Quarterly Outlook

June 2025

Uncertainty surrounding US tariffs and other policy shifts are rippling through the financial reporting ecosystem. Meanwhile, a reconstituted SEC outlines its 2025 priorities and the FASB advances targeted standard-setting initiatives.

US GAAP

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Quarterly Outlook

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As we navigated this quarter, uncertainty continued to shape the accounting and financial reporting landscape. Ongoing developments in US tariffs, anticipated tax reform and other geopolitical events have contributed to a climate of unpredictability. The rapid pace of policy change—particularly around trade measures—has introduced ambiguity regarding the scope and duration of current tariffs. As we move through 2025's remaining quarters, companies must remain attentive, evaluate the potential implications to their financial statements and adapt their reporting strategies accordingly.

Continuing with the broader theme of regulatory uncertainty, sustainability reporting experienced a mix of progress and resistance this quarter. EU developments aimed at reducing the burden of sustainability reporting continued, while the International Sustainability Standards Board introduced measures to simplify climate reporting. Meanwhile, in the US, President Trump issued an executive order opposing state-level climate initiatives, even as California's climate laws took another step forward.

While we anticipate feedback on the FASB's three recent Invitations to Comment, with comments on the broad agenda consultation project due in June, the FASB remains focused on more targeted projects, issuing standards on share-based consideration payable to a customer and business combinations involving variable interest entities.

We also remind calendar year-end public companies that a new income tax disclosure standard is effective for them in 2025 (annual periods only). Early preparation for and understanding of the new requirements will be crucial for smooth implementation.

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

Contents

1 Current quarter financial reporting matters

Exploring the ripple effects of US tariffs on accounting and financial reporting

Tariff policies remain fluid in Q2 2025, with ongoing uncertainty around timing, scope, magnitude and regulatory enforcement. In our Q1 2025 Quarterly Outlook, we outlined key considerations related to revenue recognition, impairment and going concern. In this update, we include additional themes and insights into areas that are emerging as we navigate the effects of tariffs.

Access our FRV web page for more on the effects of tariffs on accounting and financial reporting. Additionally, our Handbook, Accounting for economic disruption, although not tariff-specific, is a useful tool for evaluating some of these potential effects.

- **Revenue.** Revenue contracts may be revised to address tariff costs or affected by changes in customer demand. Companies should carefully consider (1) various aspects of the revenue recognition guidance, including contract modifications, potential price concessions and collectibility risk, and (2) the need to revise estimates and judgments such as variable consideration and stand-alone selling prices. If companies pass tariff costs along to customers, these amounts represent additional transaction price that is included in revenue and cannot be offset against cost of goods sold. See chapter 2 of KPMG Handbook, Accounting for economic disruption.

- **Inventory.** Tariffs may lead to changes in inventory costs, stockpiling and potential inventory impairment. Tariff costs are capitalized if incurred in procuring the goods required to bring the inventory to its existing condition and location. Tariffs capitalized as inventory without corresponding increases in selling prices may result in inventory costs exceeding their net realizable value, leading to inventory impairment. For inventories measured at lower of cost or market, determining the replacement cost may require additional time, effort and judgment due to supply chain disruptions and price volatility. See chapter 4 of KPMG Handbook, Accounting for economic disruption.

  Companies should also evaluate production levels – if production is abnormally high, the fixed overhead allocated to each unit of production is reduced. However, in periods of abnormally low production, fixed overhead allocations are not adjusted, with unallocated overhead expensed in the period incurred.

- **Goodwill and long-lived assets.** Increased costs, changes in customer demand or supply chain disruptions due to tariffs could give rise to an impairment triggering event. If a quantitative impairment test is required, it may be necessary to adjust previous assumptions used in financial projections, such as sales growth, supply costs, tariff costs and capital spending. In some cases it may be more appropriate to use probability-weighted cash flow projections given the uncertainty and evolving trade environment. As part of the valuation analysis, companies should consider a market participant or investor view in determining which, and to what extent, tariffs and other measures should be reflected in the valuation analysis. See chapters 5 and 6 of KPMG Handbook, Accounting for economic disruption and KPMG newsletter, Tariffs and valuation.

