SEC Issues & Trends

AICPA & CIMA Conference on Current SEC and PCAOB Developments

December 2024

Three days of discussion and analysis

Over the course of the conference (Dec 9-11), we heard from regulators, standard-setters and practitioners.

SEC Commissioner Mark Uyeda discussed how he sees the SEC's priorities shifting under the incoming Administration, with a renewed emphasis on one of the SEC's core tenets of its three-part mission – to facilitate capital formation.

Otherwise, there were no real surprises this year, but an emphasis was placed on how existing rules and regulations apply to emerging issues.

SEC Chief Accountant Paul Munter underscored the profession's need for an unwavering commitment to the public interest and emphasized the critical role of high-quality financial reporting, including audit quality.

PCAOB Chair Erica Williams echoed that messaging, with firm culture heard as an overarching theme in the drive to continually enhance audit quality.

FASB Chair Richard Jones announced the FASB's imminent Agenda Consultation, providing examples of how stakeholder feedback really does influence the Board's decision-making.

Corp Fin provided reminders on some familiar topics – such as MD&A disclosures and the new segments reporting standard – and spoke to disclosures in emerging areas such as AI, cybersecurity and Pillar Two.

Securities lawyers provided interesting perspectives on the incoming Administration, cybersecurity disclosures and best practices for disclosure controls and procedures.

This highlights summary provides an easy-to-digest snapshot of select discussions, organized by theme. Key issues that we think should be top of mind as we head into the 2024 reporting season and calendar 2025.

For more insights about the discussions, see our full listing of conference blogs and podcasts published on KPMG Financial Reporting View.

And as you prepare for 2024 year-end reporting, register for our SEC update webcast on January 23 or 24 (1.5 CPE).

Timothy Brown
SEC Regulatory Matters Topic Team Leader

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Abbreviations ▶

1. Top takeaways

KPMG unequivocally supports the profession's unwavering commitment to the public interest and we understand our critical role in supporting high-quality financial reporting, including audit quality.

Disclosure controls and procedures

Reminders about DCP were pervasive – and timely in the face of emerging issues such as AI and cybersecurity. Companies are advised to carefully consider the use of aspirational statements, involve those most knowledgeable on the topics and notify senior leaders timely.

Segment reporting standard goes live

Corp Fin reminded companies of the ground rules for applying certain provisions of the final ASU. And while auditors are responsible for auditing to US GAAP, they are not responsible for auditing companies' compliance with the SEC's non-GAAP rules.

How to analyze a complex accounting issue

OCA reminded companies that high quality application of the accounting standards requires grounding the analysis in the standards themselves. Reasonable judgment should be applied based on a company's specific facts and circumstances, including the economic substance.

Work to be done on cybersecurity

Early observations on initial compliance with the SEC's cybersecurity disclosure rules highlight the need for the right oversight structure – including timely information, thorough documentation and ensuring that disclosures remain accurate and reflect the overall health of the company.

What the future might hold

SEC Commissioner Mark Uyeda laid out his three priorities for a future SEC focused on facilitating capital formation:

- Don't use enforcement and staff action to set standards.
- Reduce regulatory friction to reduce the cost of being or going public.
- Carry out a retrospective review of the PCAOB.

2. Looking into the crystal ball

Commissioner Uyeda laid out his vision of the SEC's future focus under Chair-nominee Paul Atkins: above all, facilitate capital formation. Securities lawyers also weighed in.

Ideas to promote capital formation

- Don't use enforcement and staff action to set standards.
  - Example: Withdraw SAB 121 (crypto assets) and let FASB consider the issues.
- Reduce regulatory friction to reduce the cost of being or going public.
  - Examples: Revisit outdated rules that may be difficult to follow for the average investor; place emphasis on cost/benefit analyses and financial materiality.
- Carry out a retrospective review of the PCAOB.
- Continue enforcement efforts but possibly reduce compliance-related cases and monetary penalties sought in such actions.

Timeline for the new Administration

Now

Expect business as usual.

Jan 20

Following inauguration, expect appointment of Acting Chair, who has substantial authority and therefore the ability to take decisive action to set the Commission's priorities.

Apr/May

Following the Chair's appointment, expect renewed focus on capital formation.

The future of the profession

Our profession must ensure that the next generation considers accounting a rewarding career. We believe it should be less cumbersome and costly to earn a CPA.

Further, we strongly support inter-state license transfer as a safeguard for CPAs and businesses alike, ensuring the profession remains adaptive and responsive to the needs of a national economy.

