to (1) communicate to the audit committee the responsibilities of the auditor in relation to the audit and establish an understanding of the terms of the audit engagement with the audit committee, (2) obtain information from the audit committee relevant to the audit, (3) communicate to the audit committee an overview of the overall audit strategy and timing of the audit, and (4) provide the audit committee with timely observations arising from the audit that are significant to the financial reporting process.

Appendix B of AS 1301 identifies numerous other PCAOB rules and standards related to the audit that require communication of specific matters to the audit committee, which includes among others, AS 1305, *Communications About Control Deficiencies in an Audit of Financial Statements*, AS 2410, *Related Parties*, and AS 2805, *Management Representations*.

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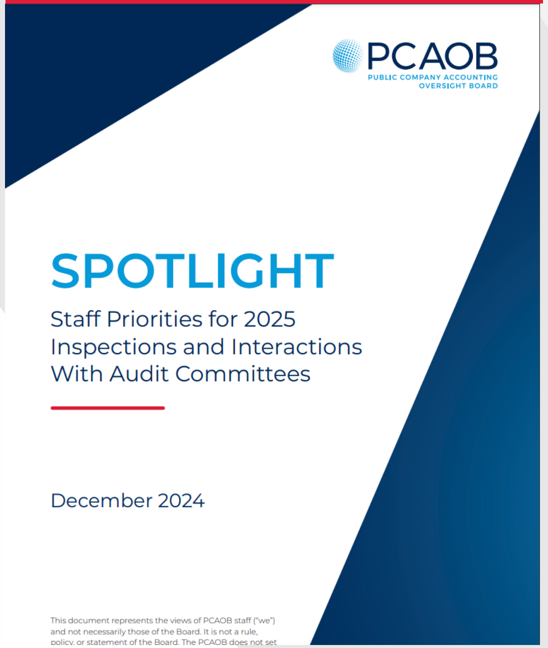
PCAOB STAFF 2025 INSPECTION PRIORITIES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SPOTLIGHT

Staff Priorities for 2025 Inspections and Interactions With Audit Committees

December 2024

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PCAOB Updates Standard-Setting Projects

RECENTLY COMPLETED STANDARD-SETTING PROJECTS

Project	Effective Date	Date of Board Adoption	Date of SEC Approval
Quality Control	Effective on December 15, 2025. The first evaluation period is for the period beginning on the effective date of the standard (i.e., December 15, 2025) and ending on September 30, 2026. The firm's first evaluation must be reported to the PCAOB on Form QC no later than November 30, 2026.	May 2024	September 9, 2024
Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form	Effective for audits of financial statements for fiscal years beginning on or after December 15, 2025.	June 2024	August 20, 2024
General Responsibilities of the Auditor in Conducting an Audit (AS 1000)	Effective for audits of fiscal years beginning on or after, December 15, 2024, except for the 14-day documentation completion date.	May 2024	August 20, 2024

To access Short-Term Standard-Setting Projects, click here

PCAOB Updates Standard-Setting and Research Agendas

SHORT-TERM STANDARD-SETTING PROJECTS

Project	Project Description	Next Board Action	Anticipated Timing
Attestation Standards Update	Consider the requirements in the interim attestation standards in connection with the PCAOB's interim standards project.	Proposal	2025
Going Concern	Consider the auditor's evaluation and reporting of a company's ability to continue as a going concern in response to changes in financial reporting, the auditing environment, and stakeholder needs, including by considering how AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*, should be revised.	Proposal	2025
Substantive Analytical Procedures	Consider changes to an auditor's use of substantive analytical procedures to better align with the auditor's risk assessment and to address the increasing use of technology tools in performing these procedures, including whether to revise AS 2305, *Substantive Analytical Procedures*.	Adoption	2025

To access Short-Term Standard-Setting Projects, click here

PCAOB Updates Standard-Setting and Research Agendas

SHORT-TERM STANDARD-SETTING PROJECTS

Project	Project Description	Next Board Action	Anticipated Timing
Firm and Engagement Metrics	Enhance information provided to investors, audit committees, and other stakeholders at both the firm and engagement level.	Adoption	2024
Noncompliance with Laws and Regulations	Consider changes to an auditor's consideration of possible noncompliance with laws and regulations including how AS 2405, *Illegal Acts by Clients*, should be revised to integrate a scalable, risk-based approach that takes into account recent developments in corporate governance and internal control practices.	Adoption	2025
Inventory	Consider updates to AS 2510, *Auditing Inventories*, in connection with the Interim Standards project to reflect changes in the auditing environment.	Proposal	2025
Auditor Reporting in Specified Circumstances	Consider updates to AS 3105, *Departures from Unqualified Opinions and Other Reporting Circumstances*, and other interim standards in the AS 3300 series.	Proposal	2024