- **Leases.** Relocations or facility closures may trigger lease modifications, reassessments or impairments of right-of-use assets. Lessors should also assess collectibility if lessee financial health is negatively affected. See chapter 6 of KPMG Handbook, Accounting for economic disruption.
- **Disposals and plans to abandon assets.** In response to regulatory and economic pressures, companies may dispose of assets or shift operations. If assets are to be sold, they must meet specific criteria to be classified as held-for-sale and possibly as discontinued operations. If a company commits to a plan to abandon a long-lived asset, it should accelerate depreciation or amortization. See chapter 10 of KPMG Handbook, Accounting for economic disruption.
- **Debt modifications and covenant compliance.** Borrowers should consider whether tariff-related disruptions affect debt covenant compliance, potentially requiring reclassification of debt from noncurrent to current. They also may encounter changes to existing debt agreements that require evaluating whether the change constitutes a troubled debt restructuring, debt modification or debt extinguishment. Lenders should assess whether tariffs have resulted in modifications or transfers between categories of debt securities, or require updates to expected credit loss estimates. See chapters 3 and 7 of KPMG Handbook, Accounting for economic disruption.
- **Going concern.** Companies may face liquidity challenges if they are unable to sufficiently increase selling prices to offset tariffs or due to decreased customer demand. Management should evaluate how tariffs will affect the company's ability to meet obligations as they become due. Given uncertainty about the timing and amount of the tariffs, relying on past experience to establish future expectations may not be appropriate. Overall, management's going concern assessment may be more complex and require additional judgment. See chapter 10 of KPMG Handbook, Accounting for economic disruption.
- **Restructuring.** Tariffs and related cost pressures may prompt companies to restructure operations, potentially leading to exit activities such as payment of severance, contract termination costs, and expenses to consolidate or relocate facilities and workforce. Companies should evaluate the timing of recognition and disclosure in the financial statements of these expenses. See chapter 8 of KPMG Handbook, Accounting for economic disruption.

In addition, companies may need to address subsequent events, credit impairment, deferred tax asset valuations and other financial statement disclosures, including risks and uncertainties. Issuers should also consider how tariffs may affect their risk factors required by Regulation S-K Item 101 and management's discussion and analysis required by Regulation S-K Item 303.

Other KPMG Handbooks with guidance on these topics:

Debt and equity financing

Discontinued operations and held-for-sale disposal groups

Employee benefits

PCAOB's future to be considered by Congress

On May 22, the House of Representatives passed a budget reconciliation bill. A portion of the bill focuses on the future state of the PCAOB and its functions. As currently drafted, the bill would fold all authorities of the PCAOB into the SEC. That would include the PCAOB's standard-setting function as well as its inspections and enforcement programs. According to the proposed legislation, "existing processes and regulations of the Board, including its auditing standards, shall continue in effect unless modified through rule making by the SEC."

The bill is currently awaiting consideration by the Senate and it is unclear whether it has similar support in that chamber of Congress. The bill would need to be approved by both chambers to become law.

SEC Speaks: What to watch in 2025

At the 2025 'SEC Speaks' conference, the SEC Chairman, Commissioners and senior staff outlined a robust regulatory and enforcement agenda, signaling a year of transformation. Key themes included anticipated rulemaking in emerging sectors, enforcement priorities and a renewed push for public engagement and transparency.

- **Anticipated rulemaking**. The SEC Chairman emphasized the agency's commitment to embracing innovation, particularly in the crypto space. A new Crypto Task Force is expected to spearhead rule proposals that would allow registrants to custody and trade both securities and non-securities. Additional rulemaking areas include expanding retail access to private funds and a comprehensive review of the Consolidated Audit Trail, focusing on cost, data scope and reporting requirements.
- **Enforcement priorities and organizational changes.** The Division of Enforcement highlighted a sharpened focus on fraud, insider trading, market manipulation and breaches of fiduciary duty. Individual accountability and retail investor protection remain central, with the Division reaffirming that cooperation and self-reporting will be rewarded.

  The SEC also reorganized the Division of Enforcement, appointing four deputy directors—three for regional oversight and one responsible for five specialized units (covering asset managers, cyber and emerging technology, complex products, market abuse and public finance) and the Office of the Whistleblower. In addition, field offices will remain active, with a focus on consistent national enforcement.
- **Public engagement.** The SEC Chairman also underscored the importance of transparent public engagement, directing the Division of Corporation Finance to maintain open communication, especially around innovative ideas.

KPMG resources: Web article

Other SEC headlines

SEC provides disclosure guidance on crypto securities offerings

The SEC Division of Corporation Finance has issued disclosure guidance to provide clarity on applying federal securities laws to crypto securities offerings and registrations. The guidance aims to promote transparency and protect investors while ensuring market integrity.

Of note, the guidance:

- focuses on disclosure requirements under the Securities Act of 1933 and the Securities Exchange Act of 1934, emphasizing investor protection, capital formation and market efficiency;
- highlights the importance of disclosures tailored to the issuer's specific circumstances while identifying common issues observed during filing reviews; and
- addresses disclosure requirements in Regulation S-K for Securities Act and Exchange Act registration statements, Form 20-F for foreign private issuers and Form 1-A for Regulation A exemptions.

