KPMG

Quarterly Outlook

December 2024

Change is the focal point of the quarter, with a shake-up in Washington on the horizon, a flurry of recent FASB activity, and looming sustainability reporting for US companies.

US GAAP

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With changes coming to Washington, it's inevitable that accounting and financial reporting will be affected. At the 2024 AICPA & CIMA Conference on Current SEC and PCAOB Developments, SEC Commissioner Mark Uyeda provided his predictions on what the future might hold, emphasizing a likely focus on capital formation. While we 'wait and see', we turn our attention to the hustle and bustle of Q4 – including a flurry of standard-setting activity.

The FASB issued its highly anticipated standard on disaggregation of income statement expenses, introducing significant changes to public company financial statement disclosures. While the standard is not effective for public companies until 2026, it may be the most impactful 'disclosure only' FASB standard to date. The FASB is urging early preparation and thoughtful implementation to effectively meet the new disclosure requirements.

The FASB also issued proposals on several high-interest projects – including software costs, interim reporting and government grants – with plans to issue more before the end of the year, and is launching three Invitations to Comment, including its most extensive stakeholder outreach initiative since the 2021 Agenda Consultation.

And while the SEC's Climate Rule is not expected to progress, plenty of other sustainability-related developments loom ahead for US companies. California is working to entrench its climate reporting, there is no slow-down in developments from the European Union, and IFRS® Sustainability Disclosure Standards continue to gain traction.

Our Quarterly Outlook summarizes these accounting and financial reporting developments and others potentially affecting your company in the current period or near term.

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1 Current quarter financial reporting matters

2024 AICPA & CIMA Conference on Current SEC and PCAOB Developments

The AICPA & CIMA (Chartered Institute of Management Accountants) hosted their annual Conference on Current SEC and PCAOB Developments, featuring speakers from the SEC, PCAOB and FASB, and other key players in the financial reporting infrastructure.

SEC Commissioner Mark Uyeda discussed how he sees the SEC's priorities shifting under the incoming Administration, with a renewed emphasis on facilitating 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. The SEC Division of Corporation Finance (Corp Fin) also 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.

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 Board members 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 influences the Board's decision-making. In addition, securities lawyers provided interesting perspectives on the incoming Administration, cybersecurity disclosures and best practices for disclosure controls and procedures.

Some of the top takeaways from the conference are summarized below.

- **What the future might hold.** Commissioner 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 – e.g. withdraw the SAB 121 guidance on digital asset safeguarding obligations.
  - Reduce regulatory friction – e.g. place emphasis on cost/benefit analyses in rulemaking.
  - Carry out a retrospective review of the PCAOB.
- **Disclosure controls and procedures (DCP).** Reminders about DCP were pervasive – and timely in the face of emerging issues such as AI and cybersecurity. Companies were advised to carefully consider the use of aspirational statements, involve those with the most knowledge of a topic and notify senior leaders timely.

- **Segment reporting standard goes live.** Corp Fin had some final reminders on ASU 2023-07.
  - Removing a measure solely because it does not comply with SEC non-GAAP rules will not be considered the correction of an error under ASC 250 (accounting changes and error corrections). However, if a measure is modified or removed because it does not comply with ASC 280 (segment reporting), its removal will be considered an error.
  - Companies should ensure their internal control over financial reporting and DCP are appropriately designed for segment disclosures.
  - While auditors are responsible for auditing to US GAAP, they are not responsible for auditing companies' compliance with the SEC non-GAAP rules.
- **How to analyze a complex accounting issue.** The Office of the Chief Accountant 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 the company's specific facts and circumstances, including the economic substance of the transaction.
- **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.

KPMG resources: For more insights from the conference, see our Top 10 highlights, our more in-depth series of conference blogs, and our podcasts with key messages from Day 1 and Day 2 of the conference.

Segment reporting in the spotlight

Ahead of the 2024 financial reporting season, the FASB's new segment reporting standard, ASU 2023-07, remains a focal point in the financial reporting community. The ASU is first effective for calendar year-end public companies in 2024 for annual periods only, and for interim periods beginning in 2025.

Broadly, ASU 2023-07 expands the breadth and frequency of segment disclosures under Topic 280. The ASU includes the following key changes and disclosure requirements for public companies.

- **Significant segment expenses**. Disclose significant segment expenses regularly provided to the chief operating decision maker (CODM) and included within each reported measure of segment profit or loss.
- **Other segment items.** Disclose the amount and composition of other segment items by reportable segment. This amount reconciles segment revenue less significant segment expenses, and each reported measure of segment profit or loss.
- **Use of the measure(s) of segment profit or loss.** Disclose how the CODM uses the reported measure(s) of a segment's profit or loss in assessing segment performance and deciding how to allocate resources.
- **Title and position of the CODM.** Disclose the title and position of the CODM.

- **Interim disclosures.** Disclose all reportable segment profit or loss and asset disclosures currently required annually by Topic 280, as well as those introduced by the ASU.
- **Multiple measures of segment profit or loss.** When the CODM uses more than one measure of a segment's profit or loss to allocate resources and assess segment performance, multiple measures may be reported, which must include the measure most consistent with how corresponding amounts in the consolidated financial statements are measured.
- **Single reportable segment entities.** The ASU clarifies that single reportable segment entities must apply Topic 280 in its entirety.

SEC staff clarifications

We remind companies that the SEC staff has shared its views on various aspects of applying Topic 280, including the interplay between Topic 280 and the SEC's non-GAAP rules and regulations. Companies affected by the new ASU can see our Hot Topic for additional information on these SEC clarifications.