To access Short-Term Standard-Setting Projects, click here

PCAOB Updates Standard-Setting and Research Agendas

MID-TERM STANDARD-SETTING PROJECTS

Project	Project Description
Use of a Service Organization	Consider how AS 2601, *Consideration of an Entity's Use of a Service Organization*, should be amended to reflect changes in how companies use services of third parties that are relevant to the company's own internal control over financial reporting and developments in practice.
Fraud	Consider how AS 2401, *Consideration of Fraud in a Financial Statement Audit*, should be revised to better align an auditor's responsibilities for addressing intentional acts that result in material misstatements in financial statements with the auditor's risk assessment, including addressing matters that may arise from developments in the use of technology.
Interim Ethics and Independence Standards	In connection with the PCAOB's interim standards project, consider whether existing obligations of PCAOB registered firms and their associated persons should be enhanced and updated to better promote compliance through improved ethical behavior and independence.
Internal Audit	Consider updates to AS 2605, *Consideration of the Internal Audit Function*, in connection with the Interim Standards project to reflect changes in the auditing and reporting environment.

To access Mid-Term Standard-Setting Projects, click here

PCAOB Updates Standard-Setting and Research Agendas

MID-TERM STANDARD-SETTING PROJECTS

Project	Project Description
Interim Standards	Consider whether the remaining "interim" standards, as adopted upon the establishment of the Board, should be amended, replaced, or eliminated, as appropriate. As part of this analysis, evaluate which standards are necessary to retain and, of those, which should be retained with minimal updates, and which require more significant changes. Separate projects, including requests for comment on potential standards to eliminate, will be added to the standard-setting agenda as the staff completes its analysis.
Interim Financial Information Reviews	Consider updates to AS 4105, *Reviews of Interim Financial Information*, in connection with the Interim Standards project to reflect changes in the auditing and reporting environment.
Subsequent Events and Other Matters Arising After the Date of the Auditor's Report	Consider updates to interim standards that address auditor responsibilities related to (i) certain events occurring between the balance sheet and the auditor's report date and (ii) certain matters arising after the auditor's report date, such as subsequently discovered facts and reissuance of the auditor's report. This project considers updating AS 2801, *Subsequent Events*, AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*, and certain other interim standards.

To access Mid-Term Standard-Setting Projects, click here

PCAOB Updates Standard-Setting and Research Agendas

RESEARCH PROJECTS

Project	Project Description
Data and Technology	Assess whether there is a need for guidance, changes to PCAOB standards, or other regulatory actions considering the increased use of technology-based tools by auditors and preparers. This includes evaluating the role technology innovation plays in driving audit quality. Research from this project may give rise to individual standard-setting projects and may also inform the scope or nature of other projects that are included on the standard-setting agenda.
Communication of Critical Audit Matters	The project seeks to understand why there continues to be a decrease in the average number of critical audit matters (CAM) reported in the auditor's report over time and whether there is a need for guidance, changes to PCAOB standards, or other regulatory action to improve such reporting, including the information that is provided as part of the CAM reporting. The staff continues to conduct research, including taking into account **recent insights shared by the Investor Advisory Group**.

To access Research Projects, click here

PCAOB Updates Standard-Setting and Research Agendas

RULEMAKING PROJECTS

Project	Project Description	Next Board Action	Date of SEC Approval
Contributory Liability	Consider changes to the Board's ethics rule, PCAOB Rule 3502, Responsibility Not to Knowingly or Recklessly Contribute to Violations.	Adopted June 2024	August 20, 2024
Registration	Consider changes to enhance the PCAOB's registration program.	Adopted November 2024	January 2, 2025
Firm Reporting	Consider changes to audit firm reporting requirements including periodic reporting requirements, special reporting requirements, and other enhancements to the audit firm reporting framework.	Adopted November 2024	Pending