Issuers are advised to consider their own facts and circumstances when preparing disclosures and to use judgment in determining the location for relevant disclosures and in avoiding unnecessary duplication.

KPMG resources: Web page

Paul Atkins sworn in as new SEC Chairman

On April 21, 2025, Paul S. Atkins was officially sworn in as the 34th Chairman of the SEC. He was nominated by President Trump on January 20, 2025, and subsequently confirmed by the US Senate on April 9, 2025.

Sustainability reporting – Uncertainty continues

The second quarter of 2025 has been marked by a complex interplay of regulatory momentum and political pushback in sustainability reporting. The EU continued developing proposals to reduce the burden of sustainability reporting, and the International Sustainability Standards Board (ISSB) published practical proposals intended to ease application. Meanwhile, in the US, California's climate laws took another step forward, but all state-level initiatives look set to face federal resistance.

In April, the Eighth Circuit granted a motion to suspend consolidated cases challenging the SEC's Climate Rule pending clarification from the SEC as to its intentions. This follows the SEC's vote and letter to the court to withdraw its defense of the Rule.

State-level climate laws

Following completion of the public consultation on its climate laws, the California Air Resources Board (CARB) hosted a public workshop on May 29. The workshop provided some clarity on the steps required to complete the rulemaking process, but raised many questions about how companies should prepare for reporting in 2026. It appears likely that *draft* regulations will not be published until the end of 2025, with CARB spending the remainder of this year soliciting feedback from constituents on aspects of the law, including the scope and parent company reporting. Despite this timeline, there is no change in the legally mandated reporting deadlines in 2026, although CARB continued to emphasize that it's looking for good faith efforts in the first year of reporting. See our webcast replays on the climate laws in general and a deep dive on TCFD reporting under SB-261.

On April 8, President Trump signed an executive order, Protecting American Energy from State Overreach, that opposes state-level climate-laws, regulations and policies. The Attorney General was due to report actions and recommendations to the President within 60 days.

EU developments

Key elements of the Omnibus package of proposals to reduce sustainability reporting and due diligence requirements continue to progress in the EU. The following is the latest on key proposals that progressed in Q2, but for a holistic update read our Hot Topics on the Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD), and listen to our podcast.

Select proposal	Status
Changes in the **CSRD scoping**, most notably by limiting the scope to include only 'large' (as defined) companies or groups with more than 1,000 employees.	— Discussion underway with co-legislators. — European Parliament is scheduled to vote on proposals in late October.
'Stop the clock', which would postpone the CSRD effective dates by two years for companies scheduled to first report for their fiscal years 2025 and 2026 (with a two-year opt-out).	— Published in the EU's Official Journal. — Pending transposition by Members States (deadline December 31).
EU Taxonomy	— Public consultation ended in March. — Amendments to the delegated Acts expected by the end of July.
Simplification of European Sustainability Reporting Standards (ESRS)	— A short public consultation is expected in August. — The deadline for the European Financial Reporting Advisory Group (EFRAG) to present the draft amendments to the European Commission is October 31.
Wave 1 'Quick Fix', which would extend certain phase-in relief to three years.	— Proposal expected to be adopted by the Commission in June, followed by a two-month scrutiny period.
VSME (voluntary reporting standard for non-listed micro, small and medium enterprises)	— The Commission is expected to endorse a standard for voluntary application by entities not in the scope of the CSRD in the coming weeks.

ISSB™ developments

In April, the ISSB proposed targeted amendments to IFRS S2, Climate-related Disclosures. The proposals, which cover the following, aim to provide practical relief in applying the standard: alternative global warming potential values, jurisdictional relief to use a method other than the GHG Protocol to measure GHG emissions, disclosing GHG emissions that arise from a company's financial investments, and disaggregating financed emissions by industry. Comments are due by June 27. Read more in our article, Proposals to simplify IFRS S2.

Sustainability resources to keep coming back to:

- Sustainability reporting for US financial reporting professionals: KPMG Financial Reporting View
- ISSB Standards Today: KPMG's latest ISSB insights and guidance
- ESRS Today: KPMG's latest ESRS insights and guidance

Other audit developments of interest to audit committees

PCAOB staff shares their perspectives from conversations with audit committees

The PCAOB staff has released a Spotlight publication that offers insights from interviews held during 2024 with 272 audit committee chairs of US public companies and broker-dealers. The publication serves as both a reflection of current challenges and a practical guide for strengthening collaboration between audit committees and auditors in today's dynamic environment.