In addition, the SEC Division of Corporation Finance provided final reminders at the 2024 AICPA & CIMA Conference on Current SEC and PCAOB Developments – see separate article.

Next steps

As we approach year-end, it is crucial for companies to engage with their auditors if they haven't already. Consider discussing:

- conclusions around which expense information is regularly provided to the CODM and deemed significant;
- draft segment disclosures;
- use of non-GAAP measures; and
- updates to processes and controls.

By proactively discussing these topics, companies will be better positioned to implement the new ASU within the constraints of the financial reporting season.

Additional KPMG resources: KPMG Handbook: Segment reporting (post ASU 2023-07), Webcast and Podcast

Sustainability reporting – the move to mandatory reporting

While the SEC's Climate Rule is not expected to progress, plenty of other sustainability-related developments loom ahead for US companies. California is working to entrench its climate reporting, there is no slow-down in developments from the European Union, and IFRS Sustainability Disclosure Standards continue to gain traction. Here we bring you select Q4 developments.

In addition, a KPMG biennial survey of sustainability reporting shows that sustainability reporting has become business as usual for almost all of the world's largest 250 companies, and a large majority of the top 100 companies in each country, territory or jurisdiction.

California climate laws

For companies in the scope of California's climate laws, initial reporting is now set for 2026: GHG emissions from a date to be determined in 2026, and climate risks on or before January 1, 2026. Although the California Air Resources Board (CARB) has until July 1, 2025 to adopt the underlying regulations, there is no time to delay implementation efforts.

The California Legislature commenced a special session on December 2, aimed at progressing its state-level climate laws among others. Since then, CARB issued an enforcement notice indicating that in the first year of reporting GHG emissions, companies may submit scopes 1 and 2 emissions based on information they already possess or are already collecting; and announced a public consultation with comments due to be submitted by February 14.

Stay up to date with our Hot Topic.

EU developments

The Corporate Sustainability Reporting Directive (CSRD) entered into force on January 5, 2023 and Member States had a deadline of July 6, 2024 to transpose it into national law. As of mid-December, many Member States have a draft available and several have finalized their transposition, including Denmark, Finland, France and Sweden. However, many Member States – such as Germany, the Netherlands and Spain – did not meet the deadline.

In September 2024, the European Commission (EC) sent formal infringement notices to Member States delinquent in transposing the CSRD, giving them two months to respond and complete their transposition. Companies that have subsidiaries in Member States where the CSRD is not yet transposed should monitor forthcoming developments closely. Read our Hot Topic.

Ursula von der Leyen, president of the EC, has proposed an 'omnibus initiative' that would amend the CSRD (and European Sustainability Reporting Standards, or ESRS), the Corporate Sustainability Due Diligence Directive and the EU Taxonomy without changing the core content of the legislation. Further clarity is expected in the coming weeks.

The European Financial Reporting Advisory Group (EFRAG) is finalizing proposals for the non-EU parent company standards and an exposure draft for public comment is expected early in 2025. EFRAG plans to raise a question in the public consultation about whether to include an option for the non-EU parent company to exclude information about the impacts of sales of goods or provisions of services to natural and legal persons outside the EU; this option would be available for topical standards (except E1, climate change). To learn more about ESRS in general, download our in-depth guide, ESRS Foundations.

As the first wave of companies prepare to present their sustainability reports under ESRS, the European Securities and Markets Authority (ESMA) has indicated that sustainability reporting will be its focus for 2024 annual reports. Read our web article.

International developments

According to a new report by the International Sustainability Standards Board (ISSB), over 1,000 companies have referenced the ISSB in their reports and 30 jurisdictions are making progress toward introducing ISSB™ Standards in their legal or regulatory frameworks. As the move toward ISSB Standards gathers momentum, US companies currently preparing for the adoption of ESRS should also be monitoring potentially different requirements in other jurisdictions where they have subsidiaries or a value chain presence.

For US companies concerned with dual compliance in the future, the latest ISSB guidance on materiality builds on the earlier interoperability guidance published jointly by EFRAG and the ISSB. It explains how companies identify sustainability-related risks and opportunities that could reasonably be expected to affect their prospects, and how they determine whether information about them is material. Read our web article.

Assurance developments

In November 2024, the International Auditing and Assurance Standards Board (IAASB) issued International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements. ISSA 5000 addresses both limited and reasonable assurance.

In an EU context, the CSRD does not currently mandate which assurance standards should be used. The CSRD requires the EC to adopt limited assurance standards by October 2026. The EC may endorse ISSA 5000 as the assurance standard to be applied or may release its own assurance standard, which may be based on ISSA 5000.

In a US context, ISSA 5000 does not have an immediate impact. We expect the AICPA's Auditing Standards Board to update its standards to converge with ISSA 5000, which will include (1) revisions to the baseline attestation standards to include some of the requirements from ISSA 5000 and (2) a new subject matter specific AT-C section for sustainability assurance engagements that will include additional sustainability-specific requirements. We expect an AICPA exposure draft in 2025.

ESG resources to keep coming back to:

- Sustainability reporting for US financial reporting professionals: KPMG Financial Reporting View
- International sustainability reporting: KPMG ISSB sustainability reporting resource center
- European sustainability reporting: KPMG ESRS sustainability reporting resource center

Why 2025 will be 'the year of tax'

As we look ahead to 2025, several major developments will affect corporate income taxes, including potential US legislation, changes in Pillar Two, and a new ASU that becomes effective for public companies.