To access Rulemaking Projects, click here

Governance Considerations

The Year in Fraud Trends

The Association of Certified Fraud Examiners summarizes the top fraud schemes of 2024 for individuals and organizations and warns that scams will continue to grow in sophistication, collaboration and innovation in 2025:

- **Pig Butchering:** Scammer uses a social, romantic or business focus to establish a relationship and gain trust of the victim. Then gradually introduce the victim to a fraudulent opportunity, train them to open accounts (often on crypto exchanges) and transfer funds. Scammers make investment seem legitimate with elaborate fake document, websites and apps.
- **Account Takeovers:** Use of information from data breaches or social engineering to gain access to financial accounts and make unauthorized withdrawals, often locking out the proper owner from the accounts.
- **New Accounts:** Use of synthetic identities to open new accounts and secure loans, escaping detection due to advancements in AI technology.

Source: https://www.acfe.com/acfe-insights-blog/blog-detail?s=fraudify-wrapped-2024

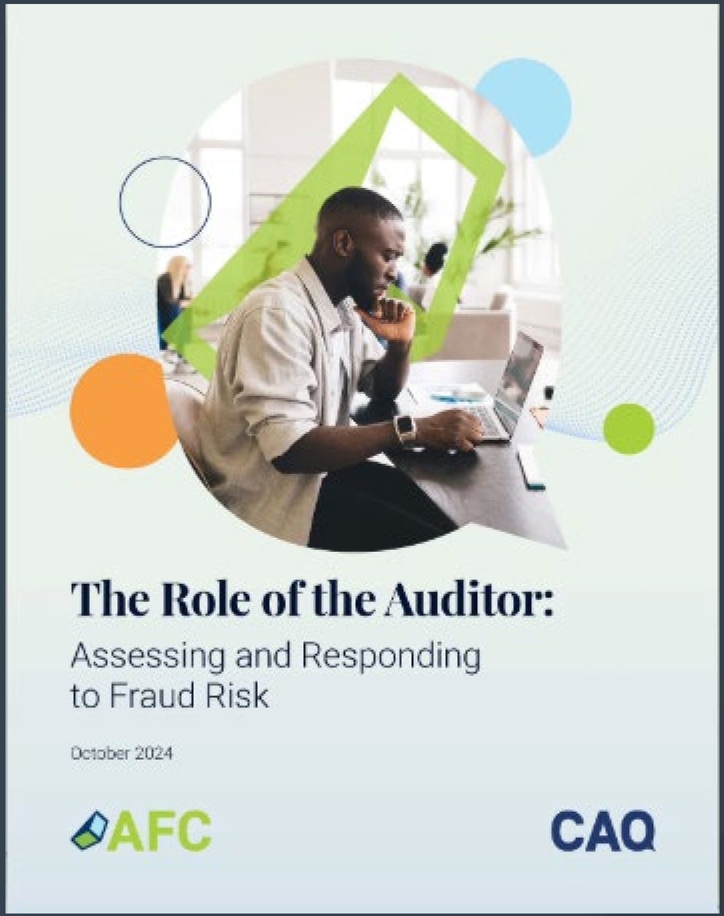
- **Synthetic Identity Fraud:** Merging real and fabricated data to create new identities used to then secure credit lines, loans and government benefits. Difficult to detect as profiles often appear to have established histories, credit reports and verifiable employment data.
- **Deepfake Business Email Compromise (BEC):** Creation of hyper-realistic AI-generated video and audio to impersonate executives, convincing employees to authorize large payments, alter contracts or divulge sensitive information.
- **Government Impersonation:** Posing as government officials, targeting individuals and businesses with fake IRS calls, counterfeit permits and fraudulent grant offers to defraud citizens out of tax payments, welfare checks or social security benefits. This further includes creation of fake websites that mirror official government portals, convincing victims to input personal information or make payments to fake accounts.

Assessing & Responding to Fraud Risk During An Audit

Economics, geopolitics and emerging technologies have created an environment in which companies are potentially more vulnerable to fraud. Regulators, investors, and other interested parties expect auditors to remain vigilant and to think critically about fraud.