Read KPMG US Chair & CEO Paul Knopp's op-ed in the Wall Street Journal.

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3. High quality everything

Credibility and trustworthiness across the profession are critical in protecting both investors and the integrity of the capital markets. They require a shared commitment to quality in all areas.

Example: Culture to the bone

- Moving beyond ‘tone at the top’, SEC representatives delivered important messages about culture:
  - Academic research shows that behavior is driven by the people directly around you.
  - Therefore, a strong internal control environment based on collaboration and professional skepticism requires attention to the ‘mood in the middle’ and ‘buzz at the bottom’.
  - Whistleblowers should feel encouraged to speak up about any wrongdoing they observe without fear of retaliation.
- A thorough and thoughtful fraud risk assessment by both management and the auditors is important.

Example: 101 on applying the standards

SEC Chief Accountant Paul Munter reminded that high quality application of the accounting standards is all about **you**:

1. Base *your* analysis in authoritative guidance, specifically the accounting standards.
2. Apply reasonable judgment based on *your* specific facts and circumstances.
3. When looking to nonauthoritative guidance (e.g. publications), *you* remain responsible for ensuring the financial reporting outcome is:
   - consistent with the principles of the accounting standards; and
   - relevant to *your* specific facts and circumstances, including the economic substance of the transaction.

Additional resources

Conference blog, High-quality everything drives investor trust

Learn more about KPMG’s Values and approach to culture in our Audit Quality and Transparency Reports

4. DCP a common theme

Inadequate DCP can lead to repeated failures, which would subject a company to potential SEC enforcement and civil liability claims by shareholders.

Corp Fin MD&A expectations

- Inadequate **cybersecurity** disclosures (see #7) are a basis for enforcement action.
- Accurate and tailored disclosures about the use of **AI** (see #8) in day-to-day operations are important.
- Disclosures about material changes in a company's **liquidity position** should not be limited to the disclosure of variances in the cash flow statement.
- **Negative operating cash flows** require detailed disclosures about the ability to fund operations.
- Include **warning disclosures** about the likely impact of known regulatory changes such as Pillar Two (see #9).

Some best practices

- Carefully consider the use of aspirational statements – e.g. disclosures about human capital, the use of AI, cybersecurity practices.
- Evaluate whether adequate procedures and controls exist related to reviewing and updating disclosures for accuracy.
- Examine the adequacy of procedures in reporting matters timely to senior leaders.
- In addition to legal counsel and senior management, involve personnel most knowledgeable on a particular topic in the review of disclosures.

Additional resources

Conference blogs:

- Corp Fin observations ahead of year-end reporting
- Corp Fin and securities lawyers talk cyber disclosures

KPMG Handbook, Internal control over financial reporting

KPMG Board Leadership Center resources, Compliance and controls

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5. New standards alert

Narrowing in on the interplay between segments and DISE may offer insights into financial performance while promoting consistency and comparability across disclosures.

This year: segment reporting

Ahead of implementation this year-end, Corp Fin had some last reminders on ASU 2023-07:

- The staff will not object to the inclusion of a non-GAAP segment performance measure when a company complies with ASC 280 and Reg G and Item 10(e) of Reg S-K.
- Companies should ensure their ICFR and DCP are appropriately designed for segment disclosures.
- Auditors are responsible for auditing to US GAAP, but not compliance with the SEC's non-GAAP rules.
- The staff's objection to a non-GAAP segment performance measure based solely on the SEC's non-GAAP rules may not warrant a restatement.

Get ready for DISE

ASU 2024-03, Disaggregation of Income Statement Expenses, is effective for annual periods beginning after December 15, 2026.

Preparers gave their insights:

- Although the standard is not effective until the 2027 filing season, a lot of preparatory work is required.
- Tasks include identifying expense categories to disclose, modifying IT systems to capture those categories, evaluating ICFR, and crafting disclosure language.
- Notwithstanding the effort, the general sentiment was that the information will be very useful to management and investors.

Additional resources

Conference blogs:

- Corp Fin observations ahead of year-end reporting
- Preparers' perspectives on emerging issues
- Chief Accountants speak on emerging issues

KPMG Handbook, Segment reporting

KPMG Hot Topic, SEC staff clarifies segment reporting disclosures

KPMG Defining Issues, Rolling the DISE: FASB issues final ASU

KPMG Hot Topic, SAB 74 reminders

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6. Familiar topics – ongoing challenges

SEC staff continue to find issues with certain topics – highlighting a need for companies to focus on the principles and revisit controls.

