

Year-end accounting and reporting update



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Agenda

- ▶ Final ASUs
 - ▶ Disaggregation of income statement expenses (ASC 220-40)
 - ▶ Improvements to income tax disclosures (ASU 2023-09)
 - ▶ Accounting for and disclosure of software costs (ASU 2025-06)
 - ▶ Measurement of Credit Losses for Accounts Receivable and Contract Assets (ASU 2025-05)
- ▶ Draft ASUs
 - ▶ Accounting for certain debt exchanges
- ▶ FASB Agenda
- ▶ Trends in SEC comment letters
- ▶ Climate disclosures

Overview of the disaggregation of income statement expenses standard (ASC 220-40)

Updated September 2025

Disaggregation of income statement expenses

Accounting Standards Update (ASU) 2024-03 – overview

The guidance addresses investors' requests for more detailed information about expenses.

- ▶ A public business entity (PBE or entity) is required to disclose, on an annual and interim basis, disaggregated information about certain income statement expense line items
- ▶ The guidance requires an entity to disclose the total amount of selling expenses in annual and interim periods — and, on an annual basis, how the entity defines selling expenses
- ▶ An entity may use estimates or other methods that produce a reasonable approximation of amounts required to be disclosed
- ▶ The guidance does not change what an entity presents on the face of its income statement

Transition	Effective date for calendar year-end entities	Early adoption
Prospective, optional retrospective	Annual periods – 2027 Interim periods – 2028	Yes

PBEs should evaluate whether their existing systems are capable of capturing the data required and whether additional processes and controls are necessary.

Disaggregation of income statement expenses (cont.)

“Relevant” expense line items

PBEs are required to disclose in a tabular format the disaggregation of each “relevant” expense line item on the face of the income statement into required categories:

Categories
Purchases of inventory in the scope of Accounting Standards Codification (ASC) 330, <i>Inventory</i>
Employee compensation
Depreciation ¹
Intangible asset amortization ¹
Depreciation, depletion and amortization (DD&A) of capitalized acquisition, exploration and development costs recognized as part of oil- and gas-producing activities or other amounts of depletion expense
Specified expenses, gains and losses for which there is an existing requirement to disclose both the amount and line item in the income statement where they are included
Specified expenses, gains and losses for which there is an existing requirement to disclose the amount but no requirement to disclose the line item in the income statement where they are included if the amount is recorded entirely in one line item
Expense reimbursements related to cost-sharing or cost-reimbursement arrangements ²
Other remaining amounts after breaking out the above categories, including a qualitative disclosure
Total for each relevant income statement expense line item

Relevant expense line items are those within continuing operations that contain any of these categories:

For each relevant expense line item, an entity is also required to disclose:

¹ Amortization of right-of-use assets for finance leases and amortization of leasehold improvements need to be included in either the depreciation or intangible asset amortization required category.

² This category applies to (1) expense reimbursements received from another entity if the entity chooses to separately disclose the reimbursement and (2) expense reimbursements paid by the entity to another entity.

Disaggregation of income statement expenses (cont.)

Purchases of inventory

- ▶ Purchases of inventory include costs incurred to obtain raw materials, finished goods and other externally purchased inputs
- ▶ An entity should only include in purchases of inventory amounts in the scope of ASC 330 or an industry subtopic in ASC 330 (e.g., ASC 905-330, *Agriculture – Inventory*)
- ▶ An entity would not include in purchases of inventory any of the following:
 - ▶ Amounts recognized as part of a business combination
 - ▶ Amounts recognized as part of a joint venture formation
 - ▶ Amounts recognized as part of the initial consolidation of a variable interest entity that is not a business combination
- ▶ Amounts recognized from excluded transactions are disclosed in the “other amounts” category or as a separate category in the disaggregated expense table, regardless of what basis is used to disaggregate relevant expense line items that contain amounts in the scope of ASC 330

Disaggregation of income statement expenses (cont.)

Inventory within the scope of ASC 330

- ▶ The guidance provides entities with two acceptable bases for disclosing the disaggregation of a relevant expense line item that contains expense amounts related to inventory in the scope of ASC 330 (e.g., cost of products sold):
 - ▶ An entity's chosen basis needs to be applied consistently to all required expense categories

	Cost-incurred	Expense-incurred
Costs	<ul style="list-style-type: none"> ▶ Costs incurred that were capitalized to inventory in accordance with ASC 330 during the current reporting period 	<ul style="list-style-type: none"> ▶ Expense amounts related to the derecognition of inventory in the current reporting period that were previously capitalized in accordance with ASC 330
	<ul style="list-style-type: none"> ▶ Costs incurred that were directly expensed during the reporting period, including those that were capitalizable in accordance with ASC 330 but were directly expensed 	
Additional required categories	<ul style="list-style-type: none"> ▶ Entity also discloses the following additional categories to reconcile costs incurred to the relevant expense line item <ul style="list-style-type: none"> ▶ Changes in inventories¹ ▶ Other adjustments and reconciling items 	<ul style="list-style-type: none"> ▶ None
Practical expedient	<ul style="list-style-type: none"> ▶ When substantially all of an entity's income statement expense line item comprises purchases of inventory in the scope of ASC 330, the entity may elect a practical expedient to not disaggregate that expense line item² 	

¹ Changes in inventories equals the difference between the amount of inventory included on the balance sheet at the end of the prior reporting period and the amount at the end of the current reporting period.

² An entity is required to disclose a qualitative description of the composition of the line item when applying this practical expedient.

Disaggregation of income statement expenses (cont.)

Illustration: cost-incurred basis vs. expense-incurred basis

- ▶ Company X presents cost of goods sold on the face of the income statement, which includes expense amounts related to purchases of inventory in the scope ASC 330. Company X had no (\$0) inventory at the beginning of the year and has the following activity during the year:
 - ▶ Purchases of inventory: \$500
 - ▶ Cost of inventory sold: \$300
- ▶ Disclosure under the cost-incurred basis and the expense-incurred basis:

	<u>Cost-incurred basis</u>	<u>Expense-incurred basis</u>
Purchases of inventory	\$ 500	\$ 300
Changes in inventories	(200) ⁽¹⁾	- ⁽²⁾
Cost of goods sold	<u>300</u>	<u>300</u>

¹ Changes in inventories: beginning balance less ending balance (\$0 - \$200).

² Changes in inventories is not a necessary line when applying the expense-incurred basis.

Disaggregation of income statement expenses (cont.)

Employee compensation

Definition of employee

- ▶ Same definition used in ASC 718, *Compensation – Stock Compensation*, with minor conforming changes to consider forms of compensation other than stock compensation¹
- ▶ Includes full-time, part-time, temporary, seasonal and inactive employees

Definition of employee compensation

Included in employee compensation

Examples include:

- ▶ Wages and salaries
- ▶ Profit-sharing
- ▶ Bonuses
- ▶ One-time termination benefits²
- ▶ Post-employment benefits
- ▶ Employee stock ownership plans
- ▶ Employee share purchase plans
- ▶ Compulsory payments paid to the government that confer entitlement to receive a (contingent) future social benefit

Excluded from employee compensation

- ▶ Compensation amounts related to non-employees (e.g., independent contractors)

Practical expedient

- ▶ Entities that present “salaries and employee benefits” (or a similarly named line item) on the face of the income statement to comply with Rule 9-04 of Regulation S-X are permitted to use those amounts for purposes of disclosing employee compensation rather than the amounts determined in accordance with the definition of employee compensation

¹ Changes to the definition do not affect how the term is currently interpreted for the purpose of applying the guidance in ASC 718.

² One-time employee termination benefits accounted for in accordance with ASC 420, *Exit or Disposal Cost Obligations*, are required to be disclosed separately from employee compensation in the disaggregated tables.

