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Accounting, financial reporting, and regulatory developments

FOURTH QUARTER 2024

This update highlights some of the more important 2024 fourth quarter accounting, financial reporting, and regulatory developments that may impact both public and private companies. The content is not meant to be all-inclusive.

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Accounting guidance

Accounting guidance issued in fourth quarter 2024

ASU 2024-04 Debt — *Debt with Conversion and Other Options (Subtopic 470-20) Induced Conversions of Convertible Debt Instruments* was issued to improve the relevance and consistency in application of the induced conversion guidance. The update clarifies the requirements for determining whether certain settlements of convertible debt instruments should be accounted for as an induced conversion. Under the new guidance, in order for a settlement to be accounted for as an induced conversion, the inducement offer must provide the debt holder with at least the consideration (in form and amount) issuable under the terms of the original instrument. The update also requires that if an instrument is modified within one year of the inducement offer, the entity would compare the terms of the inducement offer to terms in effect one year before the offer (unless the modification results in the instrument being considered substantially different from the original instrument.) The amendments also clarify the following items:

- *The incorporation, elimination, or modification of a volume weighted average price formula does not automatically cause a settlement to be accounted for as an extinguishment.*
- *The induced conversion guidance applies to a convertible debt instrument that is not currently convertible as long as it has a substantive conversion feature as of the issuance date and as of the date the inducement offer is accepted.*

The new guidance will be effective for all entities for annual reporting periods beginning after Dec. 15, 2025, and interim reporting periods with those annual reporting periods. Entities have the option to adopt the amendments either prospectively or retrospectively. Early adoption is permitted for all entities that have adopted the amendments in Update 2020-06.

ASU 2024-03 — *Income Statement — Reporting Comprehensive Income Expense Disaggregation Disclosures (Subtopic*

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220-40) Disaggregation of Income Statement Expenses requires disclosure, in the notes of the financial statements, of specified information about certain costs and expenses. The update requires an entity to disclose the following information each interim and annual reporting period:

1. *Disclose the amounts of (a) purchase of inventory, (b) employee compensation, (c) depreciation, (d) intangible asset amortization, & (e) depreciation, depletion, & amortization recognized as part of oil & gas-producing activities (DD&A) (or other amounts of depletion expense) included in each relevant expense caption. A relevant expense caption is an expense caption presented on the face of the income statement within continuing operations that contains any of the expense categories listed in (a)–(e).*

2. *Include certain amounts that are already required to be disclosed under current generally accepted accounting principles (GAAP) in the same disclosure as the other disaggregation requirements.*

3. *Disclose a qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively.*

4. *Disclose the total amount of selling expenses and, in annual reporting periods, an entity's definition of selling expenses.*

The new guidance applies to public business entities and will be effective for all entities for annual periods beginning after Dec. 15, 2026, and interim periods in annual periods beginning after Dec. 15, 2027[1]. Early adoption is permitted.

[1] *The interim effective date reflects the clarification made in ASU 2025-01 Income Statement — Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40) — Clarifying the Effective Date.*

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Regulatory update

SEC chief accountant's remarks before the 2024 AICPA & CIMA Conference

At the AICPA & CIMA Conference on Current SEC and PCAOB developments, SEC Chief Accountant Paul Munter emphasized the importance of ethical responsibility and serving the public. During his speech, Mr. Munter emphasized the importance of companies providing high-quality information to investors and the need to view financial reporting as a key communication activity with investors and not simply as a compliance activity.

Mr. Munter highlighted in his speech that in order to continue to attract and retain talented individuals who are dedicated to serving in the public interest our professionals need to remember the importance of maintaining a strong and ethical tone. And to remember that our profession matters, not just to the issuer that engages our business but to the investors and the public as a whole.

Cybersecurity Reminder at the 2024 AICPA & CIMA Conference

Speakers at the 2024 AICPA & CIMA Conference: Current SEC and PCAOB Developments reminded registrants of the new rules requiring registrants to report material cybersecurity incidents under Item 1.05, *Material Cybersecurity Incidents,* of Form 8-K within four business days of determining the incident was material. Since only material cybersecurity incidents are required to be disclosed, speakers emphasized the importance of entities establishing a materiality policy and applying it consistently. The materiality should consider both the qualitative and quantitative factors of a cyber event.