Looming US tax legislation

Over $4 trillion of tax cuts from the Tax Cuts and Jobs Act are set to expire at the end of 2025 – known as the 'tax cliff' – making it seem inevitable that Congress will take action to extend some or all of these cuts and/or pass a new tax bill. While many of the expiring cuts relate to personal income taxes, there are others that can have a major impact on corporations, including bonus depreciation, R&D credits, interest deductions and tax rates that apply to certain categories of foreign income (e.g. the Global Intangible Low-Taxed Income, or 'GILTI').

We anticipate that one of the incoming Administration's top priorities next year will be to extend some or all of these cuts. In addition, a new proposed tax bill may include repealing some or all of the IRA credits and making further changes to the corporate tax rate.

To hear more about each of these potential proposals, check out our Podcast.

New income tax disclosures

ASU 2023-09, Improvements to income tax disclosures, is effective for public companies in annual periods beginning after December 15, 2024, and for all other entities in annual periods beginning after December 15, 2025.

The ASU significantly expands annual income tax disclosures to address investor requests for more information. Specifically, companies will be required to provide much greater disaggregation of their effective tax rate and income taxes paid during the year based on certain prescribed categories. While the ASU does not go into effect until next year, public companies will need to consider the SAB 74 disclosure requirements when preparing their 2024 financial statements.

To learn more about the ASU and our observations about its potential effects to practice, check out our Hot Topic.

Checking in on Pillar Two[1]

While many countries enacted Pillar Two legislation in 2024, one important provision was deferred until 2025: the undertaxed profits rule (UTPR). The UTPR, which allows any jurisdiction in which a company has a taxable presence to collect the 'top-up tax', will significantly expand the reach of Pillar Two. Therefore, companies that did not owe a top-up tax (or only paid an immaterial amount) under the other charging mechanisms of Pillar Two may be affected in 2025.

In addition, as year-end approaches, we expect registrants to refine their disclosures about the effects of Pillar Two on their 2024 results. Examples of disclosures that may be decision-useful to investors include:

- effects on the effective tax rate (ETR) or income tax expense;
- accounting policy elections made regarding Pillar Two top-up taxes, if material; and
- the proportion of profits that may be subject to Pillar Two top-up taxes and the average ETR applicable to those profits.

Even if a company is not currently in the scope of Pillar Two or does not expect it to have a material effect on operations, it is important to continuously monitor changes in tax laws, administrative guidance and the company's own structure. As more jurisdictions enact Pillar Two, companies that were previously not in scope may become so. And, as Pillar Two transitional safe harbors expire, the impact to a company's financial statements may become material. Lastly, changes in a company's legal entity structure or geographical operations could affect its Pillar Two exposure.

Practitioners at the 2024 AICPA & CIMA Conference on Current SEC and PCAOB Developments stressed that companies need to assess their systems and processes, identify constituent entities, evaluate safe harbors and design or redesign internal controls for compliance. See further discussion in our conference Top 10 highlights.

For additional insights into public company disclosures on Pillar Two, US GAAP considerations, and implementation steps companies are taking now, see our Hot Topic.

[1] 'Pillar Two' refers specifically to the Global anti-Base Erosion Rules (GloBE Rules), which apply to multinational enterprises with consolidated group revenue exceeding €750 million in at least two of the last four years.

KPMG resources: Handbook: Income taxes, Pillar Two Gameplan and Pillar Two tracker

Monitoring highly inflationary economies – Egypt, Lao People's Democratic Republic, Malawi and Nigeria

Inflation rates have steadily increased in Egypt, Lao People's Democratic Republic, Malawi and Nigeria culminating in three-year cumulative inflation rates exceeding 100% as of September 30, 2024, according to the most recent data derived from the International Monetary Fund World Economic Outlook Report Database – October 2024 and relevant government agencies. As a result, calendar year-end reporting entities that report on an interim basis must consider these economies to be highly inflationary as of October 1, 2024.

This is important because the financial statements of a foreign operation in a highly inflationary economy must be remeasured as if its functional currency was the reporting currency. Therefore, a reporting entity with a USD reporting currency for its consolidated financial statements would be required to use USD as the functional currency for its operations in Egypt, Lao People's Democratic Republic, Malawi and Nigeria effective from October 1, 2024.

KPMG resources: Handbook: Foreign currency

Standards effective in 2024

In the first quarter of 2024, calendar year-end public companies were required to adopt the following accounting standards. That is, except for ASU 2023-07 (segment reporting), which is first effective in 2024 for annual periods only, and interim periods beginning in 2025. We highlighted the new segment reporting standard earlier in this publication.

- **ASU 2023-02, Expanding the proportional amortization method (PAM),** clarifies the criteria that a tax equity investment must meet to qualify for the PAM and expands the scope to allow an investor to elect the PAM for qualifying investments in tax credit programs beyond affordable housing programs. In addition, disclosures are required for tax equity investments within tax credit programs for which the PAM is elected, regardless of whether the PAM is applied.

- **ASU 2023-01, Common control lease arrangements,** requires *all lessees* (public or private) to amortize leasehold improvements over their useful life to the common control group, as long as the lessee continues to control the use of the underlying asset through a lease. The ASU also permits *private* companies to identify, classify and account for common control leases by using written terms and conditions between the parties, without regard to their legal enforceability.

- **ASU 2022-03**, Fair value measurement of equity securities subject to contractual sale restrictions, clarifies that a contractual restriction on the sale of an equity security is an entity-specific characteristic and is disregarded in measuring the security's fair value.

Our ASU effective dates web page provides a complete list of accounting standards that companies are required to adopt in 2024 and beyond.