Disaggregation of income statement expenses (cont.)

Depreciation, amortization, DD&A and depletion expense

- ▶ The amounts provided separately for depreciation and intangible asset amortization need to be consistent with the requirements in ASC 360-10, *Property, Plant, and Equipment – Overall*, and ASC 350-30, *Intangibles – Goodwill and Other – General Intangibles Other Than Goodwill*
 - ▶ Depreciation or amortization should include:
 - ▶ Amortization of right-of-use assets for finance leases
 - ▶ Amortization of leasehold improvements
 - ▶ Amortization of internal-use software
 - ▶ Amortization should include capitalized costs related to software to be sold, leased or marketed are subject to ASC 350-30
- ▶ DD&A recognized as part of oil- and gas-producing activities in accordance with the guidance on extractive activities in ASC 932-360 is required to be disclosed as a separate required category
 - ▶ Entities that recognize other amounts of depletion expense (e.g., depletion expense in the scope of ASC 930, *Mining*) would also provide this disclosure

Disaggregation of income statement expenses (cont.)

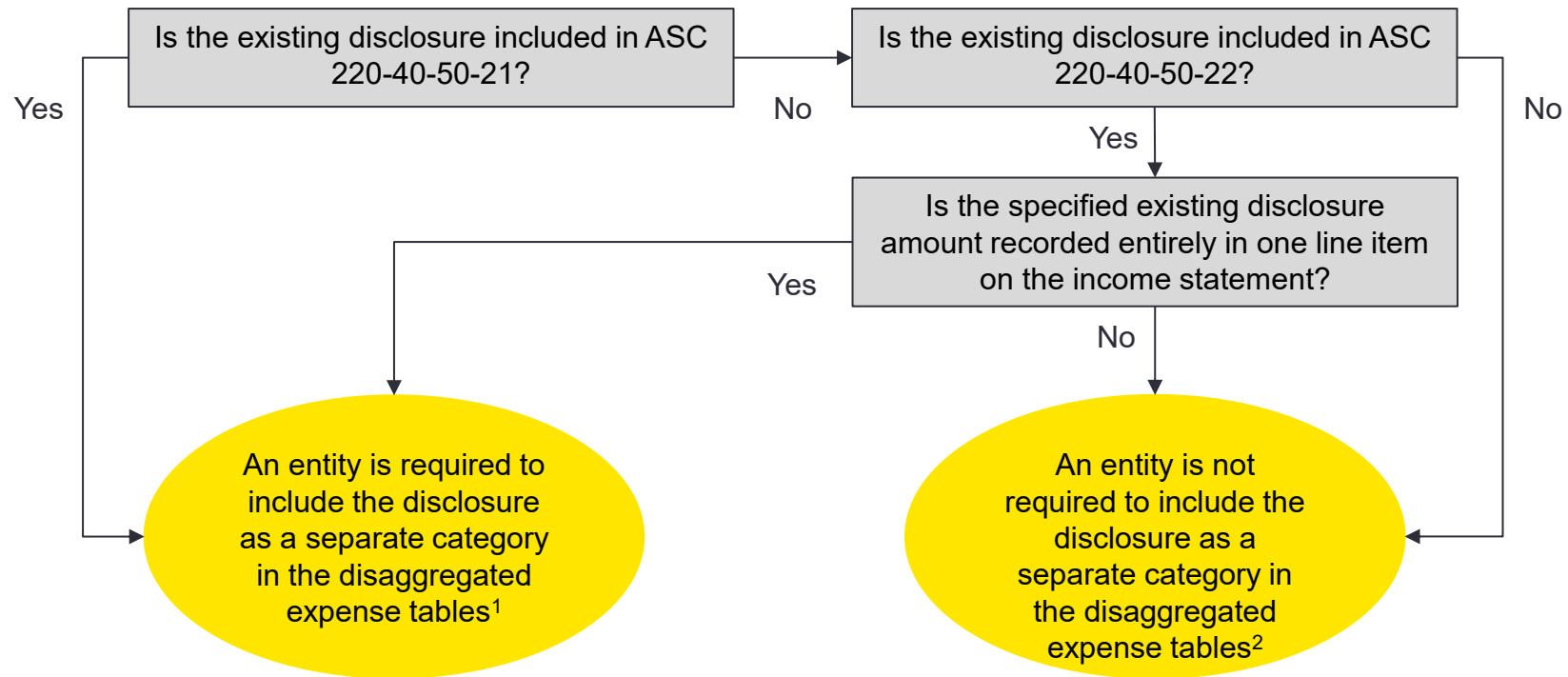
Tabular integration of other disclosure requirements

Other disclosures that are required to be included in the disaggregated expense table(s)¹	Examples of the specified disclosures include (the ASU includes the complete list):
<p>Specified expenses, gains and losses for which there is an existing requirement to disclose both the amount and line item in the income statement where they are included (ASC 220-40-50-21)</p>	<ul style="list-style-type: none"> ▶ Impairment losses on intangible assets and long-lived assets ▶ Gains and losses on long-lived assets classified as held for sale or disposed of ▶ Each major type of cost associated with an exit or disposal activity ▶ Gains and losses on derivative instruments and related hedged items
<p>Specified expenses, gains and losses for which there is an existing requirement to disclose the amount but no requirement to disclose the line item in the income statement where they are included if the amount is recorded entirely in one line item (ASC 220-40-50-22)</p>	<ul style="list-style-type: none"> ▶ Provision for expected credit losses ▶ Amortization of costs to obtain a contract with a customer ▶ Operating lease cost ▶ Short-term lease cost ▶ Loss contingencies recognized ▶ Foreign currency transaction gains or losses ▶ Warranty expense

¹ These categories are disclosed in the disaggregated expense tables using the same frequency (i.e., in interim and annual periods) as required by the corresponding ASC topic for the category.

Disaggregation of income statement expenses (cont.)

Tabular integration of other disclosure requirements (cont.)



¹ An entity is not required to include the disclosures listed in ASC 220-40-50-21 and 50-22 in the interim disaggregated expense tables if the existing disclosure requirements referenced in those paragraphs are not required in interim reporting periods. If an entity does not make an existing disclosure in ASC 220-40-50-21 and 50-22 (e.g., because it concludes the disclosure is immaterial), the guidance does not affect that conclusion.

² Existing disclosures that are not separately disclosed as an expense category are included in "other amounts" (or a similarly titled caption) in the disaggregated expense tables and described qualitatively.

Disaggregation of income statement expenses (cont.)

Expense reimbursements in relevant expense line items

- ▶ An entity that participates in cost-sharing or cost-reimbursement arrangements may receive or pay reimbursements from or to another entity
- ▶ The presentation of reimbursements in the disaggregated expense tables depends on whether the entity receives or pays the reimbursement

Expense reimbursement received	Expense reimbursement paid
<p>An entity that includes an expense reimbursement received from another entity in a relevant expense line item needs to either:¹</p> <ul style="list-style-type: none">▶ Separately disclose the amount of the expense reimbursement in the disaggregated expense table²▶ Disclose the expense amounts of the required categories net of the related reimbursement amount	<p>An entity that includes an expense reimbursement paid to another entity in a relevant expense line item is required to separately disclose the amount of that expense reimbursement in the disaggregated expense tables³</p>

¹ An entity that receives an expense reimbursement from another entity is also required to disclose how the expense reimbursements are included in the disaggregated expense tables.

² An entity that receives reimbursement from another entity and applies this method is also required to disclose qualitative descriptions of the expense categories based on the natural expense classification to which the reimbursement relates.

³ Qualitative descriptions of the expense categories based on their natural expense classification to which the reimbursement relates are also required.