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SEC adopts rule amendments to the broker-dealer customer protection rule

The SEC adopted amendments to Rule 15c3-3 (the customer protection rule) to require certain broker-dealers to increase the frequency with which they perform computations of the net cash they owe to customers and other broker-dealers (known as PAB account holders) from weekly to daily. The Commission also adopted amendments to Rule 15c3-3 and Rule 15c3-1 (the broker-dealer net capital rule) to permit certain broker-dealers that perform a daily customer reserve computation to decrease the required 3% "buffer" in the customer reserve bank account by reducing the customer-related receivables, or "aggregate debit items," charge from 3% to 2% in the computation.

Broker-dealers may have large deposit requirements that indicate that there may be times when the net amount of cash owed to customers and PAB account holders is substantially greater than the amounts on deposit in the special reserve bank accounts. The amendments will require broker-dealers with average total credits (the amount of cash they owe customers and PAB account holders) equal to or greater than $500 million to make the computations necessary to determine the amounts required to be deposited in the customer and PAB reserve bank accounts daily, as of the close of the previous business day. The amendments will more quickly apply the protective measures of the Rule 15c3-3 reserve requirements to cash of customers and PAB account holders that is newly deposited into the broker-dealer. This will reduce the risk that, if the broker-dealer fails financially, it may be unable to promptly return cash and securities to customers and PAB account holders through an orderly self-liquidation.

The amendments also recognize that the enhancements to the customer protection measures of Rule 15c3-3 through a daily reserve computation warrant a corresponding reduction of the 3% "buffer" that certain broker-dealers must include as part of their customer reserve computation to 2%.

The amendments will become effective 60 days after the date of publication of the adopting release in the Federal Register. Broker-dealers that exceed the $500 million threshold using each of the 12 filed month-end Financial and Operational Combined Uniform Single (FOCUS) Reports from July 31, 2024, through June 30, 2025, must perform the customer and PAB reserve computations daily beginning no later than Dec. 31, 2025 (i.e., six months after June 30, 2025). When the amendments are effective, a carrying broker-dealer may voluntarily perform a daily customer reserve computation and apply the 2% aggregate debit items reduction, provided it notifies its designated examining authority in writing at least 30 calendar days prior.

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SEC modernizes the submission of certain forms, filings, and materials under Securities Exchange Act of 1934

The SEC adopted amendments to require the electronic filing, submission, or posting of certain forms, filings, and other submissions that national securities exchanges, national securities associations, clearing agencies, broker-dealers, security-based swap dealers, and major security-based swap participants make with the Commission.

Prior to the amendments, registrants filed with, or otherwise submitted to, the Commission many Exchange Act forms, filings, or other materials in paper form. Under the amendments, registrants will make these filings and submissions electronically using the Commission's EDGAR system, in structured data format where appropriate, or by posting them online. The Commission is also adopting amendments regarding the FOCUS Report to harmonize with other rules and forms, make technical corrections, and provide clarifications.

The adopting release is published on SEC.gov and will be published in the Federal Register. The effective date for these amendments is 60 days after the release is published in the Federal Register. The compliance dates for these amendments vary depending on the applicable form or rule but range from 60 days after the release is published in the Federal Register to on or after June 30, 2028.

