



Accounting, financial reporting, and regulatory developments

THIRD QUARTER 2025

This update highlights some of the more important 2025 third quarter accounting, financial reporting, and regulatory developments that may impact both public and private companies.

The content is not meant to be all-inclusive.

Accounting guidance

Accounting guidance issued in third quarter 2025

ASU 2025-07 *Derivatives and Hedging (Topic 815) and Revenue from Contracts with Customers (Topic 606): Derivatives Scope Refinements and Scope Clarification for Share-Based Noncash Consideration from a Customer in a Revenue Contract* was issued to provide an additional scope exception to the definition of a derivative to reduce the number of contracts that qualify as derivatives and clarify what guidance should be applied when an entity receives share-based noncash consideration from a customer in a revenue transaction.

DERIVATIVE SCOPE REFINEMENTS

The ASU added a new scope exception to exclude certain contracts from being accounted for as derivatives if those contracts aren't traded on an exchange and have an underlying that's based on operations or activities specific to one of the parties to the contract. However, the scope exception doesn't apply to the following:

- *Variables based on a market rate, market price, or market index.*
- *Variables based on the price or performance of a financial asset or financial liability of one of the parties to the contract.*
- *Contracts/features involving the issuer's own equity that are evaluated under ASC 815-40.*
- *Call options and put options on debt instruments.*

SCOPE CLARIFICATION FOR SHARE-BASED NONCASH CONSIDERATION

The ASU also clarified that when an entity receives a share-based payment from a customer as consideration for goods or services, the share-based payment should be accounted for as a noncash consideration within the scope of ASC 606. Once the entity's right to receive or retain the share-based noncash consideration becomes unconditional under ASC 606, the entity would then apply other applicable guidance (e.g., ASC 321, ASC 815, etc.) based on the nature of the noncash consideration received.

The guidance will be effective for interim and annual periods for financial years beginning after Dec. 15, 2026. Entities have the option to apply the guidance on either a prospectively or on a modified retrospective basis. Early adoption is permitted.



ASU 2025-06 *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software* was issued to modernize the accounting for internally developed software to be more consistent with the current processes used to develop software. This update removes references to software development stages (referred to as “project stages”) as those previously defined stages were generally inconsistent with how software is developed in the current environment. Instead of basing capitalization decisions on the project stage, the new guidance requires entities to begin capitalizing software costs when both of the following occur:

1. *Management has authorized and committed to funding the software project.*
2. *It’s probable that the project will be completed and the software will be used to perform the function intended (referred to as the “probable-to-complete recognition threshold”).*

Assessing whether the threshold for probable-to-complete recognition has been met requires an entity to apply judgment when evaluating whether there’s significant development uncertainty. The factors to consider in determining whether there’s significant development uncertainty are whether:

1. *The software being developed has technological innovations or novel, unique, or unproven functions or features, and the uncertainty related to those technological innovations, functions, or features, if identified, has not been resolved through coding and testing.*
2. *The entity has determined what it needs the software to do (e.g., functions or features), including whether the entity has identified or continues to substantially revise the software’s significant performance requirements.*

The guidance will be effective for interim and annual periods for financial years beginning after Dec. 15, 2027. Entities may apply the guidance prospectively, retrospectively, or via a modified prospective transition method. Early adoption is permitted.

ASU 2025-05 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets* was issued to reduce the cost and complexity of determining the allowance for credit losses for current accounts receivable and current contract assets arising from transactions accounted for under *Topic 606 – Revenue from Contracts with Customers*. To reduce the cost and complexity, this ASU introduces a practical expedient for all entities and an accounting policy election for entities other than public business entities.



PRACTICAL EXPEDIENT

The practice expedient allows an entity to assume current conditions as long as the balance sheet date does not change for the asset. Historically, when determining expected losses, entities were required to consider the following:

- *Historical losses*
- *Adjustments for current conditions*
- *Adjustments for reasonable and supportable forecasts*

If an entity elects to apply the practical expedient, then it would no longer need to make adjustments for reasonable and supportable forecasts and would only be required to consider the following in estimating expected losses:

- *Historical losses*
- *Adjustments for current conditions*

The practical expedient only applies to current accounts receivable and current contract assets. Therefore, if an entity has noncurrent accounts receivable or contract assets, it wouldn't be eligible to apply this practical expedient. If an entity elects to apply the practical expedient, it should be applied consistently to all current accounts receivable and current contract assets.

ACCOUNTING POLICY ELECTION

In addition to the practical expedient above, the ASU introduces an accounting policy election for entities that aren't public business entities. The new accounting policy election allows entities to consider collection activity after the balance sheet date when estimating expected credit losses on current account receivable and current contract assets.

When applying this accounting policy election, entities can select a date after the balance sheet date but before the financial statements are available to be issued to consider subsequent collection activity. For the amounts collected during that time period, the entity would base its expected losses on the actual collection activity. For any current accounts receivable not collected as of the date selected, the entity would determine the amount of expected losses using the practical expedient discussed above based on the delinquency status as of the date used to evaluate subsequent collections through.

The guidance will be effective for interim and annual periods for financial years beginning after Dec. 15, 2025. Early adoption is permitted for financial statements that haven't yet been issued (or made available for issuance). Entities should apply the new guidance prospectively.