Disaggregation of income statement expenses (cont.)

Other amounts remaining in relevant expense line items

- ▶ An entity is required to quantitatively disclose the other amounts remaining within each relevant expense line item in the tabular disclosure after:
 - ▶ Breaking out the required expense categories
 - ▶ Integrating the specified existing disclosures and separately disclosing other amounts (e.g., expense reimbursements)
- ▶ An entity is also required to qualitatively describe the composition of other amounts remaining based on the natural expense classifications of the amounts

An entity is not precluded from providing further disaggregation of relevant expense line items before applying the guidance on other amounts remaining (i.e., an entity can elect to separately disclose expense categories that are not required under the guidance).

However, an entity may not combine the voluntary disclosure amounts with the expense categories that are required to be separately disclosed.

Disaggregation of income statement expenses (cont.)

Expenses not required to be disaggregated

Guidance	Example
<p>An entity is not required to disaggregate relevant expense line items that consist entirely of one required expense category. (ASC 220-40-50-12)</p>	<ul style="list-style-type: none"> ▶ Line item on the income statement that is named depreciation expense (or similarly named line item) and consists entirely of depreciation expense
<p>An entity is not required to further disaggregate costs capitalized as an asset (with the exception of inventory). (ASC 220-40-50-14 and 15)</p>	<ul style="list-style-type: none"> ▶ Employee compensation costs capitalized when self-constructing new property, plant and equipment for internal use ▶ Capitalized costs to fulfill a contract with a customer
<p>An entity is not required to disaggregate an expense amount if all of the following criteria are met:</p> <ol style="list-style-type: none"> 1. It relates to an obligation that will be settled in the future and there is uncertainty about timing of settlement. 2. It relates to an obligation based on an estimate of a future expenditure. 3. It is not entirely made up of one required expense category. <p>(ASC 220-40-50-16 and 17)</p>	<ul style="list-style-type: none"> ▶ Provision for losses on contracts under ASC 605-35, <i>Revenue Recognition – Construction-Type and Production-Type Contracts</i> ▶ Claims and claims adjustment expenses ▶ Asset retirement obligations
<p>An entity's share of earnings or losses from investments accounted for under the equity method is not a relevant expense line item. Additionally, an entity is not required to further disaggregate its disclosure of summarized information of results of operations of equity method investments. (ASC 220-40-50-13)</p>	<ul style="list-style-type: none"> ▶ This exception applies specifically to (1) earnings or losses from investments accounted for under the equity method in accordance with the guidance on investments in ASC 323-10-45-1 and (2) summarized information of results of operations of equity method investments disclosed in accordance with ASC 323-10-50-3(c)

Disaggregation of income statement expenses (cont.)

Disclosure of selling expenses

- ▶ The guidance requires the disclosure of the total amount of selling expenses in annual and interim periods — and, on an annual basis, how the entity defines selling expenses
 - ▶ If an entity changes the definition of selling expenses in an interim period, the entity must disclose the change, the new definition of selling expenses and recast prior periods
- ▶ An entity's definition of selling expenses is required to include only items presented as expenses in the income statement

The FASB said management has broad latitude in defining selling expenses, including whether selling expenses include or exclude fulfillment costs, costs associated with physical sales locations, websites, allocation of management expenses and many other acceptable judgments made by preparers.

Disaggregation of income statement expenses (cont.)

Changes in elected disclosure alternatives and definitions

- ▶ The disclosure requirements need to be applied consistently for all periods presented
- ▶ If an entity changes its display of the required disclosures as a result of a change in the election of an alternative or in a definition of a disclosure under the guidance, it is required to:
 - ▶ Disclose the reason for the change in the interim and annual reporting periods affected by the change
 - ▶ Recast the prior periods presented for comparative purposes;¹ if it is impracticable to recast prior periods, an entity is required to disclose that fact and explain why
- ▶ These changes do not represent a change in accounting principle in accordance with ASC 250, *Accounting Changes and Error Corrections*

If an entity makes a voluntary classification or presentation change to its income statement (e.g., an entity changes the income statement line item an expense amount is included within), we believe it should recast prior period amounts within the income statement and the disaggregated expense disclosure. The entity should also assess whether the reclassification or presentation change could be a voluntary change in accounting principle or an error correction under ASC 250.²

¹ Recasting the prior periods presented is not required when changes in facts and circumstances result in a change in the disclosure requirement for items in ASC 220-40-50-22. Refer to slide 9 for discussion on items included in ASC 220-40-50-22.

² Refer to our Financial reporting developments (FRD) publication, *Accounting changes and error corrections*, for additional information.

Disaggregation of income statement expenses (cont.)

Example footnote disclosure – services provider entity

Background: For the year ended 31 December 20X4, Entity X, a services provider, presents the following comparative income statement:

Consolidated Income Statement			
For the Years Ended 31 December 20X4, 20X3 and 20X2			
	<u>20X4</u>	<u>20X3</u>	<u>20X2</u>
Revenues	\$ 737,132	\$ 710,146	\$ 694,180
Cost of sales	140,055	170,435	145,778
Selling, general, and administrative expenses	497,962	458,215	471,626
Research and development expenses	57,235	52,174	48,898
Depreciation and amortization	31,578	26,178	23,628
Operating income	10,302	3,144	4,250
Interest expense	3,145	2,665	2,297
Income before income taxes	7,157	479	1,953
Income tax expense	1,503	101	410
Net income	\$ 5,654	\$ 378	\$ 1,543

Relevant expense line items

Example footnote disclosure: selling expenses

During the years ended 31 December 20X4, 20X3 and 20X2, selling expenses were \$224,536, \$223,493 and \$231,892, respectively. The entity's selling expenses include those expenses related to advertising and certain customer acquisition-related costs.

Disaggregation of income statement expenses (cont.)

Example footnote disclosure – services provider entity (cont.)

Example footnote disclosure: Disaggregation of relevant expense line items

Cost of sales	20X4	20X3	20X2
Employee compensation	86,336	83,903	100,009
One-time employee termination benefits ¹	7,434	39,298	–
Other cost of sales ^(a)	46,285	47,234	45,769
Total cost of sales	140,055	170,435	145,778

(a) Other cost of sales consist primarily of subcontractor costs and travel expenses for the years ended 31 December 20X4, 20X3 and 20X2.

Selling, general, and administrative	20X4	20X3	20X2
Employee compensation	278,859	238,272	301,841
One-time employee termination benefits ¹	19,243	60,635	–
Other SG&A ^(b)	199,860	159,308	169,785
Total SG&A	497,962	458,215	471,626

(b) Other SG&A consists primarily of professional services fees and the costs paid to third parties for printing, publications and advertising for the years ended 31 December 20X4, 20X3 and 20X2.

Research and development (R&D)	20X4	20X3	20X2
Employee compensation	46,242	41,379	40,764
One-time employee termination benefits ¹	1,454	1,855	–
Other R&D ^(c)	17,836	16,845	15,890
Cost reimbursements ^{(d)2}	(8,297)	(7,905)	(7,756)
Total research and development	57,235	52,174	48,898

(c) Other R&D consists primarily of payments to third parties for professional services and licenses of intellectual property for the years ended 31 December 20X4, 20X3 and 20X2.

(d) Cost reimbursements consist of payments from a strategic partner for employee compensation and materials costs related to R&D incurred as part of a funded research and development arrangement for the years ended 31 December 20X4, 20X3 and 20X2.

Depreciation and amortization	20X4	20X3	20X2
Depreciation	19,126	17,984	17,893
Intangible asset amortization	12,452	8,194	5,735
Total depreciation and amortization	31,578	26,178	23,628

Additional background:

¹ One-time employee termination benefits are recognized in cost of sales, SG&A and R&D.