SEC small business advocacy office delivers report to congress on capital raising for startups to small public companies

The SEC's Office of the Advocate for Small Business Capital Formation issued its 2024 Annual Report today to Congress and the Commission. The report is a comprehensive and data-packed resource on the dynamics of capital raising across the country. Its contents include:

- *Data on small business capital formation, broken down by:*
  - *Small & emerging businesses.*
  - *Mature & later-stage businesses.*
  - *Initial public offerings & small public companies.*
  - *Women founders & investors.*
  - *Diverse founders & investors.*
  - *Natural disaster areas.*
  - *Rural communities.*
- *Policy recommendations from the office.*
- *Highlights of the office's advocacy work & public engagements from fiscal year 2024.*
- *Summary of the SEC Small Business Capital Formation Advisory Committee's fiscal year 2024 activities.*

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The Office of the Advocate for Small Business Capital Formation, an independent office of the SEC, works to help advance and advocate for the interests of small businesses and their investors. Based on feedback received through the team's continuous public outreach, the office has developed and continues to expand its suite of educational resources to help equip small businesses and their investors with tools to navigate capital raising. Through its engagement efforts and other activities, the office proactively works to identify and address unique challenges faced by diverse founders and their investors.

SEC Division of Examinations announces 2025 priorities

The SEC Division of Examinations released its 2025 examination priorities. The Division publishes its examination priorities annually to inform investors and registrants of potential risks in the U.S. capital markets and to make them aware of the examination topics that the Division plans to focus on in the new fiscal year. This year's examinations will prioritize perennial and emerging risk areas, such as fiduciary duty, standards of conduct, cybersecurity, and artificial intelligence.

The Division examines SEC-registered investment advisers, investment companies, broker-dealers, clearing agencies, and self-regulatory organizations, among others, for compliance with federal securities laws. The Division prioritizes examinations of the practices, products, and services that were found, through a risk-based assessment, to present a heightened risk to investors or the integrity of the U.S. capital markets. The annual publication of the examination priorities furthers the SEC's mission and aligns with the Division's four pillars to promote and improve compliance, prevent fraud, monitor risk, and inform policy.

For fiscal year 2025, in addition to conducting examinations in core areas such as disclosures and governance practices, the Division will also examine for compliance with new rules, the use of emerging technologies, and the soundness of controls intended to protect investor information, records, and assets.

The 2025 examination priorities cover a broad landscape of potential risks to investors that firms should consider as they review and strengthen their compliance programs. They are not, however, an exhaustive list of all the areas the Division will focus on in the upcoming year. The scope of any examination includes analysis of other risk factors such as an entity's history, operations, and products and services.

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Standards adoption

Standards issued in 2024

Final ASU	Early adoption	Effective date
ASU 2024-04: *Debt — Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments*	Yes	Effective for all entities for fiscal years beginning after Dec. 15, 2025, including interim periods within those fiscal years. Early adoption is permitted for all entities that have adopted the amendments in Update 2020-06.
ASU 2024-03: *Income Statement — Reporting Comprehensive Income — Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expense*	Yes	Effective for all entities for fiscal years beginning after Dec. 15, 2026, and interim periods in annual periods beginning after Dec. 15, 2027.
ASU 2024-02: *Codification Improvements — Amendments to Remove References to the Concepts Statements*	Yes	**Public:** Annual periods beginning after Dec. 15, 2024, including interim periods within those fiscal years. **Nonpublic:** Annual periods beginning after Dec. 15, 2025, including interim periods within those fiscal years.
ASU 2024-01: *Compensation — Stock Compensation (Topic 718) — Scope Application of Profits Interests and Similar Awards*	Yes	**Public:** Annual periods beginning after Dec. 15, 2024, including interim periods within those fiscal years. **Nonpublic:** Annual periods beginning after Dec. 15, 2025, including interim periods within those fiscal years.

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Standards issued in prior years effective 2024 or after