Audit developments of interest to audit committees

PCAOB adopts new reporting requirements and updates its standard-setting agenda

On November 21, the PCAOB adopted 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. Additionally, the PCAOB adopted amendments to firm reporting requirements, mandating further information submission on Form 2, Annual Report Form, and Form 3, Special Reporting Form. The amendments are subject to approval by the SEC and, if approved, will become effective in stages thereafter.

Separately, the PCAOB updated its standard-setting agenda to defer further decisions on the NOCLAR project until 2025.

In 2025, the PCAOB plans to, among other things, (1) consider adopting a new substantive analytical procedures standard and (2) propose new or updated attestation, going concern and inventory standards.

Additional details related to all projects on the PCAOB's standard-setting and rulemaking agendas can be found on its Standard-Setting, Research, and Rulemaking Projects page.

PCAOB shares observations related to audit firm culture

In a new Spotlight, the PCAOB discusses findings from its staff's in-depth review of culture at audit firms and connections between culture and audit quality. The Spotlight includes observations related to governance and leadership, resources, engagement performance, and information and communication. Key insights include the fact that firm culture can drive audit quality – positively or negatively, correlation between centralization and audit quality, effects of remote/hybrid work on firm culture, and the need for a culture of accountability to support audit quality.

The importance of firm culture was also an overarching theme from PCAOB representatives at the 2024 AICPA & CIMA Conference on Current SEC and PCAOB Developments.

PCAOB highlights resources available to investors when engaging with audit committees

In a recent Investor Bulletin, the PCAOB highlighted previously published PCAOB resources that may be useful to investors when engaging with audit committees concerning committee oversight of independent auditors. The highlighted resources address topics such as identified auditing and accounting risks, independence, critical audit matters and inspection results. The bulletin prompts investors to reference these publications when engaging with audit committees.

2 New standards and guidance

FASB requires new disaggregated income statement expense disclosures

ASU 2024-03 addresses investor requests for more granular information about an entity's expenses, allowing investors to better understand performance, prospects for future cash flows and comparability over time. The primary goal is to improve the decision-usefulness of expense information on public companies' income statements through disaggregation of relevant expense captions in the notes to the financial statements.

Preparers at the 2024 AICPA & CIMA Conference on Current SEC and PCAOB Developments highlighted the significant preparatory work required ahead of adopting the standard, but expressed a general sentiment that the information will be very useful to management and investors. See further discussion in our conference Top 10 highlights.

Main provisions

The main provisions of the ASU are summarized below.

Main provision	Highlights
Relevant expense captions identified for disaggregation	A functional or natural expense line item on the face of the income statement within continuing operations containing any prescribed natural expense category (see below)
Prescribed natural expense categories presented separately for each identified relevant expense caption	– Purchases of inventory – Employee compensation – Depreciation – Intangible asset amortization – Depreciation, depletion and amortization (DD&A) for oil-and-gas producing activities – Depletion
Additional categories presented separately for each identified relevant expense caption	– Certain expense reimbursements – Specific expenses, gains and losses required to be disclosed by other US GAAP – Other items (residual amount and composition) – Changes in inventories, ***if applicable*** – Other adjustments and reconciling items (amount and composition), ***if applicable***
Selling expenses (narrative disclosure)	– Total amount of selling expenses – Description of the composition of this 'management' defined measure (annual only)

Effective dates

ASU 2024-03 is effective as follows.

Effective for:	Public business entities
Annual periods in fiscal years beginning after…	December 15, 2026
Interim periods in fiscal years beginning after…	December 15, 2027
Early adoption?	Yes

In addition, the FASB has proposed to amend certain transition guidance in the ASU to clarify that all public business entities are required to adopt the guidance in annual reporting periods beginning after December 15, 2026, and interim periods within annual reporting periods beginning after December 15, 2027.

Next steps

While adoption may seem distant, companies should use this time to educate themselves and prepare for the upcoming changes. Once adopted, most public companies will need to disclose more detailed information about their income statement expenses than they do currently, which may necessitate systems, controls and process changes.

Companies should allow time to digest the new information, understand emerging trends, and assess how the data interacts with information already provided to investors, both within and outside the financial statements. For instance, while the ASU allows for prospective application of the new disclosures starting in 2027, it may be advantageous for companies to analyze and compare expense amounts across multiple periods sooner, before the information is communicated to stakeholders.

KPMG resources: Defining issues and companion Podcast

FASB issues standard on induced conversions of convertible debt

ASU 2024-04 addresses a consequential matter stemming from ASU 2020-06, which removed a distinct accounting model for specific settlements of convertible debt instruments with cash conversion features. The ASU specifically provides guidance on whether induced conversion or extinguishment accounting applies to certain settlements of convertible debt instruments that do not occur under the instruments' preexisting terms.

The ASU requires companies to apply a preexisting contract approach. Under this approach, a settlement qualifies for induced conversion accounting if the inducement offer preserves the form of consideration and results in an amount of consideration that is no less than that issuable pursuant to the preexisting conversion privileges.

The ASU's application guidance clarifies how companies should assess the form and amount of consideration. In addition, it clarifies that induced conversion accounting can be applied to settlements of certain convertible debt instruments that are not currently convertible.

The ASU is effective for all entities in annual and interim reporting periods in fiscal years beginning after December 15, 2025.

KPMG resources: Web page

Standards effective in 2025

In 2025, calendar year-end public companies are required to adopt not only the new income tax disclosure requirements (annual periods only) but also the following accounting standards, which clarify, enhance and/or introduce new accounting guidance to US GAAP where there was little or no guidance previously.