Statement of cash flows

- Recurring issues include improper classification, inadequate disclosures and assessing the materiality of error corrections.
- OCA staff urged enhanced communication between auditors and audit committees.
- Accounting firm Chiefs urged companies to:
  - focus on the design and operating effectiveness of controls to ensure the cash flow statement receives the same level of attention as the other statements; and
  - think through the cash flow statement implications of nonrecurring and noncash transactions when they occur, not at the last minute when preparing the statement.

Non-GAAP financial measures

Corp Fin reiterated the common themes found in complying with the non-GAAP rules:

- The prominence principle requires disclosure of a comparable GAAP measure with equal or greater prominence and applies wherever a non-GAAP measure appears in a filing (absent GAAP requirements).
- Under the labeling requirement, companies need to describe the label appropriately and clearly explain the non-GAAP adjustments made to a measure.
- Companies should continue to consider whether a non-GAAP measure is misleading or a tailored accounting principle – especially when introducing a new measure or revising a previously disclosed measure.

Additional resources

Conference blogs:

- High-quality everything drives investor trust
- Corp Fin observations ahead of year-end reporting
- Chief Accountants speak on emerging issues

KPMG Handbook, Statement of cash flows

KPMG Issues In-Depth, Non-GAAP financial measures

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7. Cybersecurity top of mind

Corp Fin and securities lawyers provided valuable lessons learned from initial compliance with the SEC's cybersecurity disclosure rules.

Initial observations on enforcement

- Investigations (and some enforcement actions) to date have hinged on whether a company has:
  - materially misrepresented its cybersecurity risk factors or material cyber incidents; and
  - not maintained adequate internal accounting and disclosure controls to ensure material cybersecurity risks are timely and accurately assessed and disclosed.
- More than the very occasional disclosure failure can subject a company to an enforcement action.
- Even one failure could subject a company to civil liability.

Have the right oversight structure

- Ensure the right individuals within the company are informed timely of all incidents.
- Maintain thorough documentation of discussions about cybersecurity risks.
- Assess cybersecurity risks cumulatively rather than evaluating them only in isolation.
- Ensure that any cybersecurity disclosures remain accurate and reflect the overall health of the company.
- The annual disclosure of cybersecurity risks should outline the expertise of each individual rather than referring to the group as a whole.

Reminder: Item 8.01 of Form 8-K should be used to disclose cyber incidents that are either not material or for which the materiality assessment is still in process. Only cyber incidents that are determined to be material should be included on Item 1.05 (within 4 days of determination).

Additional resources

Conference blog, Corp Fin and securities lawyers talk cyber disclosures

Defining Issues, SEC finalizes cybersecurity rules

KPMG Corporate Controller & CAO Hot Topic, Cybersecurity Reporting – Navigating the New Requirements

SEC staff statement (May 2024), Disclosure of Cybersecurity Incidents Determined To Be Material and Other Cybersecurity Incidents

SEC staff statement (June 2024), Selective Disclosure of Information Regarding Cybersecurity Incidents

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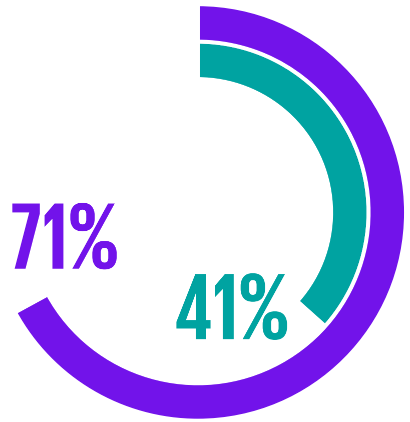
8. AI is a reality

Preparers are increasingly leveraging AI capabilities, although many are still piloting emerging Gen AI capabilities. We expect adoption of Gen AI tools to scale significantly in 2025.

KPMG's global AI in finance report



The use of AI is rapidly expanding across corporate finance.

71% of companies surveyed are using AI within finance operations, 41% of which are using it to a moderate or large degree.

Governance and Form 10-K disclosures

- Use cases exist throughout organizations, particularly relating to data ingestion, relationship identification and prediction.
- There is a need for strong data governance policies, programs and training, and including a human in the loop.
- The extent of Form 10-K disclosures almost doubled from 2023 to 2024. Corp Fin highlighted that disclosures should:
  - be specific and tailored, not boilerplate;
  - define what AI means to the company; and
  - address topics such as operational market dynamics, cybersecurity and data privacy discrimination and bias, litigation cost and burdens of regulatory compliance.

