

EY Center for Board Matters

2025 Q2 Audit committee update

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The public policy landscape remains poised for considerable change. In particular, tax- and trade-related developments are areas for boards and audit committees to closely watch in the coming months. The pace of policy pronouncements, postponements and modifications has created heightened uncertainty for many companies.

Specific policy actions, such as tariffs and the pending budget bill – and more general policy uncertainty – have contributed to downward pressures on operations. Accordingly, audit committees and boards are inquiring with management on how different policy scenarios could impact markets and on ways to bolster financial resilience.

Higher tariff rates could cause persistent supply chain disruptions and heighten inflationary pressures. In the short term, companies may need to assess these changes to consumer spending as well as supplier impacts, consider negotiating cost sharing, conduct wargaming for pricing strategies, and evaluate potential changes to earnings guidance or expected results for the year. In the medium term, companies should explore demand outlook scenarios and determine whether and how to proceed with capex and investment plans.

Significant policy changes are likely to have long-term ripple effects across sectors and markets. With further policy shifts expected, the range of policy outcomes and

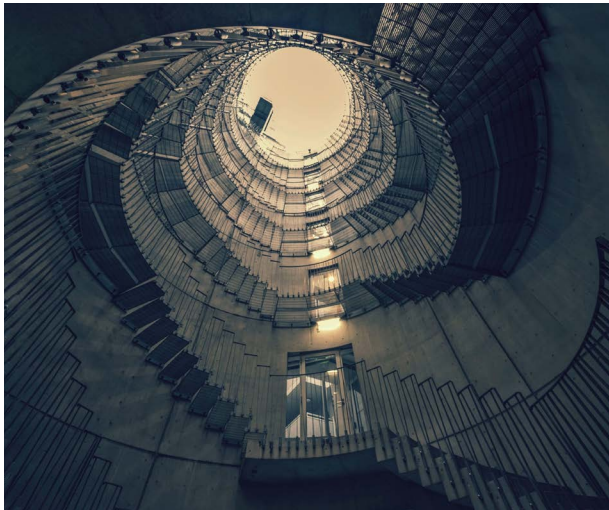
business implications will continue to expand, creating a volatile and uncertain global operating environment. We expect Q2 audit committee discussions may be centered on the impacts of shifting economic conditions, geopolitical volatility, tax policy, trade matters, regulatory developments and changes to compliance requirements. Additionally, artificial intelligence (AI) – related risks and opportunities, including AI adoption into business processes and products, may also be a focus area.

This quarterly update provides key considerations for audit committees as they navigate these and other ongoing developments.

Risk management

The business, regulatory and geopolitical environment continues to be highly uncertain and complex, making governance more challenging. Boards and audit committees continue to spend time monitoring the evolving global and domestic landscape, including a wide range of policy issues stemming from the change in administrations and its impact on corporate strategy, risk and performance.

Based on recent convenings of audit committee chairs¹ and various discussions with business executives, we've highlighted some of the key themes and risks to consider this quarter:



- **Possible changes in US trade policy are having a profound impact on the global economy and financial markets.** Over the past six to nine months, economic momentum has been moderating amid slower disposable income growth, fading fiscal support and still-elevated interest rates. The administration's policy swings on trade and tariffs have created significant macroeconomic uncertainty. While there will be tariff exemptions by product or trade partner, the lack of clarity around implementation timelines, scope, and retaliatory measures has prompted many business leaders across sectors to pause investment decisions, including capex and talent. This wait-and-see posture – coupled with market sensitivity to shifting policy signals – has heightened financial market volatility and raised the risk of broader economic disruption.

While the macroeconomic uncertainty has yet to precipitate a material retrenchment in consumer spending and business investment, disruptions to trade flows (with cargo volumes from China significantly down during this quarter), persistent policy uncertainty and heightened market volatility pose significant risks to the US economic outlook. Many economists have lowered real GDP growth forecasts for 2025 and 2026, with some seeing an increased threat of a recession in the next 12 months, with risks to the economic outlook tilted to the downside.

The cumulative effect of these policy swings has made planning difficult for many companies. This was evident in the Q1 2025 earnings season overall; Q1 2025 earnings presented a mixed picture, with some sectors thriving, while some faced significant headwinds and made downward revisions and pointed to the macroeconomic uncertainty.