Regulatory update

Staff issues FAQs to help broker-dealers implement financial responsibility requirements related to U.S. Treasury clearing

The Securities and Exchange Commission’s Division of [Trading and Markets](#) recently issued answers to frequently asked questions (FAQs) that broker-dealers have posed to the staff regarding rule amendments to the customer protection rule related to the clearing of U.S. Treasury securities.

Separately, Chairman Paul S. Atkins announced that Commissioner Mark T. Uyeda will lead the agency’s continued efforts related to central clearing of U.S. Treasuries.

“It is critical that the transition to clearing U.S. Treasury securities goes smoothly,” said Chairman Atkins. “To that end, I am pleased Commissioner Uyeda has agreed to coordinate the ongoing work being done across the SEC to prepare. Industry has raised a number of areas where the transition effort could benefit from further guidance, and today the staff made progress on providing clarification. There’s work still to be done, both at the agency and within industry, and Commissioner Uyeda and I look forward to engaging with stakeholders to make sure we get this right.”

Commissioner Uyeda said, “The U.S. Treasury market plays a key role in global finance and is of central importance to our country and the world. The SEC is committed to engaging with market participants, central banks, and fellow regulators to make sure the policies we implement enhance the Treasury market’s functioning.”



SEC continues efforts to assist market participants during implementation of U.S. Treasury clearing rules

The Securities and Exchange Commission has [enhanced its efforts](#) to assist broker-dealers and other market participants on the path to central clearing of U.S. Treasury securities, developing a one-stop webpage that puts the latest status updates, staff statements, and other related materials at their fingertips.

The SEC adopted the rule changes in December 2023. To provide additional time for further engagement on compliance, operational, and interpretive questions, and to facilitate an orderly implementation of the rules, the Commission extended the original compliance dates and announced its continuing readiness to engage with market participants on compliance, operational, and interpretive questions.

SEC Commissioner Mark T. Uyeda, whom Chairman Paul S. Atkins has tasked with leading the agency's initiative to facilitate the transition to clearing U.S. Treasury securities, issued an update, emphasizing the agency's continued focus on getting implementation right.

"Changes to the U.S. Treasury market must be done carefully and deliberatively to avoid disruption," the statement said. "Accordingly, Commission staff, in close collaboration with colleagues at other financial federal regulators, and a broad set of market participants have been diligently working toward implementing the Treasury Clearing rule."

The SEC's webpage dedicated to U.S. Treasury clearing implementation is intended to provide market participants with streamlined access to relevant SEC staff statements, including answers to frequently asked questions, and other related materials to facilitate clarity, transparency, and efficiency during the transition process.

The Division of Trading and Markets has issued answers to frequently asked questions regarding the applicability of the U.S. Treasury clearing rule to certain general collateral triparty repos, which are also referred to as mixed CUSIP triparty repos.

Other related materials accessible from the new webpage include applications filed by entities seeking registration as clearing agencies to provide central counterparty services for the U.S. Treasury market and proposed rule changes filed by self-regulatory organizations related to the U.S. Treasury clearing rules.



Standards adoption

Standards issued in 2025

Final ASU	Early adoption	Effective date
ASU 2025-07: <i>Derivatives and Hedging (Topic 815) and Revenue from Contracts with Customers (Topic 606): Derivatives Scope Refinements and Scope Clarification for Share-Based Noncash Consideration from a Customer in a Revenue Contract</i>	Yes	Effective for all entities for fiscal years beginning after Dec. 15, 2026, and interim periods in within those annual reporting periods.
ASU 2025-06: <i>Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software</i>	Yes	Effective for all entities for fiscal years beginning after Dec. 15, 2027, and interim periods in within those annual reporting periods.
ASU 2025-05: <i>Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets</i>	Yes	Effective for all entities for fiscal years beginning after Dec. 15, 2026, and interim periods in within those annual reporting periods.
ASU 2025-04: <i>Compensation – Stock Compensation (Topic 718) and Revenue from Contracts with Customer (Topic 606): Clarifications to Share-Based Consideration Payable to a Customer</i>	Yes	Effective for all entities for fiscal years beginning after Dec. 15, 2025, and interim periods in within those annual reporting periods.
ASU 2025-03: <i>Business Combinations (Topic 805) and Consolidation (Topic 810): Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity</i>	Yes	Effective for all entities for fiscal years beginning after Dec. 15, 2026, and interim periods in within those annual reporting periods.
ASU 2025-02: <i>Liabilities (405): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 122</i>	Yes	The amendments in this update are effective immediately and on a fully retrospective basis to annual periods beginning after Dec. 15, 2024.
ASU 2025-01: <i>Income Statement – Reporting Comprehensive Income-Expense Disaggregation Disclosures (Subtopic 220-40): Clarifying the Effective Date</i>	Yes	Effective for all entities for fiscal years beginning after Dec. 15, 2026, and interim periods in annual periods beginning after Dec. 15, 2027.

*Effective 2025 for nonpublic companies
**Effective 2025 for public business entities

Standards issued in prior years effective 2025 or after

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. ¹
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.
ASU 2023-09: Income Taxes (Topic 740) – Improvements to Income Tax Disclosures	Yes	Public: Annual periods beginning after Dec. 15, 2024.** Nonpublic: Annual periods 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.

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.

*Effective 2025 for nonpublic companies
**Effective 2025 for public business entities

Final ASU	Early adoption	Effective date
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 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.**
ASU 2022-03: Fair Value Measurement (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 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 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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