However, the mitigation of fraud risk is most effective when ALL participants of the financial reporting ecosystem fulfill their roles in deterring and detecting fraud. Auditors, although often the last line of defense due to the scope and timing of their engagements, are among the many stakeholders whose influence and responsibilities have a significant impact on fraud deterrence and detection.

This publication by the Antifraud Collaboration and the Center for Audit Quality provides clarity and understanding of the auditor's current role and responsibilities related to fraud, which may provide insights for those who are involved in evaluating and using financial reporting information as well as for policymakers and regulators.

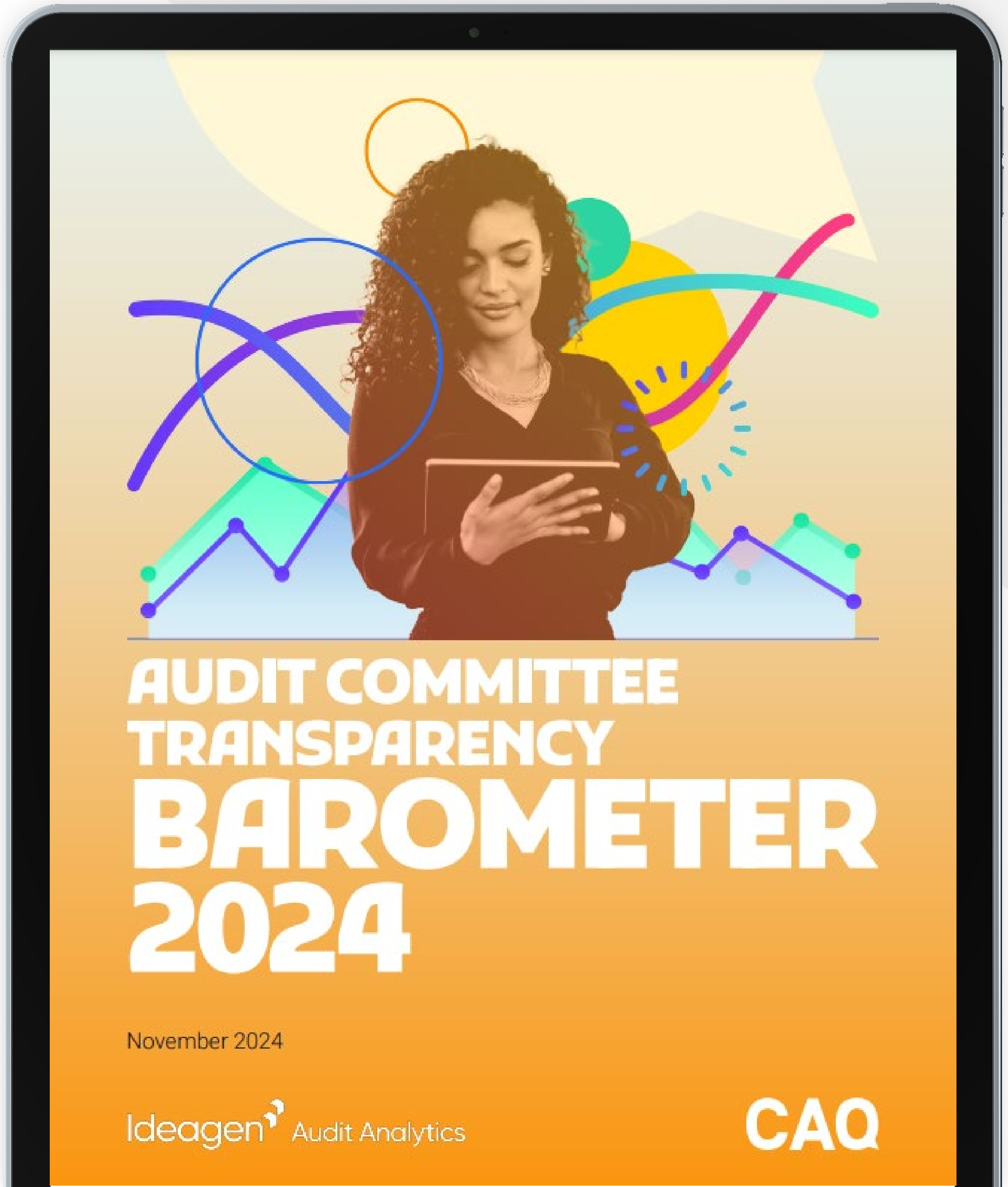


Access publication here

2024 Audit Committee Transparency Barometer

- The Center for Audit Quality's (CAQ) and Ideagen Audit Analytics' annual review of audit committee (AC) disclosures of companies in the S&P Composite 1500, which includes the S&P 500, S&P MidCap 400, and S&P SmallCap 600.
- The 11th publication highlights improvements in disclosures over time and stresses the importance of continued enhancement. It encourages ACs to avoid generic disclosures and offers leading examples and questions for improvement.
- **Key Takeaways:**