- **ASU 2024-02, Codification improvements**, removes all references to the FASB Concepts Statements from the Codification. The references were considered unnecessary for understanding or applying the guidance, and their removal is not expected to significantly affect current accounting practice for most entities.
- **ASU 2024-01, Scope application of profits interest and similar awards,** introduces a new illustrative example that includes four fact patterns to demonstrate how an entity applies the scope guidance in paragraph 718-10-15-3 to determine whether its profits interest awards should be accounted for under Topic 718 (stock compensation). The ASU is intended to reduce complexity and diversity in practice.
- **ASU 2023-08, Accounting for and disclosure of crypto assets,** introduces new Subtopic 350-60 to address measurement, presentation and disclosure of certain digital assets. Of note, it will require entities to measure in-scope crypto assets (e.g. bitcoin and ether) at fair value, with fair value changes recognized in current period earnings. It also introduces new presentation and disclosure requirements for those assets in addition to the disclosures already required under Topic 820 (fair value measurement).
- **ASU 2023-05, Joint venture formations: Recognition and initial measurement,** introduces new Subtopic 805-60, containing new accounting requirements for a joint venture (JV) formation. The ASU addresses current diversity in practice by specifying how to account for net assets contributed to a JV on the JV's formation.
- **Long-duration insurance contracts**. Insurance entities in the scope of Topic 944 (long-duration contracts) that are not SEC filers, including smaller reporting companies (SRCs), must adopt **ASU 2018-12**, which changes how companies recognize, measure, present and disclose long-duration contracts issued by an insurance entity. The ASU intends to improve, simplify and enhance the financial reporting requirements for long-duration contracts. SEC filers (excluding SRCs) were required to adopt ASU 2018-12 in 2023.

  In December 2022, the FASB issued **ASU 2022-05**, which allows companies to exclude certain contracts or legal entities sold and derecognized from the targeted amendments in ASU 2018-12.

Our ASU effective dates web page provides a complete list of accounting standards that companies are required to adopt in 2024 and beyond.

Companies should consider disclosures about these and all other issued but not yet adopted accounting standards (i.e. SAB 74 disclosures) when preparing their 2024 financial statements.

3 Projects and agenda priorities

FASB issues a surge of accounting proposals

The FASB has issued a variety of proposals this quarter, with a few more anticipated before the end of the year. We highlight, in separate articles, their proposals on:

- Accounting for and disclosure of software costs;
- Accounting for government grants; and
- Interim reporting.

Other recently issued proposals include:

Topic	Key highlights	Comment period deadline	KPMG resources
Accounting for environmental credit programs	The proposed ASU would introduce new Topic 818 to address recognition, measurement, presentation and disclosure requirements for environmental credits and environmental credit obligations.	4/15/2025	Project web page
PCC Issue: Measurement of credit losses for accounts receivable and contract assets for private companies and certain not-for-profit entities	The proposed ASU would introduce a practical expedient and an accounting policy election for private companies and certain not-for-profit entities related to estimating expected credit losses under Topic 326 (credit losses) for current accounts receivable and current contract assets arising from revenue transactions.	1/17/2025	Project web page
Determining the acquirer in the acquisition of a VIE	The proposed ASU would amend the Topic 805 framework for identifying the accounting acquirer in certain business combinations when the legal acquiree is a Variable Interest Entity (VIE).	Ended	Project web page
Share-based consideration payable to a customer	The proposed ASU would: – revise the definition of a performance condition; – eliminate the forfeitures policy election for share-based awards granted to customers; and – clarify the applicability of the variable consideration constraint.	Ended	Project web page

Topic	Key highlights	Comment period deadline	KPMG resources
Topic 815 – Hedge accounting improvements	In response to stakeholder feedback from implementing ASU 2017-12 and the effects of LIBOR cessation, the proposed ASU's main proposals would: – provide new alternatives for hedging forecasted purchases and sales of nonfinancial assets; – allow more individual forecasted transactions to be hedged as a group; and – provide specific guidance for hedging 'choose-your-rate' debt instruments.	Ended	Project web page
Topic 815 – Derivative scope refinements	The proposed ASU would: – exclude from derivative accounting (Topic 815) contracts that are not exchange traded with underlyings that are based on operations or activities of one of the parties to the contract; and – further clarify that the revenue guidance in Topic 606 would apply when a share-based payment is consideration from a customer in exchange for the transfer of goods or services.	Ended	Project web page

The following proposal is anticipated in the near term but had not been issued as of our publish date. Please visit KPMG Financial Reporting View for updates on developments as they unfold.

Topic	Key highlights	Comment period deadline
Codification improvements (Evergreen)	The proposed ASU would address minor changes to US GAAP to clarify the Codification or correct unintended consequences that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities.	To be announced

FASB Invitations to Comment to help shape its standard-setting agenda

The FASB has issued one Invitation to Comment (ITC)[2] and is expected to issue two more ITCs in the near term to gather stakeholder input to help inform the Board's future agenda.

- **Key Performance Indicators (KPIs).** The FASB has issued an Invitation to Comment to solicit stakeholder feedback on potential standard-setting for Financial KPIs, including whether they should be (1) standardized and (2) required or permitted to be disclosed in an entity's US GAAP financial statements.

  A Financial KPI is a financial measure that is calculated or derived from the financial statements and/or underlying accounting records not presented in the US GAAP financial statements. Examples include earnings before interest, taxes, depreciation and amortization (EBITDA), free cash flow, and adjusted net income.

  The comment period ends April 30, 2025.