² Cost reimbursements from a strategic partner related to a funded R&D cost-sharing arrangement are recognized in R&D.

Disaggregation of income statement expenses (cont.)

Example footnote disclosure – banking entity

Background: For the year ended 31 December 20X4, Entity X, a bank, presents the following comparative income statement:

Consolidated Income Statement			
For the Years Ended 31 December 20X4, 20X3 and 20X2			
	20X4	20X3	20X2
Interest Income			
Loans	\$ 2,795,052	\$ 2,142,873	\$ 2,072,997
Investment securities	628,887	442,550	465,842
Other	209,629	116,461	79,193
Total interest income	<u>3,633,568</u>	<u>2,701,884</u>	<u>2,618,032</u>
Interest expense			
Deposits	302,797	30,280	151,399
Borrowed funds	279,505	83,852	167,703
Total interest expense	<u>582,302</u>	<u>114,132</u>	<u>319,102</u>
Net interest income	3,051,266	2,587,752	2,298,930
Provision for (recapture of) credit losses	116,461	(186,337)	372,674
Net interest income after provision for (recapture of) credit losses	2,934,805	2,774,089	1,926,256
Noninterest income			
Service charges on deposit accounts	201,702	171,062	151,969
Other service charges and fees	282,383	239,487	212,757
Total noninterest income	<u>484,085</u>	<u>410,549</u>	<u>364,726</u>
Noninterest expense			
Salaries and employee benefits ¹	1,464,608	1,176,183	1,365,443
Occupancy and depreciation	376,587	279,875	349,679
Data processing	166,111	146,308	161,046
Advertising and marketing	56,876	30,555	28,192
Professional fees	73,230	61,459	74,473
Other	30,513	21,399	24,804
Total noninterest expense	<u>2,167,925</u>	<u>1,715,779</u>	<u>2,003,637</u>
Income before income taxes	1,250,965	1,468,859	287,345
Income tax expense	262,703	308,460	60,342
Net income	<u>\$ 988,262</u>	<u>\$ 1,160,399</u>	<u>\$ 227,003</u>

Practical expedient:

¹ The entity applies the practical expedient for employee compensation and elects to not repeat the amount presented on the face of the income statement (i.e., salaries and employee benefits) in the notes to the financial statements.

Relevant expense line items

Disaggregation of income statement expenses (cont.)

Example footnote disclosure – banking entity (cont.)

Example footnote disclosure: disaggregation of relevant expense line items

<u>Occupancy and depreciation</u>	<u>20X4</u>	<u>20X3</u>	<u>20X2</u>
Depreciation	164,232	146,403	145,907
Operating lease expense ¹	152,445	103,239	149,842
Other occupancy expenses ^(a)	59,910	30,233	53,930
Total occupancy and depreciation	376,587	279,875	349,679

(a) Other occupancy expenses consist primarily of repair and maintenance expense for the years ended 31 December 20X4, 20X3 and 20X2.

<u>Other</u>	<u>20X4</u>	<u>20X3</u>	<u>20X2</u>
Intangible asset amortization	13,139	10,980	10,068
Other ^(b)	17,374	10,419	14,736
Total other	30,513	21,399	24,804

(b) Other consists primarily of regulatory licensing fees and charitable contributions for the years ended 31 December 20X4, 20X3 and 20X2.

Example footnote disclosure: selling expenses

During the years ended 31 December 20X4, 20X3 and 20X2, the entity defined selling expenses to be the same as its advertising and marketing expenses, which are presented on the face of its consolidated income statement. The entity's advertising and marketing expenses include costs incurred for advertising, market research and business development.

Additional background:

¹ Operating lease expense is recognized entirely within occupancy and depreciation expenses.

Disaggregation of income statement expenses (cont.)

Example footnote disclosure – insurance entity

Background: For the year ended 31 December 20X4, Entity X, an insurer, presents the following comparative statement of operations. Assume Entity X (1) capitalizes certain employee compensation costs in accordance with ASC 944-30 as a deferred acquisition costs (DAC) asset, (2) accrues for applicable employee compensation costs as part of claims reserves, and (3) includes administrative function expenses, like other employee compensation and operating lease expense, within other expense.

Consolidated Statement of Operations			
For the Years Ended 31 December 20X4, 20X3 and 20X2			
	<u>20X4</u>	<u>20X3</u>	<u>20X2</u>
Revenues			
Premiums	\$ 6,000	\$ 5,000	\$ 9,500
Fee income	5,000	3,500	7,250
Net investment income	5,500	4,000	550
Net realized gains (losses)	750	1,000	2,500
Other revenues	500	400	300
Total revenues	17,750	13,900	20,100
Expenses			
Benefits/Claims and claim adjustment ⁽¹⁾	\$ 5,700	\$ 6,100	\$ 9,000
Interest credited	5,500	5,200	7,800
Amortization of deferred acquisition costs ⁽²⁾	5,450	3,200	1,700
Interest expense	350	325	305
Other expense	100	75	95
Total expenses	17,100	14,900	18,900
Income before income taxes	650	(1,000)	1,200
Income tax expense (benefit)	137	(210)	250
Net income (loss)	\$ 513	\$ (790)	\$ 950

Insurance considerations:

(1) Entity X is not required to disaggregate expense amounts related to benefits/claims and claim adjustment into the required expense categories. This expense related to obligations that will be settled in the future, and for which there is uncertainty about the timing of settlement, is based on an estimate of a future expenditure and is not entirely made up of one required expense category (see slide 6).

(2) Entity X is not required to further disaggregate costs capitalized as DAC, even though the costs capitalized include employee compensation (see slide 6).

Relevant expense line item

Disaggregation of income statement expenses (cont.)

Example footnote disclosure – insurance entity (cont.)

Example footnote disclosure: disaggregation of relevant expense line items

Other expense	20X4	20X3	20X2
Employee compensation	26	14	28
Depreciation	20	19	18
Intangible asset amortization	24	27	25
Operating lease expense ⁽¹⁾	8	7	6
Other expenses ^(a)	22	8	18
Total other expense	100	75	95

(a) Other expenses consisted primarily of regulatory licensing fees and charitable contributions for the years ended 31 December 20X3, 20X2 and 20X1.

Example footnote disclosure: selling expenses

During the years ended 31 December 20X4, 20X3 and 20X2, selling expenses were \$12, \$6 and \$14, respectively. The entity's selling expenses include costs incurred for advertising, market research and business development.

Additional background:

¹ Operating lease cost is recognized entirely within other expense.

Improvements to income tax disclosures (ASU 2023-09)

Improvements to income tax disclosures (ASU 2023-09)

FASB – Final guidance

The guidance is intended to improve the transparency and decision-usefulness of income tax disclosures.

- ▶ Public business entities (PBEs) are required to disclose specific categories in the rate reconciliation and additional reconciling items in certain categories
- ▶ All entities are required to disclose income taxes paid (net of refunds received) on an annual basis:
 - ▶ Disaggregated by federal (national) in the country of domicile, state and foreign jurisdictions
 - ▶ Disaggregated by individual jurisdictions based on a quantitative threshold (5% of total income taxes paid, net of refunds received)
- ▶ All entities are also required to disclose additional income statement information:
 - ▶ Income/loss from continuing operations (CO) before income tax expense/benefit disaggregated between domestic and foreign
 - ▶ Income tax expense/benefit from CO disaggregated by federal (national), state and foreign
- ▶ The guidance eliminates certain other disclosure requirements

Improvements to income tax disclosures (cont.)

FASB – Final guidance

- ▶ The guidance is effective for PBEs for annual periods beginning after 15 December 2024 and for all other entities for annual periods beginning after 15 December 2025
 - ▶ Entities can apply it prospectively for annual periods beginning after the effective date
 - ▶ Retrospective application to each period presented is permitted
 - ▶ Early adoption is permitted

Improvements to income tax disclosures (cont.)