1. Disclosing a board skills matrix is a best practice. Whether a small, mid or large-cap, if you do not have a skills matrix disclosed, there is an opportunity to enhance your disclosure, consistent with your peers.
2. While there has been an observed long-term improvement in disclosure rates across several questions measured, 2024 saw a plateau. Yet, investors continue to want more, providing an opportunity for ACs to enhance disclosures on key matters to effectively tell the AC's story to investors.
3. Specifically, there is an opportunity to enhance AC disclosures related to discussion of:
   - AC considerations in appointing or (re) appointing the external auditor;
   - How length of tenure has been considered when reappointing the external auditor; and
   - How the AC evaluates audit fees in relation to audit quality.
4. The most dramatic increase in AC disclosures in 2024 is in cybersecurity and ESG board expertise and oversight.



2024 BDO Audit Innovation Survey

- BDO's Audit Innovation Survey underscores the importance of auditors leveraging technology to meet client demand, while critically understanding that technology cannot replace professional skepticism.
- Our survey of 200 finance leaders provides valuable insights into: (1) barriers to a smooth financial audit, (2) the connection between technology and trust, (3) AI usage in finance organizations, and (4) ways finance leaders are addressing the accounting talent shortage.
- Fast facts from the Survey:

80%

of respondents say compatibility issues with technology stacks remain top-of-mind challenges.

63%

of leaders say trust is somewhat/significantly enhanced for them and their key stakeholders when auditors use advanced tools, such as AI, robotic process automation, extract transform and load software, blockchain, and more.

84%

say they anticipate audit quality to improve with increased integration of audit technology

69%

of respondents say establishing data governance and internal data management is a barrier to a smooth audit experience.

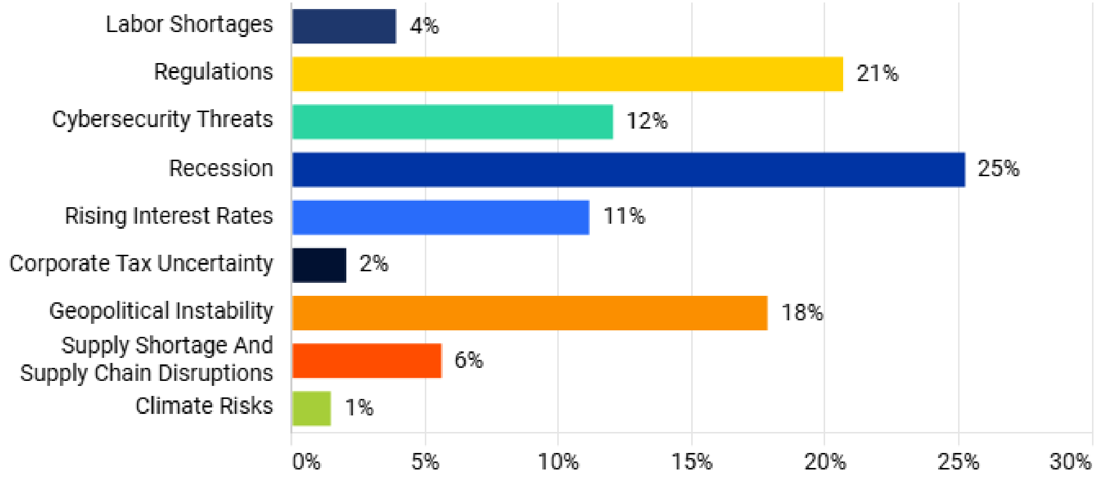
56%

say they will be investing more in technology due to emerging frameworks around AI

2024 Audit Partner Pulse Survey

- The CAQ's 3rd annual Audit Partner Pulse Survey gathers insights from audit partners at leading public company audit firms regarding the U.S. business environment. The survey covers topics such as U.S. economic health, business challenges, risks, and strategic adjustments by business leaders.
- For the first time since survey inception, geopolitical risks have emerged as one of the top economic concerns among audit partners for the coming year. A combination of factors—including ongoing conflicts in Ukraine and the Middle East and rising tensions in Taiwan and elsewhere in the Asia—Pacific region are contributing to increased market volatility.