The FASB will also soon issue its ITCs on Intangible Assets and its broadest outreach initiative, Agenda Consultation. At the 2024 AICPA & CIMA Conference on Current SEC and PCAOB Developments, FASB Chair Richard Jones stressed the importance of stakeholder feedback, including how it has shaped the FASB's agenda and many of its specific projects in recent years.

FASB proposes accounting guidance for government grants

The FASB issued a proposed ASU that would introduce new guidance in US GAAP on how companies should recognize, measure and present government grants received. The proposal aims to reduce diversity in practice and increase consistency in accounting among business entities.

Of note, the proposal would:

- prescribe an accounting model based on the main principles in IAS 20 (government grants and government assistance), with targeted revisions to areas such as scope and the recognition threshold;
- define a government grant as a transfer of a monetary or a tangible nonmonetary asset, other than in an exchange transaction, from a government to a business entity;
- provide a recognition threshold under which a grant would be recognized when it is probable the entity will comply with the grant's conditions and the grant will be received;
- leverage existing disclosure requirements in Topic 832 (government assistance) for annual periods; and
- create specific recognition and measurement guidance in Topic 805 (business combinations) for certain government grant-related liabilities assumed in a business combination.

[2] An Invitation to Comment (ITC) is a FASB staff document prepared at the direction of the FASB Chair in which the Board does not express preliminary views. Responses to the questions in an ITC help inform the Board as it considers whether to add certain projects to its technical agenda and, if so, what the objective and scope of the project should be.

The comment period ends March 31, 2025.

KPMG resources: Project web page

FASB aims to improve interim reporting guidance

The FASB issued a proposed ASU that would clarify interim reporting requirements by improving navigability of Topic 270 (interim reporting) and more clearly specify what disclosures are required in an interim reporting period. It is not intended to significantly change interim reporting or expand or reduce interim disclosure requirements.

The proposed ASU has three primary objectives.

Clarify the form and content of interim financial statements	The proposed ASU would specify the form and content choices for interim financial statements and accompanying notes.
List the required interim disclosures	The proposed ASU would incorporate a comprehensive list of required interim disclosures into Topic 270.
Provide a disclosure principle for condensed interim financial statements	The proposed ASU would introduce a disclosure principle that would require disclosure of events and changes since the end of the previous annual reporting period that materially impact the entity.

The comment period ends March 31, 2025.

KPMG resources: Project web page

FASB proposes long-awaited changes to internal-use software guidance

The proposed ASU principally aims to modernize dated guidance (written in 1998) for pervasive changes in how entities develop software. Entities predominantly develop software today on an agile (i.e. iterative and flexible) basis that does not fit well with the existing guidance, which mostly presumes (consistent with software development of that time) a 'waterfall' (i.e. sequential and linear) method of software development.

The key proposals would:

- Change the cost capitalization threshold by:
  - eliminating the accounting consideration of software project development stages – cost capitalization would begin when (1) management has authorized and committed to funding the project, and (2) it is 'probable' the project will be completed and the software used to perform its intended function (the 'probable-to-complete' threshold); and
  - enhancing the guidance around the 'probable-to-complete' threshold (given its proposed new prominence) and providing new examples in Subtopic 350-40 (internal-use software) to illustrate its application.
- Specify that financial statement presentation of cash outflows for capitalized internal-use software be presented as a separate item in the investing section of the cash flow statement.

- Eliminate Subtopic 350-50 on website development costs and incorporate relevant guidance therefrom and a new illustrative example into Subtopic 350-40.

The proposed ASU **does not** propose changes to: (1) the existing accounting requirements for external-use software (i.e. software to be sold or licensed) development costs in Subtopic 985-20, (2) what internal-use software costs can be capitalized (e.g. data conversion/migration, training and software maintenance costs would continue to be expensed as incurred), or (3) when internal-use software cost capitalization ceases (i.e. when the software is 'substantially complete and ready for its intended use').

The comment period ends January 27, 2025.

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PCC adds two projects to its technical agenda

The Private Company Council (PCC) met in September and discussed several topics with FASB members, including PCC agenda priorities and the FASB's 2024 Agenda Consultation.

- **PCC agenda priorities.** The PCC discussed matters raised at its April and June 2024 meetings, and decided to prioritize and add two projects to its technical agenda.
  - **Applying Topic 326 to current accounts receivable and current contract assets arising from revenue transactions.** PCC members completed initial deliberations and made decisions on several aspects of the project. In brief, they decided to (1) limit the project scope to current accounts receivable and current contract assets, (2) provide a practical expedient that would allow private companies to develop loss forecasts without needing to adjust historical loss data for future changes in economic data, and (3) allow an accounting policy election to consider subsequent cash collection if the practical expedient is elected. Private companies would be required to disclose when they have elected the practical expedient and the accounting policy on subsequent cash collections. The proposal would require prospective transition.

    In December, the FASB issued the proposed ASU. The comment period ends January 17, 2025.
  - **Presentation of contract assets and liabilities for private construction companies.** PCC members completed initial deliberations and decided on a private company alternative that would allow private construction companies to present contract-level contract assets and liabilities on a gross basis. The proposal would require a company to disclose when it has elected the alternative and apply the guidance retrospectively.

    A proposed ASU is expected in Q1 2025.

  The PCC also discussed outreach conducted with financial statement users on the financial reporting outcomes from applying the debt modifications guidance to term loans that are exchanged or modified. The PCC requested the FASB staff to research simplifying the term debt guidance, including an entity-wide accounting policy election to allow a private company to account for all modifications and exchanges under one model. PCC members also discussed the objectives and activities of a recently formed leases working group.