Additional resources

Conference blogs:

- Current trends and future outlook for AI
- PCAOB's ongoing commitment to investor protection

KPMG US survey, AI in financial reporting and audit: Navigating the new era

KPMG Guide, AI and automation in financial reporting

The KPMG Trusted AI Framework

More KPMG resources: Generative AI

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9. Common ground: Pillar Two, sustainability

Pillar Two implementation and the current state of sustainability reporting had common themes – robust controls and proactive auditor collaboration.

Robust controls are imperative

Pillar Two. The panelists stressed that companies need to assess their systems and processes, identify constituent entities, evaluate safe harbors and design or redesign internal controls for compliance, including:

- Controls around country-by-country reporting that serves as a basis to evaluate the safe harbors.
- Controls around computing GloBE income.
- Controls around models and technology solutions that are being implemented.
- Controls over the completeness and accuracy of the information used in the processes and the operation of the controls.

Sustainability reporting. With many US multinationals within the scope of the EU's Corporate Sustainability Directive and thousands of US companies in the scope of the California climate laws, governance and controls were again key:

- Companies should establish strong governance structures and make sure the team has the necessary skills to manage sustainability data and processes.
- This includes setting up dedicated committees, training staff and integrating sustainability responsibilities into existing roles.

Additional resources

Conference blog, Pillar Two implementation and sustainability reporting

KPMG executive summary, Pillar Two Gameplan

KPMG Hot Topics:

- Checking in on Pillar Two
- Effective dates near for California climate laws
- Impact of EU sustainability reporting on US companies
- Global implications of due diligence acts

KPMG podcasts:

- Pillar Two series
- Don't forget about the EU Taxonomy

10. Every voice counts

Both the FASB and SEC representatives repeatedly emphasized the role of stakeholders in recently completed and upcoming projects. Have your say!

Projects that modernize or fill a void

With FASB having completed its Big 3 disaggregation projects, this is our pick of its forthcoming standards:

- **Internal-use software development costs** – would make the accounting more compatible with the agile nature of software development methods. Comments on the proposed ASU are due by Jan 27.
- **Government grants** – would address recognition, measurement and presentation of grants received. Comments on the proposed ASU are due by Mar 31.
- **Environmental credit programs** – would address asset and liability accounting for carbon credits and environmental compliance obligations. A proposed ASU is expected before the end of the year.

The power of the agenda consultation

- Stakeholder feedback received on its 2021 Agenda Consultation has largely driven the FASB's technical agenda over the past few years.
- At the project level, stakeholder feedback has led the FASB to modify several of its tentative decisions.
- Constituents are highly encouraged to participate in the upcoming agenda consultation – either individually, as companies or firms, or as industry groups.
- The feedback received will be taken seriously in setting the FASB's agenda and priorities over the next few years.

Additional resources

Conference blogs:

- All voices matter
- High-quality everything drives investor trust

KPMG Defining Issues, FASB issues proposed ASU on software cost accounting

KPMG Defining Issues, FASB proposes accounting guidance for government grants

KPMG web article, FASB project on environmental credit programs

Listing of conference blogs and podcasts

Day 1

High-quality everything drives investor trust

All voices matter

Preparers’ perspectives on emerging issues

Podcast: Day 1 highlights

Day 2

PCAOB’s ongoing commitment to investor protection

Corp Fin observations ahead of year-end reporting

Corp Fin and securities lawyers talk cyber disclosures

Chief Accountants speak on emerging issues

Podcast: Day 2 highlights

Day 3

Securities lawyers give their perspectives

Current trends and future outlook for AI

Pillar Two implementation and sustainability reporting

Abbreviations

Corp Fin: SEC’s Division of Corporation Finance

DCP: Disclosure controls and procedures

ICFR: Internal control over financial reporting

OCA: SEC’s Office of the Chief Accountant

Keep in touch

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With thanks to our many additional contributors in the KPMG Department of Professional Practice

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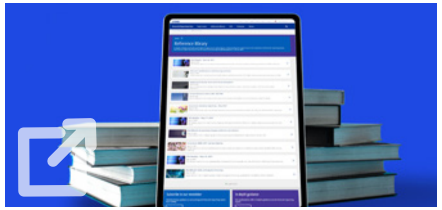

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