What do you believe are the largest economic risks facing companies in your primary industry sector in the next 12 months?



CAQ CENTER FOR AUDIT QUALITY

Source: The Center for Audit Quality, 2024 Audit Partner Pulse Survey

IIA Global Internal Auditing Standards

Domain III Governing the IA Function

The Board/Audit Committee (AC), Senior Management, and head of Internal Audit (HIA) must establish an effective dialogue to enable an impactful IA function. For compliance, the HIA is responsible for requirements in the Domain, but is reliant on activities of the AC and Senior management, and these activities are identified as "essential conditions" in each standard.

Requirements of Domain III to be discussed with the AC and Senior Management:

- Purpose of IA: this ensures a common understanding of the value of internal auditing.
- Essential conditions specified within each of the *three* standards in Domain III
- Where essential conditions are not supported, the impact on the IA function's effectiveness.

Essential conditions include discussions and/or approvals covering (but not limited to):

- Authority, role, and responsibilities of the IA function
- What should be included in the IA Charter – mandate, scope, and types of IA services
- Budget and resources plans
- Internal and external quality assessments and improvement plans

To Do's

- If you have not done so already, perform a strategic review of the IA function
- As Topical Requirement guidance is released, incorporate into IA methodologies, policies, and procedures along with training and development plans

- Issued by the Institute of Internal Auditors in 2024, the global internal audit standards (GIAS) are effective as of 1/9/2025
- Mandatory: GIAS & Topical Requirements
- Supplemental: Global Guidance
- Elements: 5 Domains, guided by 15 principles and supported by standards that contain requirements, considerations for implementation, and examples of evidence of conformance

Resources:

- [IIA Global Internal Audit Standards]
- [BDO Insight: The New IIA Global Standards: What Now for Audit Committees?]

Regulating Artificial Intelligence

EUROPEAN UNION AI ACT

- Applies to all EU/non-EU businesses that place AI products on EU market as well as business w/in EU that use AI products
- Defined as any machine-based system that operates autonomously and can learn from input it receives, w/exceptions
- "AI Providers" (developers) have to comply with the most obligations
- "Deployers" (users) have to be transparent about use and content generated depending on level of risk
- Compliance:
  - 2/1/25: No use of prohibited AI
  - 8/1/25: Obligations for general purpose AI governance
  - 8/1/26: Most obligations, including some for high-risk AI systems, are applicable
  - 8/1/27: Other high-risk AI system obligations are applicable

U.S. AI REGULATIONS

- As of December 2024, no comprehensive federal legislation or regulations that regulate development of AI or specifically prohibit or restrict their use
- Existing U.S. laws have limited application to AI
- Numerous federal proposed laws and state bills and policies (CA, CO, CT, TX, UT etc.) including privacy laws currently in effect that apply to AI and GenAI if personal data is involved.
- Various frameworks and guidance exist – e.g.,
  - Whitehouse Executive Order on AI (2023)
  - Whitehouse Blueprint for an AI Bill of Rights
  - NIST AI Risk Management Framework

RESOURCES

- EU Artificial Intelligence Act
- BDO Global AI Legal Guide
- Ethical AI and Privacy Series: Article 2, The Regulations
- White & Case AI Watch: Global Regulatory tracker

ESG Reporting: A Primer On Key Regulatory Reporting Requirements For U.S. Based Entities