- **2024 FASB Agenda Consultation.** PCC members suggested areas for consideration, including increased financial reporting disaggregation, further debt modification simplifications, and expanding the PCC's technical agenda projects beyond private companies.

4 Recommended reading and CPE opportunities

Compliance's expanding coverage

Compliance is an undisputed critical function as not only an enforcer but increasingly as a trusted adviser to assist the business in preventing noncompliance. KPMG Principal and National Leader for Compliance Transformation and Regulatory Insights **Amy Matsuo** and KPMG Senior Associate for Regulatory Insights **Roxanne Oliver** discuss how the latest KPMG compliance insight summary, Compliance's Expanding Coverage, predicts the changing role of compliance in the coming years. Compliance is at a turning point as it moves from enforcer and overseer to enabler and guardian. The time is now for giving it the voice, skills and investment to realize the returns this pivot creates for the business – not only lessening issues, breaches and violations but also increasing brand satisfaction and productivity. Read the article.

Navigating the 'tax trifecta': A CFO guide in an era of disruption

In today's rapidly evolving business landscape, CFOs face an unprecedented convergence of challenges in the tax realm. KPMG Vice Chair – Tax **Rema Serafi** explores how the 'tax trifecta' – the impending expiration of Tax Cuts and Jobs Act (TCJA) provisions in 2025, the ongoing implementation of the OECD's global tax deal and waves of regulatory change – is reshaping the corporate tax function. As revealed in a recent KPMG survey of 500 US C-suite executives, this new reality demands a strategic pivot in how organizations approach tax management and its role within their operations. The survey findings paint a clear picture: 95% of executives agree the current tax environment is more challenging to predict and plan for than ever before. This complexity, however, presents an opportunity for CFOs to position their tax departments as strategic drivers of organizational success. Read the article.

Post-election policy scenarios through a tax lens

The next administration's policy agenda – from infrastructure investments and business incentives to tax and regulatory priorities – will help shape the business environment for years to come. KPMG Principal-in-Charge for Federal Tax Legislative and Regulatory Services **John Gimigliano** discusses how, as companies and their boards consider the policy implications of different election outcomes, tax policy should be front and center given the potential impacts on cash flow, investment location and the business landscape generally. Read the article.

Decarbonization as a business priority is here to stay

For a successful energy transition, manufacturers must be pragmatic while overcoming inherent sector challenges. The federal government reports that manufacturing accounts for

12% of US greenhouse gas pollution, with 75% of those emissions attributed to heat generated for industrial processes or transportation. Consequently, manufacturing companies now face mounting pressure from stakeholders globally to effectively reduce their greenhouse gas emissions. KPMG Principal and Industrial Manufacturing Strategy Leader **Todd Dubner** and KPMG Managing Director and Industrial Manufacturing Sustainability Leader **Josh Hesterman** discuss how leaning into sustainability can reduce risk, build trust and improve performance. Read the article.

Attracting, retaining talent with a purpose-driven approach to building culture

When a deliberate approach to culture is implemented correctly, employees feel empowered to create their ideal workplace. KPMG Managing Partner and North Central Head of Markets - Audit **James Powell** delves into how, within these environments, employees become culture champions who help bring a company's values to life. James discusses how according to **Marie Marquardt**, a partner in the KPMG Minneapolis office, this was a key factor that drove her to participate in the firm's Culture Champions Network, eventually rising to the level of Culture Legend and taking the opportunity to be an ambassador and steward of the firm where she can build connections, grow personally and professionally and strengthen our culture. Read the article.

Upcoming CPE opportunities

KPMG Financial Reporting View (FRV) offers additional CPE opportunities, including registration information for upcoming Financial Reporting webcasts. The webcasts feature KPMG professionals discussing current and future accounting and financial reporting matters, and guidance for implementing new regulatory requirements and accounting standards.

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Tune in to KPMG's Financial Reporting podcast series and listen to fresh insights from KPMG professionals as they discuss the implications of major accounting, financial reporting and other developments across a range of topics.

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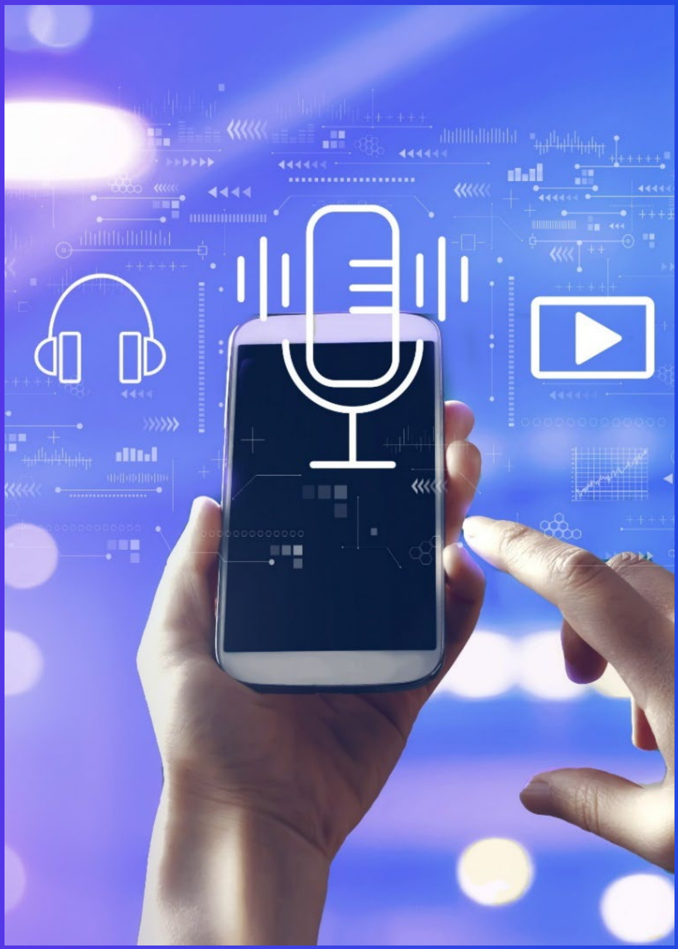