FASB – Final guidance

- ▶ PBEs are required to disclose the following in the rate reconciliation:
 - ▶ Information disaggregated by the specific categories below, with qualitative and quantitative disclosures:

State and local income tax, net of federal (national) income tax effect	Foreign tax effects	Effect of changes in tax laws or rates enacted in the current period	Effect of cross-border tax laws
Tax credits	Changes in valuation allowances	Nontaxable or nondeductible items	Changes in unrecognized tax benefits

- ▶ Disclosure of the categories is subject to materiality assessment in accordance with US GAAP
- ▶ Reconciling items within the bolded categories above require additional information to be disclosed based on a threshold of 5% of the amount computed by multiplying income (loss) from continuing operations by the applicable statutory federal (national) tax rate
- ▶ Entities other than PBEs are required to provide qualitative disclosures about the nature and the effect of specific categories and individual jurisdictions

Improvements to income tax disclosures (cont.)

FASB – Final guidance

- ▶ All reconciling items are required to be presented on a gross basis unless specific guidance permits net presentation
- ▶ Additional disclosures about certain categories include:
 - ▶ **State and local income tax, net of federal (national) income tax effect** – qualitative disclosure about the states and local jurisdictions that make up the majority (greater than 50%) of the state and local income tax category, starting with the jurisdiction that has the largest effect and adding jurisdictions in descending order until the aggregated effect is greater than 50%
 - ▶ **Foreign tax effect** – separate disclosure of reconciling items by jurisdiction and by nature, based on a quantitative threshold of 5%
 - ▶ Reconciling items within a jurisdiction greater than the 5% threshold are required to be disclosed even if the individual jurisdiction is below the threshold
 - ▶ **Effect of cross-border tax laws** – separate disclosure of reconciling items included in this category by nature, based on a quantitative threshold of 5%
 - ▶ Effects of certain cross-border tax laws (e.g., global intangible low-taxed income) and related foreign tax credits may be disclosed on a net basis

Improvements to income tax disclosures (cont.)

FASB – Final guidance

- ▶ Additional required disclosures about certain categories include:
 - ▶ **Tax credits and nontaxable or nondeductible items** – Separate disclosure of reconciling items included in each of these categories by nature, based on a quantitative threshold of 5%
 - ▶ **Changes in valuation allowances** – Disclosure reflects valuation allowances initially recognized and subsequently adjusted in the reporting period
 - ▶ **Changes in unrecognized tax benefits** – Changes may be presented on an aggregated basis for all jurisdictions
 - ▶ An unrecognized tax benefit recorded for a tax position taken in the same reporting period, in the current annual reporting period, may be presented on a net basis in the category where the tax position is presented
 - ▶ **Other items that do not fall within any specific category** – Reconciling items are separately disclosed by nature, based on a quantitative threshold of 5%
- ▶ Additional disclosures of nature, effect and underlying causes of reconciling items are required if not otherwise evident

Improvements to income tax disclosures (cont.)

FASB – Final guidance

The example footnote disclosure is based on the FASB’s illustration in the final standard.

	Current year		Prior year	
	Amount (\$)	Percent (%)	Amount (\$)	Percent (%)
US federal statutory tax rate	x	x	x	x
State and local income taxes, net of federal income tax effect¹	x	x	x	x
Foreign tax effects				
Ireland				
Statutory tax rate difference between Ireland and United States	(x)	(x)	(x)	(x)
Changes in valuation allowances	(x)	(x)	(x)	(x)
Enacted changes in tax laws or rates	-	-	x	x
Other	x	x	(x)	(x)
Switzerland	(x)	(x)	(x)	(x)
Other foreign jurisdictions	(x)	(x)	(x)	(x)
Effect of changes in tax laws or rates enacted in the current period	-	-	(x)	(x)
Effect of cross-border tax laws				
Global intangible low-taxed income (GILTI)	x	x	x	x
Foreign-derived intangible income (FDII)	(x)	(x)	(x)	(x)
Base erosion and anti-abuse tax (BEAT)	x	x	x	x
Tax credits				
R&D tax credits	-	-	(x)	(x)
Energy-related tax credits	(x)	(x)	-	-
Other	-	-	(x)	(x)
Changes in valuation allowances	x	x	(x)	(x)
Nontaxable or nondeductible items				
Share-based payment awards	x	x	x	x
Goodwill impairment	x	x	x	x
Other	x	x	(x)	(x)
Changes in unrecognized tax benefits	(x)	(x)	x	x
Other adjustments	x	x	(x)	(x)
Effective tax rate	x	x	x	x

Example qualitative disclosure

¹ State taxes in California and New York made up the majority (greater than 50 percent) of the tax effect in this category.

Accounting for and disclosure of software costs

Accounting for and disclosure of software costs

What's changing

- Remove all references to project stages in ASC 350-40, *Internal-Use Software*
- Clarify the probable-to-complete threshold is not met if significant development uncertainty exists, which occurs if either:
 - Software has novel, unique or unproven functions and features or technological innovations
 - Significant performance requirements of the software have not been identified or continue to be substantially revised

Disclosures

- Require disclosures under ASC 360-10 for all software costs capitalized under ASC 350-40, **regardless** of how those costs are classified in the balance sheet

Effective date and transition

- Effective for all entities for fiscal years beginning after 15 December 2027, and interim periods within those fiscal years
- Apply using a prospective, a retrospective or an alternative transition approach
- Early adoption is permitted

Measurement of Credit Losses for Accounts Receivable and Contract Assets (ASU 2025-05)

Measurement of Credit Losses for Accounts Receivable and Contract Assets (ASU 2025-05)

- ▶ The FASB issued final guidance to provide a practical expedient and an accounting policy election for estimating credit losses on current accounts receivable and current contract assets¹ arising from revenue transactions under ASC 606
- ▶ Practical expedient
 - ▶ Allows all entities to assume the current conditions as of the balance sheet date remain unchanged for the remaining life of the asset when developing their estimate of expected credit losses on those assets
- ▶ Accounting policy election
 - ▶ Allows entities other than PBEs that elect to apply the practical expedient to consider collection activity that occurs after the balance sheet date but before the financial statements are available to be issued in the estimate of credit losses on those assets

¹ Entities are required to use a one-year period as the basis for determining whether a receivable or contract asset is a current asset, unless their operating cycle exceeds 12 months, in which case they would use the longer period.

Measurement of Credit Losses for Accounts Receivable and Contract Assets (ASU 2025-05) (cont.)

▶ Disclosures

- ▶ An entity that has used the practical expedient and, if applicable, made the accounting policy election is required to disclose that fact
- ▶ In annual reporting periods, a non-PBE that has elected the accounting policy is required to disclose the date through which it has considered subsequent collection activity

▶ Effective date and transition

- ▶ The guidance is effective for fiscal years beginning after 15 December 2025, and interim periods within those fiscal years
- ▶ Early adoption is permitted for financial statements that have not yet been issued or made available for issuance
- ▶ Prospective application is required
- ▶ Entities other than PBEs that initially elect the practical expedient and, if applicable, make the accounting policy election after the effective date are not required to perform a preferability assessment in accordance with ASC 250, *Accounting Changes and Error Corrections*.

Accounting for certain debt exchanges

Accounting for certain debt exchanges

Project is intended to address diversity in practice in accounting for certain exchanges of debt instruments as extinguishments or modifications.