The Spotlight highlights significant topics that emerged in the PCAOB's conversations with audit committee chairs, including factors affecting audit committees' relationships with the audit firms (such as communication, coordination and technical expertise), firm inspection reports, the economic environment, auditing and accounting matters (including critical audit matters) and the effect of emerging technologies (including data and analytics and AI).

It also provides answers to questions frequently asked by audit committees – particularly regarding the PCAOB's inspection process – and educational resources for audit committees.

PCAOB shares results and observations from 2024 inspections

The PCAOB released a Spotlight publication accompanying the release of the 2024 inspection reports for the six largest US registered audit firms. The Spotlight provides an overview of its 2024 inspections approach and discusses overall trends in identified deficiencies and key findings. It includes, among other things:

- examples of common deficiencies found in 2024 inspections;
- observations related to quality control systems; and
- areas with recurring deficiencies from 2022 to 2024 inspections.

In addition, the PCAOB published on its website:

- new charts illustrating, comparatively over time, data from the 2024 inspection reports for the six largest US registered audit firms; and
- new downloadable datasets containing public inspection information from audit firm inspection reports going back to 2018.

2 New standards and guidance

Gearing up for increased income tax disclosures

Public companies should be preparing to adopt ASU 2023-09, Improvements to income tax disclosures, this year-end. Among other things, the ASU significantly expands annual income tax disclosures by requiring much greater disaggregation of a company's effective tax rate and income taxes paid during the year based on certain prescribed categories.

Under the ASU, the effective tax rate reconciliation must include:

- specific federal categories, such as tax credits, changes in valuation allowances, nontaxable or nondeductible items, and changes in tax laws or rates;
- state and local taxes;
- foreign tax effects; and
- changes to unrecognized tax benefits.

Certain categories are further disaggregated by nature based on a 5% threshold. In addition, foreign tax effects are disaggregated by country *and* by nature based on the 5% threshold – this means that a foreign jurisdiction would be disaggregated if *either* the country meets the threshold in total (net) or any underlying reconciling items meet the threshold (gross). For all categories, reconciling items must be presented on a gross basis unless netting is explicitly permitted.

To prepare for adoption, companies should be developing and executing on their implementation strategy, including:

- Reviewing and understanding the new requirements.
- Considering whether to adopt the standard prospectively or retrospectively. If applying retrospective adoption, companies will need to consider how to gather prior year information, including the processes and controls to gather and present that information.
- Establishing a cross-functional team involving tax and accounting departments across all jurisdictions to ensure comprehensive compliance with the new requirements.
- Determining where disaggregated data is currently maintained.
- Considering leveraging technology and tax reporting software to streamline the data collection and disclosure process.
- Updating policies, processes and controls for the new required disclosures.

- Preparing draft income tax disclosures and discussing with their auditors and other internal stakeholders. Some companies plan to use 2024 actual results to draft the new income tax disclosures and decide whether to adopt the ASU retrospectively.

The ASU 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. While the ASU does not go into effect until year-end, public companies will need to consider the SAB 74 disclosure requirements when preparing their 2025 interim financial statements.

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

FASB issues ASU on share-based consideration payable to a customer

In May, the FASB issued ASU 2025-04, which aims to provide more consistent reporting for share-based consideration payable to a customer.

Background

Under current US GAAP, share-based consideration granted to a customer is treated as 'consideration payable to a customer' under Topic 606 (revenue recognition). Accordingly, these instruments are recognized as a reduction of revenue unless they represent a fair value payment for a distinct good or service under Topic 606 (i.e. different accounting applies).

When the share-based consideration is accounted for as a reduction of revenue (partially or entirely), it is still measured and classified (e.g. equity or liability) under Topic 718 (stock compensation) and then the grant-date fair value is recognized as a reduction of revenue under Topic 606 in the same manner as if the payment was made in cash.

For share-based consideration that vests immediately, revenue is generally reduced immediately based on the grant-date fair value of the award. Complexity arises when the share-based consideration includes vesting conditions. The type of condition (service versus performance) can significantly affect the timing and amounts of revenue recognized. If such an award contains a performance condition, revenue is reduced only to the extent the award is probable of vesting. In contrast, if the condition is treated as a service condition, revenue reduction depends on an entity's forfeiture policy. The complexity exists because there is diversity in how entities interpret whether an award contains a performance condition or a service condition.