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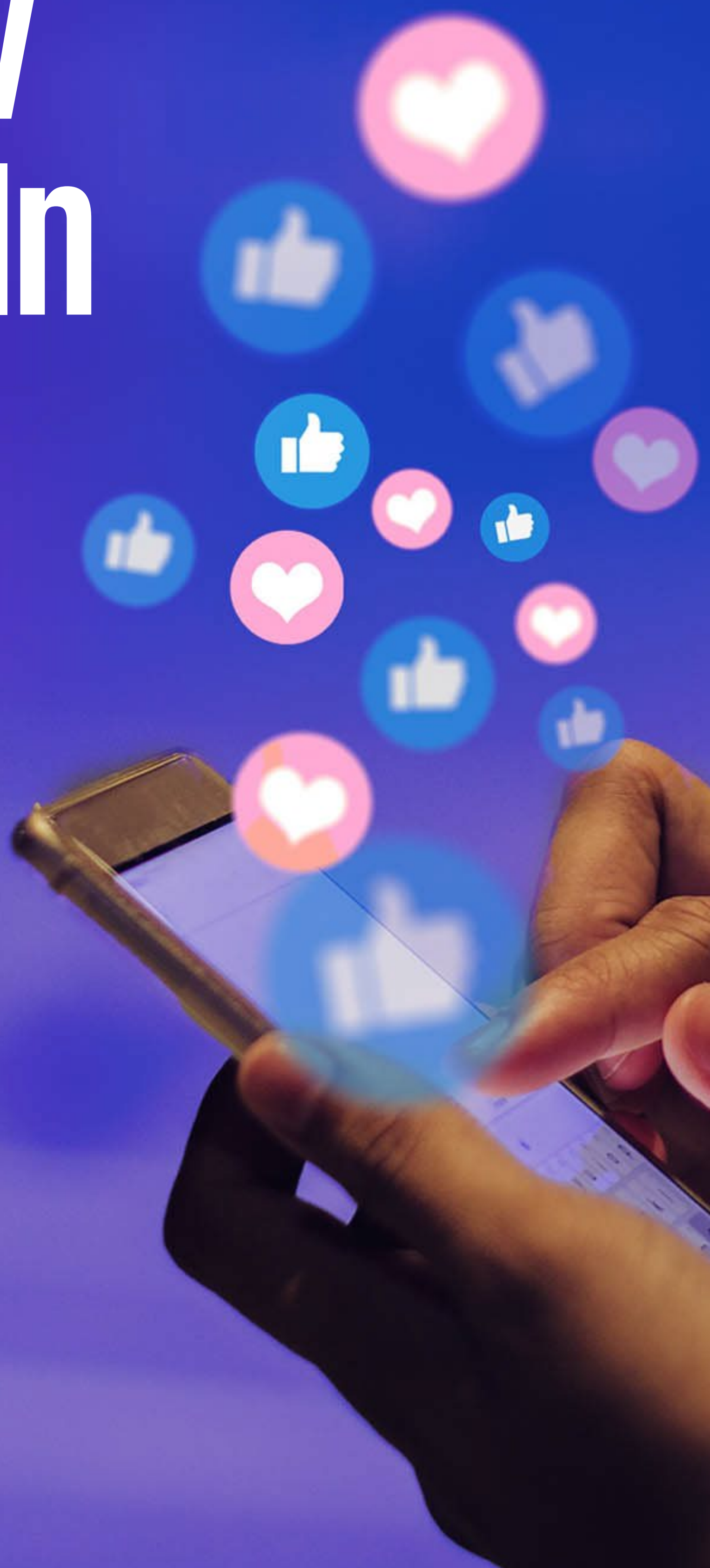
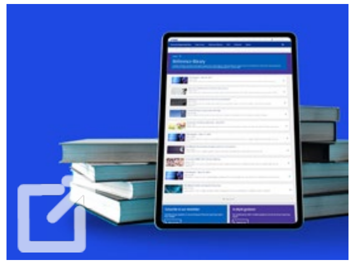


KPMG Financial Reporting View

Delivering guidance and insights, KPMG Financial Reporting View is ready to inform your decision making. Stay up to date with us.

Defining Issues

Our collection of newsletters with insights and news about financial reporting and regulatory developments, including Quarterly Outlook and FRV Weekly.



Handbooks

Our comprehensive in-depth guides include discussion and analysis of significant issues for professionals in accounting and financial reporting.

Hot Topics

Our detailed discussion and analysis on topical issues that are of significant importance to accounting and financial reporting professionals.

ASU effective dates table

Our ASU effective dates table has moved to our Financial Reporting View website to provide real time access.

Financial Reporting Podcasts

Tune in to hear KPMG professionals discuss major accounting and financial reporting developments.

CPE opportunities

Register for live discussions of topical accounting and financial reporting issues. CPE-eligible replays also available.

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Acknowledgments

This Quarterly Outlook is a publication of the Department of Professional Practice of KPMG LLP in the United States.

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