The Board tentatively decided:

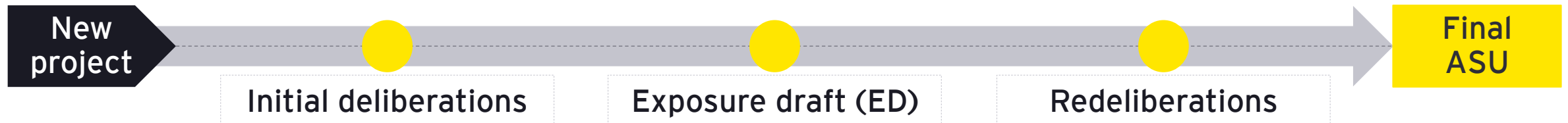
- Certain debt exchange transactions should be accounted for as a debt extinguishment and the issuance of new debt when the following conditions are met:
 - The existing debt has been repaid in accordance with its original contractual terms or repurchased at market terms.
 - The new debt was issued at market terms following the issuer's normal marketing process for new debt issuances.
- The amendments would apply to transactions that involve the concurrent 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 an existing debt obligation.
- If the new debt obligation has only one creditor or the transaction does not meet the conditions above, the exchange would be evaluated under ASC 470-50 to determine whether the modification or extinguishment accounting applies.
- The proposed amendments would be applied prospectively, with early adoption permitted.

The FASB is currently redeliberating and assessing feedback received on the proposal.

FASB Technical Agenda

FASB technical agenda

Select projects	Status
Hedge Accounting Improvements	Final ASU - expected 4Q 2025
Measurement of Paid-in-Kind Dividends on Equity-Classified Preferred Stock	Exposure Draft - expected 3Q 2025
Application of Topic 715 to Market-Return Cash Balance Plans	EITF Issue
Accounting for Government Grants	Final ASU - expected 4Q 2025
Digital Assets	Research Agenda



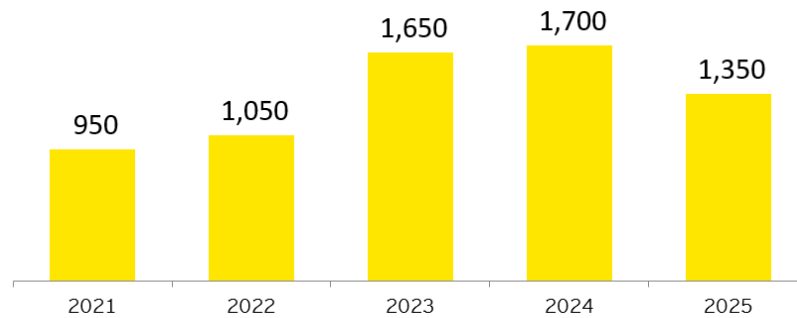
Year-end accounting and reporting update

Trends in SEC Comments

Trends in SEC comments

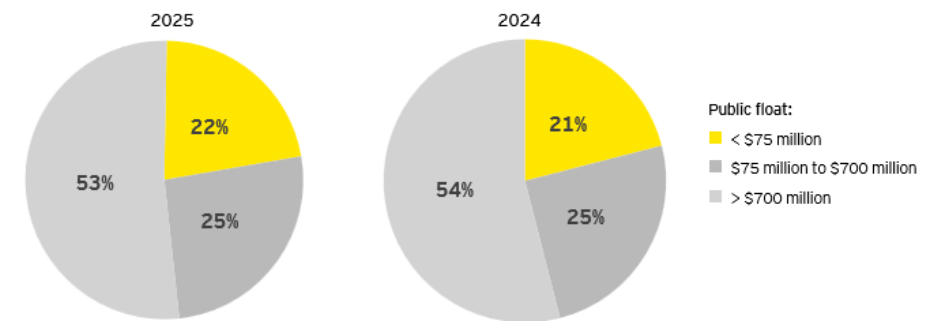
For years ended on 30 June each year

**Number of SEC comment letters by year
(rounded to the nearest 50)**



Source: Audit Analytics — SEC UPLOAD comment letters related to Forms 10-K and 10-Q that were issued during the 12-month periods ended on 30 June each year and became publicly available by the date of our analysis, excluding those issued to special purpose acquisition companies (SPACs) and other blank check entities. Since the SEC publicly releases comment letters no earlier than 20 business days after the completion of its reviews, our analysis for the latest year includes letters that were issued by 30 June 2025 and were publicly available by 6 August 2025.

**Size of registrants receiving comment letters
on Forms 10-K and 10-Q filings**



Source: Audit Analytics — SEC UPLOAD comment letters issued related to Forms 10-K and 10-Q for the 12-month periods ended 30 June 2025 and 30 June 2024, excluding SPACs and other blank check entities.

Trends in SEC comments

Areas of SEC staff comment

Comment area	Ranking for 12 months ended 30 June 2025 ¹
Management's discussion and analysis (MD&A)	1
Non-GAAP financial measures	2
Segment reporting	3
Revenue recognition	4
Goodwill and intangible assets	5

¹ These rankings are based on topics assigned by research firm Audit Analytics for SEC comment letters issued to registrants with a market capitalization of \$75 million or more on Forms 10-K and 10-Q from 1 July 2024 through 30 June 2025, excluding comment letters issued to SPACs and other blank check entities. In some cases, individual SEC staff comments are assigned to multiple topics.

On average, the SEC staff issued 1.2 comment letters (or rounds of comments) per registrant to resolve its concerns on each of these areas, which was generally consistent with last year.

Trends in SEC staff comment letters

Looking ahead

- Comments may address disclosures related to:
 - Newly effective or early adopted accounting standards
 - The effects of the current economic environment
 - New or amended SEC rules that may be adopted in the upcoming year

Leading practices in responding to an SEC staff comment letter

- Initial response should be comprehensive
- Maintain contemporaneous documentation of significant accounting and disclosure decisions to facilitate responses to comment letters

See our publication, *SEC Reporting Update - Highlights of trends in 2025 SEC staff comment letters.*

California Climate Rules

California climate rules: SB 253, SB 261 and AB 1305

SB 253¹

The California Climate Corporate Data Accountability Act (Senate Bill 253) requires both public and private companies doing business in California and generating over \$1 billion in gross annual revenue to disclose their Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions in a public database, on an annual basis, as well as to obtain third-party assurance.

SB 261¹

The California Greenhouse gases: climate-related financial risk (Senate Bill 261) requires both public and private companies doing business in California and generating over \$500 million in gross annual revenue to disclose on a biennial basis on its website its climate-related financial risk and its measures adopted to reduce and adapt to climate-related financial risk, in alignment with the TCFD¹ recommendations.

AB 1305

The Voluntary carbon market disclosure (Assembly Bill 1305) requires entities operating in California and that make net zero emissions claims, carbon neutral or carbon neutral product claims or significant greenhouse gas emissions reduction claims in California to disclose information about those claims and the purchase or use of voluntary carbon offsets to achieve those claims.