CAQ PUBLICATION

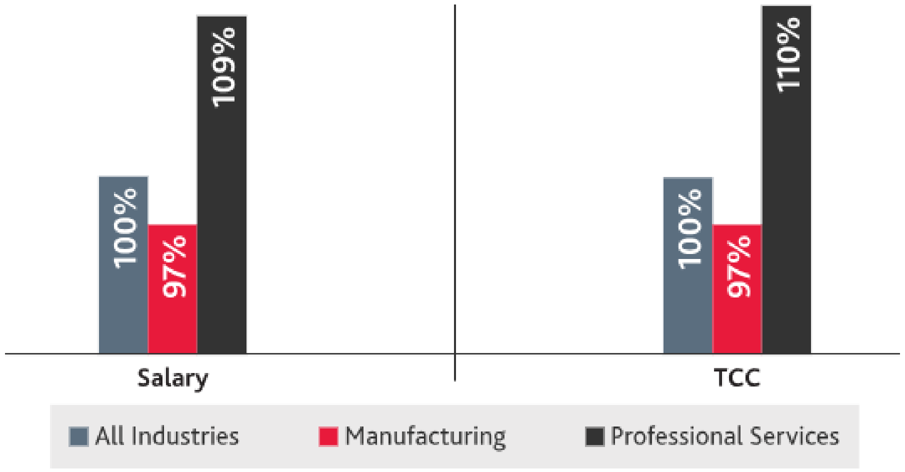
- Download the CAQ's publication here to gain insight into: California climate laws, SEC climate rules, European Union Corporate Sustainability Reporting Directive (CSRD), and IFRS Sustainability Disclosure Standards likely to impact U.S. entities.
- This publication discusses:
  - Ongoing developments that should be monitored
  - Practical implementation considerations

The BDO 600: Study of CEO and CFO Compensation Trends

- Industry is a key driver of compensation.
- On a salary basis, professional services CEOs earn 109% (a 9% premium) compared to all industry CEOs, while manufacturing CEOs earn 97% (a 3% discount) compared to all industry peers.
- The trend is similar for total cash compensation (TCC), with professional services CEOs receiving 110% compared to all industry CEOs (a 10% premium), and manufacturing CEOs, earning 97% (a 3% discount).

(NOTE BDO has controlled for size by focusing on companies with revenues between $100 million and $500 million)

Differential of Median CEO Pay by Industry Compared to Overall Private Company CEO Pay



Click here to access the publication

Resources

The BDO Center for Accounting and SEC Matters

BDO's Center for Accounting and SEC Matters recognizes that financial reporting and accounting are complex, and you need the right guidance and timely information to avoid making costly mistakes. We provide resources that cover topics of broad interest to CFOs, financial management and the financial reporting community. Our collection of practice aids, guides, alerts, webcasts and more will help you gain a deeper understanding of the finer points of financial reporting, while also keeping you informed on relevant updates from key regulators including AICPA, FASB, PCAOB and the SEC.

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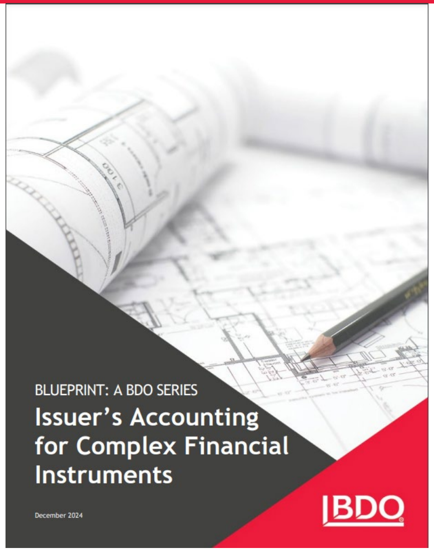
BDO’s Blueprint Publications

New and Amended Blueprints:

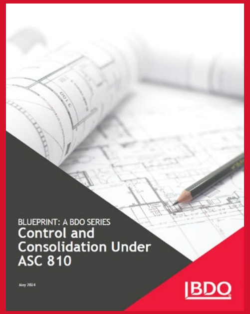
LINK TO THE COMPLEX FINANCIAL INSTRUMENTS BLUEPRINT



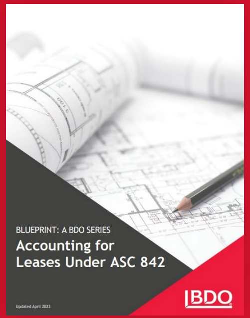
LINK TO THE UPDATED REVENUE RECOGNITION BLUEPRINT

Existing Blueprints:

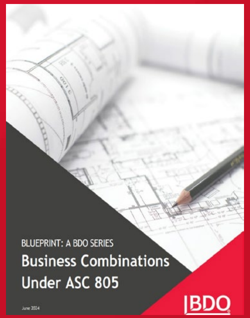
LINK TO THE CONTROL AND CONSOLIDATION BLUEPRINT