Final ASU	Early adoption	Effective date
ASU 2023-09: *Income Taxes (Topic 740) — Improvements to Income Tax Disclosures*	Yes	**Public:** Annual periods beginning after Dec. 15, 2024. **Nonpublic:** Annual periods yeas beginning after Dec. 15, 2025.
ASU 2023-08: *Intangibles — Goodwill and Other — Crypto Assets (Subtopic 350-60) — Accounting for and Disclosure of Crypto Assets*	Yes	Effective for all entities for fiscal years beginning after Dec. 15, 2024, including interim periods within those fiscal years.
ASU 2023-07: *Segment Reporting (Topic 280) — Improvements to Reportable Segment Disclosures*	Yes	Effective for all entities that are required or elect to disclose segment information for fiscal years beginning after Dec. 15, 2023, and interim periods beginning in fiscal years beginning after Dec. 15, 2024.*,**
ASU 2023-06: *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*	No	**SEC registrants or other entities subject to SEC disclosure requirements:** Effective date based on date on which the SEC removes the related disclosure from Regulation S-X or Regulation S-K. **All other entities:** the amendments will be effective two years after the effective date for entities following the SEC disclosure requirements.
ASU 2023-05: *Business Combinations — Joint Venture Formations (Subtopic 805-60) — Recognition and Initial Measurement*	Yes	Effective for all joint ventures with a formation date on or after Jan. 1, 2025.
ASU 2023-02: *Investments — Equity Method and Joint Ventures (Topic 323) — Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*	Yes	**Public:** Fiscal years beginning after Dec. 15, 2023, and interim periods within those fiscal years.** **Nonpublic:** Fiscal years beginning after Dec. 15, 2024, and interim periods within those fiscal years.
ASU 2023-01: *Leases (Topic 842): Common Control Arrangements*	Yes	Effective for all entities for fiscal years beginning after Dec. 15, 2023, and interim periods within those fiscal years.*,**
ASU 2022-06: *Reference Rate Reform (Topic 848) — Deferral of the Sunset Date of Topic 848*	N/A	Effective upon issuance. Sunset date of Topic 848 is extended to Dec. 31, 2024.*,**
ASU 2022-05: *Financial Services — Insurance (Topic 944) — Transition for Sold Contracts*	Yes	**SEC registrants (excluding entities that qualify as SRCs):** Fiscal years beginning after Dec. 15, 2022, including interim periods within those fiscal years.** **All other entities:** Fiscal years beginning after Dec. 15, 2024, and interim periods beginning in fiscal years beginning after Dec. 15, 2025.

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Final ASU	Early adoption	Effective date
ASU 2022-03: *Fair Value Measurements (Topic 820) — Fair Value Measurement of Equity Securities Subject to Contractual Sales Restrictions*	Yes	**Public:** Fiscal years beginning after Dec. 15, 2023, and interim periods within those fiscal years.** **Nonpublic:** Fiscal years beginning after Dec. 15, 2024, and interim periods within those fiscal years.
ASU 2022-01: *Derivatives and Hedging (Topic 815) — Fair Value Hedging — Portfolio Layer Method*	Yes	**Public:** Fiscal years beginning after Dec. 15, 2022, and interim periods within those fiscal years. **Nonpublic:** Fiscal years beginning after Dec. 15, 2023, and interim periods within those fiscal years.*
ASU 2021-08: *Business Combinations (Topic 805) — Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*	Yes	**Public:** Fiscal years beginning after Dec. 15, 2022, and interim periods within those fiscal years. **Nonpublic:** Fiscal years beginning after Dec. 15, 2023, and interim periods within those fiscal years.*
ASU 2020-11: *Financial Services — Insurance (Topic 944): Effective Date and Early Adoption*	Yes	**SEC registrants (excluding entities that qualify as SRCs):** Fiscal years beginning after Dec. 15, 2022, including interim periods within those fiscal years.** **All other entities:** Fiscal years beginning after Dec. 15, 2024, and interim periods beginning in fiscal years beginning after Dec. 15, 2025.
ASU 2020-06: *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*	Yes — but no earlier than fiscal years beginning after Dec. 15, 2020	**SEC registrants (excluding entities eligible to be SRCs):** Fiscal years beginning after Dec. 15, 2021, and interim periods within those fiscal years. **All other entities:** Fiscal years beginning after Dec. 15, 2023, and interim periods within those fiscal years.*
ASU 2018-12: *Financial Services — Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*	Yes	**SEC registrants (excluding entities eligible to be SRCs):** Fiscal years beginning after Dec. 15, 2022, and interim periods within those fiscal years. **All other entities:** Fiscal years beginning after Dec. 15, 2024, and interim periods beginning after Dec. 15, 2025.

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***Effective 2024 for public business entities*