Response

To address this diversity and other concerns the FASB issued ASU 2025-04, which:

- **Revises the definition of performance condition.** The ASU broadens the master glossary definition to explicitly include conditions based on a volume or monetary amount of purchases.
- **Eliminates the forfeitures policy election for awards with service conditions.** The ASU eliminates the policy election to recognize forfeitures as incurred (instead of estimating forfeitures).

- **Clarifies the applicability of the variable consideration constraint.** The ASU clarifies that the variable consideration constraint in Topic 606 does not apply to share-based consideration payable to a customer.

Effective dates

ASU 2025-04 is effective as follows.

Effective for:	All entities
Annual and interim periods in fiscal years beginning after…	December 15, 2026
Early adoption permitted?	Yes, for annual and interim financial statements that have not yet been issued. If an entity adopts the ASU in an interim period, it must adopt it as of the beginning of the annual reporting period that includes that interim period.

KPMG resources: Defining Issues

FASB issues ASU addressing business combinations involving VIEs

In May, the FASB issued ASU 2025-03, which modifies the Topic 805 (business combinations) framework for identifying the accounting acquirer in certain business combinations when the legal acquiree is a variable interest entity (VIE).

Background

Current guidance states the primary beneficiary is the accounting acquirer of a VIE in a business combination even if Topic 805's general factors used to identify the accounting acquirer (which apply to other business combinations) suggest that the transaction would otherwise be a reverse acquisition. The current guidance has often led to counterintuitive results when a VIE is acquired in a business combination.

Response

The ASU changes this guidance by requiring entities to use the general factors in Topic 805 to determine the accounting acquirer when a business combination involving a VIE is primarily effected through exchanging equity interests.

The determination of which entity is the accounting acquirer affects which assets and liabilities, if any, are remeasured at fair value at the acquisition date. If the transaction involves a registrant, this determination may also affect the form and content of current and prior period financial statements included in public filings. In many cases, determining which combining entity is the accounting acquirer is obvious. In other cases, significant judgment is necessary to make the determination.

Effective dates

ASU 2025-03 is effective as follows.

Effective for:	All entities
Annual and interim periods in fiscal years beginning after…	December 15, 2026

Effective for:	All entities
Early adoption permitted?	Yes

KPMG resources: Defining Issues

FASB ASU amends certain SEC paragraphs for SAB 122

The SEC issued SAB 122 in January 2025 to rescind the interpretative guidance in Staff Accounting Bulletin No. 121 (SAB 121), which added Section FF to SAB Topic 5 to reflect SEC staff interpretive guidance about how entities should account for and disclose an obligation to 'safeguard' digital assets. Companies are required to apply SAB 122 on a fully retrospective basis in annual periods beginning after December 15, 2024.

SAB 122 led the FASB to issue ASU 2025-02, which removes the SEC Codification paragraphs that previously addressed SAB 121. The amendments to Topic 405 were effective on issuance (March 18, 2025).

3 FASB projects and agenda priorities

FASB proposes new guidance on the accounting for debt exchanges

The FASB issued a proposed ASU (based on a consensus-for-exposure of the Emerging Issues Task Force) that would amend Subtopic 470-50 (modifications and extinguishments) to specifically address contemporaneous exchanges of cash between a debtor and creditor. The proposal intends to address issues stakeholders encounter when determining whether to evaluate the repayment and corresponding issuance of new debt with the same creditor collectively as an exchange under Subtopic 470-50 or separately as two distinct transactions (resulting in the extinguishment of the existing debt).

Currently, whether an exchange results in a modification or extinguishment of a debt depends on the outcome of a 10% cash flow test. Under the proposed amendments the debtor would automatically treat the exchange as a debt extinguishment if the following new criteria are met:

- the new debt obligation involves multiple creditors;
- the existing debt obligation has been repaid under its contractual terms or repurchased at market; and
- the new debt obligation was issued at market terms following the issuer's customary marketing process for issuing new debt.

The proposal would apply to all debtors that enter into transactions in the scope of Subtopic 470-50 that involve the contemporaneous exchange of cash between the same debtor and creditor in connection with the issuance of a new debt obligation with multiple creditors and the satisfaction of existing debt. For a transaction not meeting the proposed new criteria, the debtor would follow the current guidance by applying the 10% cash flow test (in paragraphs 470-50-40-10 to 40-12A) to determine whether to account for the exchange as a modification or extinguishment.

The comment period ended May 30.

PCC remains focused on its agenda priorities

The Private Company Council (PCC) met in March, primarily to discuss its four current agenda priorities. We also highlight substantive developments for certain of these projects that have occurred since the March discussions.