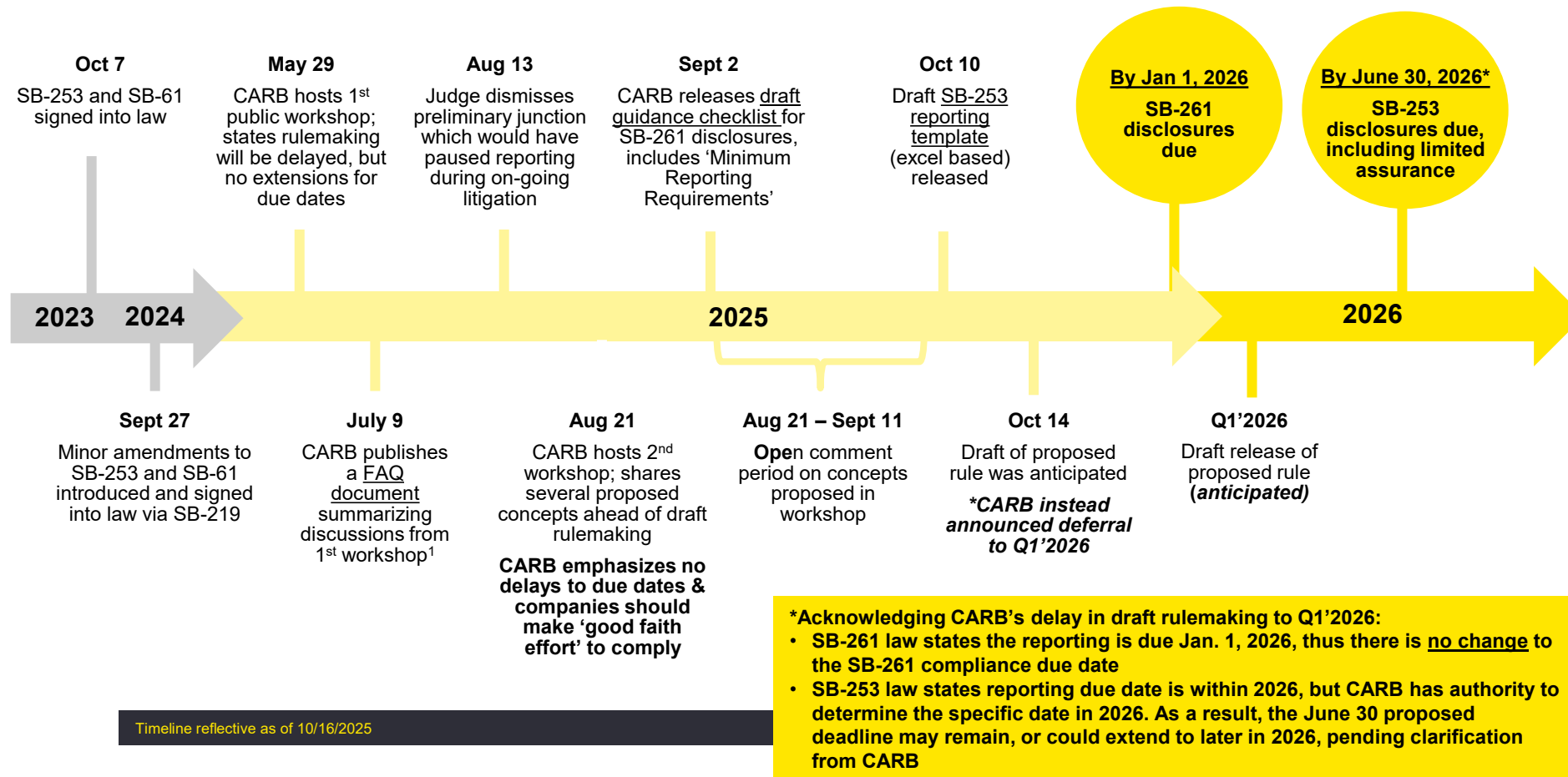
The laws represent first-of-their-kind legislation in the United States and other states may be following suit.

¹ In August 2024, the CA Senate proposed amendments to SB 253 and SB 261 jointly through a new Senate Bill called SB-219. SB 219 was approved by Governor Newsom in September 2024

² [Task Force on Climate-Related Financial Disclosures](#).

Sources: [SB 219](#), which amended [SB 253 Climate Corporate Data Accountability Act](#) and [SB 261 Greenhouse gases: climate-related financial risk](#); [AB 1305 Voluntary carbon market disclosure](#).

Regulation timeline and anticipated next steps for SB-253 & SB-261



Definitions for reporting entities in scope for SB-253 and SB-261 remain in flux

Reporting entities in scope include any partnership, corporation, limited liability company or other business entity formed under the laws of CA, the laws of any other state of the United States or the District of Columbia, or under an act of the Congress of the United States.

The laws do not define, however, the terms “revenue,” “doing business in California” or “parent-subsidary” relationships. During the August 2025 workshop, CARB discussed the below concepts:

- **Definition of “revenue”:** Previously proposed the definition of annual revenue as gross receipts as set forth in the California Revenue and Taxation Code, but also considering an alternative definition, where revenue is defined as the “total global amount of money or sales a company receives from its business activities, such as selling products or providing services.” This definition does not deduct operating costs or other business expenses.

Definition of “doing business in CA”:

- Previously proposed using the Revenue and Taxation Code definition for “doing business in California,” where companies that engage in a transaction for financial gain in CA, are organized or domiciled in CA, or have sales in CA exceeding **\$735,0191** would be in scope.
- Also exploring existing databases of US-based companies that could be used instead. In an initial assessment, CARB used a public CA database and identified **4,160 companies subject to SB-261**, of which **2,596 companies are also subject to SB-253**.
- **Parent-subsidary relationships:** Amendment SB-219 allows companies to elect to report at a parent company level; however, CARB continues to seek input on defining parent-subsidary relationships.
- **Possible exemptions:** CARB is considering exempting certain organizations, for example non-profits, companies whose only business in California is teleworking employees, government entities and CA Independent System Operators (CAISO).

1 The 2024 threshold, adjusted for inflation

SB 253 reporting and assurance overview

In scope entities:	Companies [†] doing business in California and generating over \$1b in gross annual revenue		
Disclosure requirements:	Disclosure reporting dates	Assurance compliance dates:	Frequency and location
Scope 1 emissions	Starting in 2026, over prior fiscal year data	Limited – starting in 2026 Reasonable – starting in 2030	Annually, reported directly to CARB
Scope 2 emissions	Starting in 2026, over prior fiscal year data		
Scope 3 emissions	Starting in 2027, over prior fiscal year data	Limited – starting in 2030*	
Reporting criteria:	The Greenhouse Gas Protocol standards and guidance, including the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard ^{††}		

Recent amendments and updates

- Scope 1 and 2 emissions reporting, with assurance, is proposed to be **due June 30, 2026**; draft reporting templates expected to be issued late September 2025 (likely in Excel-format).
- Reporting date for Scope 3 emissions will be on a schedule specified by CARB – no longer within 180 days of Scope 1-2 (starting in 2027).
- Assurance standards are still being determined, but AICPA, ISSA 5000, AA1000 and ISO 14060 are being considered among others; CARB asserted they will not publish a list of accredited assurance providers.
- Consolidated reporting is permissible but not required. If a subsidiary of a parent company qualifies as a covered entity, the subsidiary is not required to prepare a separate report.

*During 2026, the State Board shall review and evaluate trends in third-party assurance requirements for Scope 3 emissions. On or before January 1, 2027, the State Board may establish an assurance requirement for third-party assurance engagements of Scope 3 emissions. The assurance engagement for Scope 3 emissions shall be performed at a limited assurance level beginning in 2030. However, the State Board could modify these dates based on trends in third-party assurance for Scope 3 emissions.

[†]A partnership, corporation, limited liability company or other business entity formed under the laws of this state, the laws of any other state of the United States or the District of Columbia, or under an act of the Congress of the United States.

^{††}Starting in 2033 and every five years thereafter, the state board may assess currently available GHG accounting and reporting standards and subsequently may adopt a globally recognized alternative accounting and reporting standard if it determines its use would more effectively further the goals of the regulation.

Source: SB 219, which amended SB 253 Climate Corporate Data Accountability Act.