LINK TO THE LEASES BLUEPRINT



LINK TO THE BUSINESS COMBINATIONS BLUEPRINT



BDO Accounting and SEC
PUBLICATIONS

TITLE	DATE
BDO Blueprint: Issuer's Accounting for Complex Financial Instruments	Dec 2024
BDO Bulletin: Environmental Credit Programs (FASB Proposal)	Dec 2024
2024 AICPA SEC & PCAOB Conference Highlights	Dec 2024
BDO Bulletin: Induced Conversions of Convertible Debt Instruments	Nov 2024
FASB Finalizes ASU to Disaggregate Income Statement Expenses	Nov 2024
2024 SEC Reporting Insights	Oct 2024
New Accounting Standards Upcoming Effective Dates for Public and Private Companies	Oct 2024
New Segment Reporting Disclosures	Oct 2024
Accounting Changes and Error Corrections	Sept 2024
BDO Bulletin: SEC Staff Releases More Interpretive Guidance on Cybersecurity Incident Disclosure	June 2024
BDO Blueprint: Accounting for Business Combinations (ASC 805)	June 2024
BDO Bulletin: SEC Staff Statement on Cybersecurity Incidents Disclosure	May 2024
BDO Blueprint: Control and Consolidation Under ASC 810	May 2024
FASB Clarifies Scope Application of Profits Interest and Similar Awards	Mar 2024
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SEC Staff Releases New Interpretive Guidance on Cybersecurity Incident Disclosure	Dec 2023

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The BDO Center for Corporate Governance

BDO's Center for Corporate Governance recognizes board members need easy access to comprehensive information and insights they can rely on. Corporate governance and related risks and opportunities is an evolving landscape encompassing a variety of issues and requires subject matter professionals who engage regularly with stakeholders - including regulators, management, board members and thought leaders - and share information directly with client management teams, the board and its committees. Whether you are new to board service, assuming a new role or a seasoned director who wants to remain up to date, we have you covered.

Our governance team delivers

- Thought leadership, practice aids, tools, and newsletters
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BDO Corporate Governance & Other webcast Series

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Quarterly Technical Update
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UPCOMING	DATE
Quarterly Technical Update – Q1 2025	April 9, 10, 11 & 15, 2025
2025 Shareholder Meeting Agenda: Setting Expectations for Shareholder Meetings	February 26, 2025
2025 Board Committee Priorities	January 22, 2025
Q4 2024 IFRS Quarterly Update	January 22, 2025
ARCHIVED	**DATE**
2024 Board Compensation Trends and Year-End Planning Considerations	November 20, 2024
2024 BDO Fall Board Survey	October 30, 2024
Q3 2024 IFRS Quarterly Update	October 16, 2024
Q2 2024 IFRS Quarterly Update	July 17, 2024
Quarterly Technical Update Q2 2024	July 10, 2024
The Board's Oversight of Artificial Intelligence	May 22, 2024
Q1 2024 IFRS Quarterly Update	April 17, 2024

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BDO Board Governance

PUBLICATIONS

TITLE	DATE
Nomination and Governance Committee Priorities for 2025: Elevating Governance Amid a Shifting Landscape	Jan 2025
2024 BDO Board Survey	Sept 2024
2023 BDO Audit Quality Report	July 2024
Board Game: 3 Important Questions About Composition & Culture	May 2024
Audit Firm Business Models – What Audit Committees May Want to Know	Apr 2024
BDO Bulletin: SEC Finalizes Climate Rules	Mar 2024
2024 Shareholder Meeting Agenda	Feb 2024
Audit Committee Priorities for 2024	Feb 2024
What Directors Think 2024 Survey	Jan 2024
Compensation Committee Priorities for 2024: Navigating the Latest Compensation Trends	Jan 2024
2023 Conference Recap: Five Themes from the Top Board Governance Events	Dec 2023
Nominating & Governance Committee Priorities for 2024: Excelling in Board Leadership	Dec 2023
2023 Audit Committee Transparency Barometer	Dec 2023
Audit Quality Reminders Through the Lens of the Audit Committee	Oct 2023
Considerations for the Board's Role in Post Merger Integration	Sept 2023

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