- **Credit losses—Topic 606 receivables project.** Since the March PCC meeting, the FASB has voted to proceed to a final update on this project. The final ASU (forthcoming) will provide all entities with a practical expedient when estimating expected credit losses for current accounts receivable and current contract assets arising from transactions accounted for under Topic 606 (revenue recognition). Under the practical expedient, when an entity estimates credit losses for an asset it will be able to assume current conditions as of the balance sheet date will not change for the asset's remaining life. An entity other than a public business entity that elects the practical expedient will also be able to make an accounting policy election to consider cash collections after the balance sheet date when estimating credit losses.

- **Presentation of contract assets and contract liabilities for construction contractors project.** Since the March PCC meeting, the FASB released a staff educational paper to (1) clarify guidance on the presentation and disclosure of retainage for construction contractors and (2) provide example voluntary disclosures of retainage that would (a) currently be permissible under US GAAP and (b) provide users with more detailed information about contract asset and contract liability balances.[1]

  The educational paper is intended to address feedback from private entity stakeholders about properly applying Topic 606 (revenue recognition) to retainage. Users of private entity financial statements have also indicated that information about retainage is important to their analyses.

  The paper does not change or modify current US GAAP and is not intended to be a comprehensive assessment of the accounting for retainage under Topic 606. In addition, the exhibits in the paper are illustrative and do not create additional requirements beyond those in current US GAAP.

- **Debt modifications and extinguishments research project.** PCC members discussed several debt-related issues, and requested that the FASB staff research the guidance on subjective acceleration clauses in determining the classification of debt as a current or noncurrent liability. Members also discussed the potential for a private company alternative related to the interest method, and cited troubled debt restructurings as an area to monitor feedback in the response to the FASB's Invitation to Comment, Agenda Consultation.

- **Lease accounting simplifications research project.** PCC members discussed recent activities of the PCC leases working group and the FASB post-implementation review project on leases.

In addition, the PCC:

- asked the FASB staff to conduct preliminary research on issues related to short-cycle manufacturing and weighted-average disclosure requirements; and

- decided to first monitor future public company implementation of new ASU 2024-03 (disaggregation of income statement expenses) before considering a similar 'disaggregation' project for private entities.

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1 Companies in the construction industry often are parties to contracts that contain retainage provisions. The provisions generally provide a form of security to the customer by allowing the customer to withhold a portion of the consideration billed by the company until certain project milestones are met or the project is completed.

EITF discusses accounting for paid-in-kind dividends on preferred stock

The Emerging Issues Task Force (EITF) met in March to discuss the accounting for paid in-kind dividends (PIK) on preferred stock. For background, an agenda request was submitted to the EITF noting that many entities issue preferred stock that pays periodic dividends by issuing additional shares of preferred stock or by increasing the liquidation preference on the originally issued shares of preferred stock. US GAAP does not currently address how such dividends should be initially measured, resulting in diversity in practice.

In response to the request, the EITF recommended to the FASB that PIK dividends be measured based on the contractual terms of the preferred stock instrument – i.e. at the stated PIK dividend rate. The EITF also recommended that the proposed changes apply to all entities. Since the March meeting, the FASB agreed to add the project to its technical agenda. The FASB plans to issue a proposed ASU in Q3.

The EITF also added to its agenda a project on applying Topic 715 (compensation-retirement benefits) to market-return cash balance plans. Stakeholders are seeking additional guidance on these plans because they (1) are becoming more prevalent and (2) have unique characteristics that may not align neatly with existing guidance under Topic 715. The agenda request aims to clarify how these plans should be accounted for and highlights the need for guidance to more accurately reflect these plans in an entity's financial statements. The EITF plans to discuss the issue at a future meeting.

FASAC discusses leases, consistency in US GAAP and forthcoming derivatives guidance

The Financial Accounting Standards Advisory Council (FASAC) met in March and primarily discussed the Post-Implementation Review (PIR) of Topic 842 (leases), consistency within accounting standards, and the FASB's derivatives scope refinement project.

- **PIR of Topic 842.** Members acknowledged that the benefits of the leases standard generally justified the costs associated with its implementation and ongoing application. They provided feedback to the Board for potential improvements in the leases guidance and the standard-setting process.

  Investor members appreciated the enhanced disclosures for offering better insights into a company's leasing activities, although some noted that excluding estimated variable lease payments from lease liabilities could lead to incomplete information for investors.

  Practitioner and preparer members pointed out significant challenges related to data and system readiness, as companies needed to gather and refine lease data, including nonstandard features, to meet the financial reporting and disclosure requirements. They also noted that implementation costs were higher than expected due to the substantial changes required in systems and processes.