SB 261 reporting overview

In scope entities:	Companies [†] doing business in California and generating over \$500m in gross annual revenue*	
Disclosure requirements:	Disclosure reporting dates:	Frequency and location
Climate-related financial risk and measures adopted to reduce and adapt to climate-related financial risk	On or before January 1, 2026	Biennially on company's website
Reporting criteria:	Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017) published by the Task Force on Climate-related Financial Disclosures (TCFD)** or equivalent reporting requirement ^{††}	

Recent amendments and updates

- Disclosures remain due on or before January 1, 2026.
- CARB introduced preliminary guidance on the “minimum reporting requirements” which adhere to the TCFD framework or equivalent reporting frameworks (IFRS) (e.g., disclosures on climate governance, strategy, risk management, metrics and targets) and provided some flexibility for the first year of reporting.
- CARB will establish a public docket for companies to post the link to their SB-261 report which may increase scrutiny over the disclosures.
- Consolidated reporting is permissible but not required. If a subsidiary of a parent company qualifies as a covered entity, the subsidiary is not required to prepare a separate report.

* Based on the prior fiscal year revenue from the date of reporting.

** Or any successor thereto.

† A partnership, corporation, limited liability company or other business entity formed under the laws of this state, the laws of any other state of the United States or the District of Columbia, or under an act of the Congress of the United States

†† Pursuant to a law, regulation or listing requirement issued by any regulated exchange, national government, or other governmental entity, including a law or regulation issued by the United States government, incorporating consistent disclosure requirements, including the International Financial Reporting Standards Sustainability Disclosure Standards, as issued by the International Sustainability Standards Board (ISSB).

Source: SB 219, which amended SB 261 Greenhouse gases: climate-related financial risk.

SB-261 Draft Checklist Guidance

Summary of proposed “minimum reporting requirements”*

- **Governance:** Describe your organization’s governance structure, if any, for identifying, assessing and managing climate-related financial risks.
- **Strategy:** Describe the actual and potential impacts of climate-related risks and opportunities on the company’s operations, strategy and financial planning (where material), including:
 - The climate-related risks and opportunities the organization has identified over the short, medium and long term.
 - The impact of climate-related risks and opportunities on the organization’s operations, strategy and financial planning.
 - The resilience of the organization’s strategy, if any, taking into consideration the future impacts of climate change under various climate scenarios.
- The discussion regarding climate scenarios may be qualitative in nature. Where a qualitative scenario-based assessment is feasible and relevant for a particular company, CARB encourages its inclusion.
- **Risk management:** Describe how the reporting entity identifies, assesses and manages climate-related risks.
- **Metrics and targets:** Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities adopted to reduce and adapt to climate-related risk, where such information is material.
 - CARB has received stakeholder input that gathering this data may not be feasible in the deadline of January 1, 2026. As such, this requirement is not currently included as a minimum CARB requirement for the initial reporting period.

* For complete guidance, refer to the [SB-261 disclosure checklist](#).

Additional guidance

- SB-261 does not stipulate between calendar vs. fiscal year data.
- CARB suggests the most recent/best available data is used in the first year of reporting.
- Reports must be available on the company’s website, data solely submitted to a third-party provider (e.g., CDP) are not considered sufficient.
- SB-261 reports should disclose which framework is applied (TCFD, ISSB or other equivalent) and which recommendations/disclosures have been compiled or not.
- A short summary of the reasons why recommendations or disclosures have not been included, as well as discussion of any plans for future disclosures should also be included.

Potential penalties and proposed fees

SB 253:

- Penalties shall not exceed \$500,000 in a reporting year

SB 261:

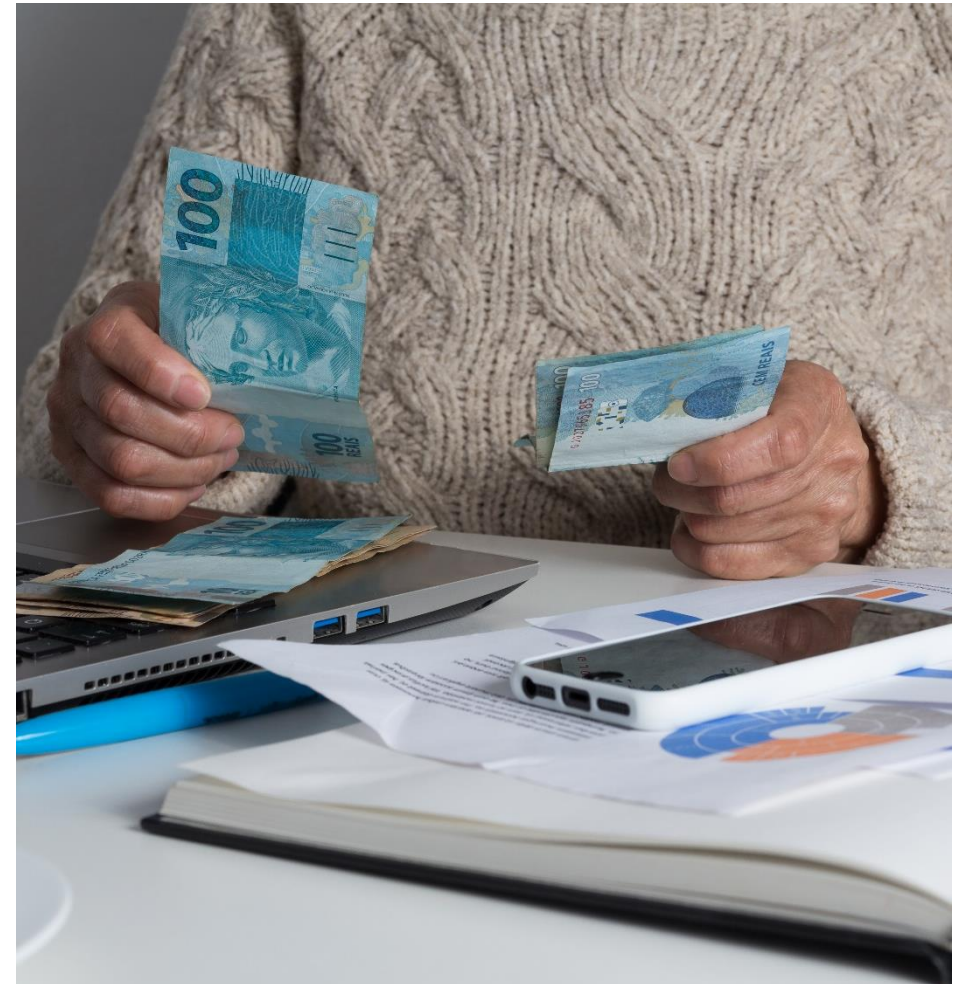
- Penalties shall not exceed \$50,000 in a reporting year

AB 1305:

- Penalties shall not exceed \$2,500 per day, not to exceed \$500,000.
- CARB has indicated that for SB-253 and SB-261, penalties will not be enforced in the first year of reporting for companies that make a **“good faith effort”** to comply. While CARB has not defined “good faith effort,” for SB-261 it has released guidance for “minimum reporting requirements.”¹
- For AB-1305, enforcement authority was not assigned to a regulatory body. As a result, **CARB does not currently hold enforcement authority over companies’ AB-1305** disclosures.

Companies should expect to pay a disclosure fee to cover CARB’s program costs for both SB-253 and SB-261. The fee structure is still being evaluated, but initial estimates shared ranged from \$1,400 to \$4,000 per covered entity.

¹ SB-261 disclosure checklist guidance



Other climate-related disclosure rules

SEC votes to end defense of climate disclosure rules

- The SEC voted to end its defense of the climate-related disclosure rules, which were voluntarily stayed by the Commission in April 2024, pending the US Court of Appeals for the Eighth Circuit's judicial review of the consolidated challenges to the rules.
- Following the Commission's vote, SEC staff sent a letter to the court stating that the Commission was withdrawing its defense of the rules and that its counsel was no longer authorized to advance the arguments in the brief the Commission had filed.

Questions?