  In addition, members shared mixed views about the proximity of implementing the leases standard alongside other major standards like Topic 606 (revenue recognition) with some suggesting that a Transition Resource Group could have facilitated smoother implementation.

- **Consistency within accounting standards.** Members discussed how the Board should consider consistency when amending US GAAP. Members discussed the implications of inconsistencies, such as having multiple definitions of a 'public entity', industry-specific guidance and diverse accounting models under US GAAP.

  Members acknowledged that pursuing broader consistency in US GAAP might not always be cost-effective. They noted that certain accounting differences are appropriate, particularly when industry-specific guidance or accounting based on management intent is involved. In addition, significant changes may not be warranted for well-established inconsistencies, which are generally understood and can be communicated through disclosures. Instead, members suggested that the Board focus on inconsistencies that create pervasive issues for stakeholders, aiming to reduce the extent of such discrepancies in future guidance.

- **FASB derivatives scope refinements project.** Some members raised concerns that certain options on debt instruments could qualify for the proposed scope exception from derivative accounting, potentially adding complexity in applying the scoping guidance under Topic 815. Further, because they believe the predominant characteristics assessment under current GAAP is rarely used in practice, some practitioners suggested that the Board use this project to provide additional qualitative factors in the derivatives guidance to assist in the assessment. Overall, members expressed support for the proposed guidance, aligning with feedback from comment letter respondents.

4 Recommended reading and CPE opportunities

Navigating tariffs: A playbook for retailers

For retailers, the latest disruption is a wave of tariff actions complicating costs and supply chains, highlighted by evolving discussions on goods from Mexico, Canada and the European Union. Resilient retailers are taking a two-pronged approach: using data-driven decisions to ease short-term pressures while building flexibility for shifting trade policies and geopolitical complexity. KPMG Supply Chain Offering Leader **Mary Rollman** and Tax Leader for Consumer & Retail **Heather Rice** discuss how aligning cost management, tax strategy and supply chain planning can enable retail leaders to weather today's disruptions and strengthen their long-term competitive position. They also discuss how KPMG has been helping retailers navigate the tariff changes and their impact. Read the article.

Why ESRS implementation goes beyond compliance: Lessons from the first wave

The first wave of European Sustainability Reporting Standards (ESRS) reports is revealing critical insights that extend far beyond regulatory compliance. KPMG Sustainability Leader **Maura Hodge** delves into the firm's *Real-time ESRS: FAST 50* analysis, which examines 50 early sustainability statements published in 2025 and uncovers significant learnings that apply to all companies navigating the evolving sustainability reporting landscape. She also explores how we have a first glimpse into the way companies evaluate impact and financial materiality together, with the analysis revealing striking disparities between identified impacts versus financial risks or opportunities. Read the article.

The CEO/CIO dynamic: Navigating GenAI implementation

AI is revolutionizing work across almost every industry. KPMG Consulting Leader and Deputy Chair-elect **Atif Zaim** discusses how leaders are facing immense pressure to substantiate the value of GenAI and effectively measure outcomes that demonstrate its impact to their people, boards and shareholders. In this piece, he delves into how leaders are aggressively moving from pilots to transformational programs to unlock new revenue streams, maximize ROI and cement their competitive advantage. To successfully implement GenAI or AI agents within an organization, it is crucial for the CEO and the CIO to work together to establish a shared vision and strategy to meet business objectives and maximize the return on their investment. Read the article.

How AI is accelerating the need for real world data in healthcare and life sciences

Considering the lack of high-quality data, companies that excel in compiling and managing data effectively are attracting interest from industry partners and distinguishing themselves from their rivals. KPMG Life Sciences Sector Leader **Kristin Pothier** and Healthcare Sector Leader **Ash Shehata** outline some of the ways emerging AI applications are fueling and redefining the need for real world data in healthcare and life sciences. Read the article.

Reshaping investment & advisory

Against the backdrop of rapidly emerging technologies such as GenAI as well as continued economic and regulatory uncertainties, the asset management industry is grappling with a myriad of challenges and opportunities. KPMG Building, Construction & Real Estate Sector Leader – Asset Management **Greg Williams** discusses the findings of the firm's 2025 *Asset Management Industry Outlook*, which surveyed more than 100 asset management executives to gain a greater understanding of how leaders are viewing the factors shaping their industry. Greg shares three notable trends that deserve greater focus: the challenges of interest rate uncertainty and economic shifts, the expected ROI of private debt and private equity and the enhanced interest in data centers driven by the adoption of GenAI. Read the article.

Upcoming CPE opportunities

KPMG Executive Education is hosting the **35th Annual Accounting & Financial Reporting Symposium** in Las Vegas December 3-4. KPMG and industry thought leaders will share insights on FASB and SEC developments, audit committee issues, federal tax policy, the economy and technical accounting hot topics. Discounts are available. Find out more information here.

KPMG Financial Reporting View (FRV) offers additional CPE opportunities, including registration information for upcoming Financial Reporting webcasts and podcasts. The webcasts and podcasts 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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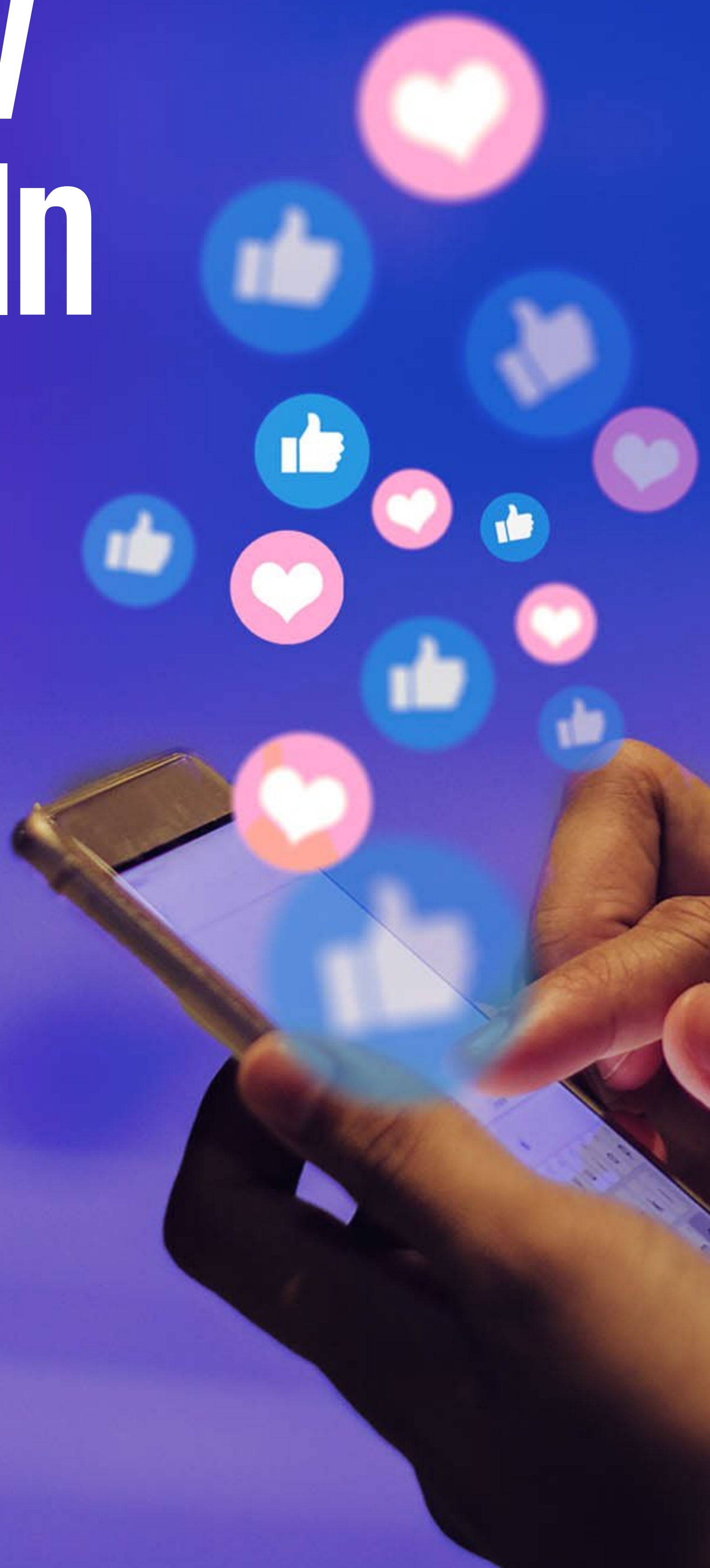

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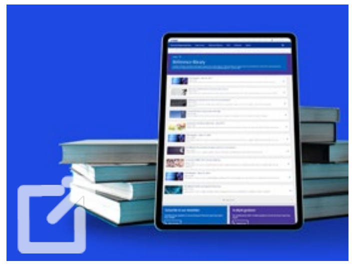

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Acknowledgments

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

Angie Storm
Deputy Chief Accountant

Robin Van Voorhies
Senior Director

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