- **The administration is advancing an ambitious deregulatory agenda aimed at “reducing unnecessary, burdensome, and costly Federal regulations.”** To shrink the regulatory footprint, some of the prominent deregulatory orders include: (a) reducing regulations that exceed statutory authority; (b) reorienting enforcement efforts, and (c) reducing the number and costs of regulations. As newly confirmed leaders of federal agencies settle into their roles, they will further define their agendas and begin to take action to enact Trump's mandates in the months to come. Companies and audit committees will want to monitor these changes and understand the impacts of the changing regulatory environment – in particular, assessing the impacts arising from both regulatory and deregulatory actions that agencies plan to undertake in the next 12 months. Boards should verify that their policy monitoring and government relations teams have sufficient resources to be effective in this uncertain political and policy environment.

- **Companies should actively monitor the tax policy landscape and start taking steps to prepare for major tax legislation in 2025.** The administration and congressional Republicans have worked toward a budget reconciliation bill that includes an extension of Tax Cuts and Jobs Act (TCJA) provisions expiring at the end of 2025. With uncertainty around how the expiring TCJA provisions will be addressed and which business taxes might be affected in the US or through countries implementing OECD changes, the tax policy environment over the next few years could be increasingly complicated for businesses. On 22 May 2025, the House approved H.R.1 - One Big Beautiful Bill Act, which has been sent to the Senate. Companies should closely monitor the progress of the pending bill and how Congress will achieve the desired level of spending cuts and several issues regarding the tax provisions, including what additional proposals to include, how to pay for them, and relief from changes to the \$10,000 state and local tax (SALT) deduction cap. Key action steps for companies include:
 - Reviewing its tax profile and modeling various scenarios to gauge the potential impact of taxes on the company's operations and finances
 - Considering how the business should smartly deploy limited political capital once the relative impacts of policy changes are known. This may include revisiting the company's advocacy plans, and increased engagement with stakeholders (including policymakers, regulators, civil society groups,

employees, investors and customers) to inform policies and shape business strategy

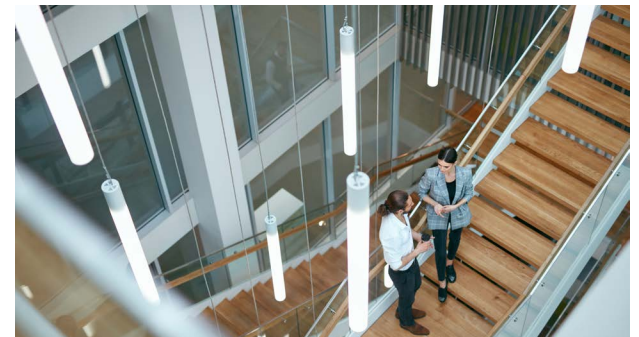
- Directing tax teams to think about appropriate steps the company can take considering possible tax law changes as well as how proposed changes could alter the economics of future business plans.
- Understand any new guidance from the Treasury Department on how to interpret many of the new requirements, such as [foreign entities of concern](#) (FEOCs), which companies will need to analyze for business impacts.

To enhance risk oversight, boards should consider the following practices:²

- **Adapt scenario planning for short-term volatility.** Traditional long-term scenario planning is proving insufficient in today's fast-moving environment. Leading boards are asking management teams: How quickly can we mobilize and respond? Given the fluidity in the environment, leading companies are focusing on increasing response speed, agility, early warnings and actionable insights rather than running countless scenarios.
- **Stay grounded in long-term strategy and avoid reactive decision-making.** As companies adapt to near-term volatility, boards should make sure that long-term strategy stays on course. Companies and boards should take a longer-term view beyond a single administration's term. Audit committee chairs voiced the importance of guarding against "overindexing" on

near-term risk mitigation and helping management consider how today's choices could affect future value. Boards can play a critical role in encouraging management teams to "de-emotionalize" their approach and maintain steady engagement across political cycles.

- **Engage proactively with stakeholders and regulators.** Audit committee chairs emphasized the importance of direct engagement with regulators and political leaders to gain visibility into potential shifts and increase organizational agility. Organizations are staying close to Washington and establishing relationships at every level, from leader down to staff, to enhance awareness of possible policy shifts and remain flexible to adapt to any changes.



- **Scrutinize supply chains and capital investments.**

After a brief post-pandemic return to leaner practices, rising geopolitical risks are prompting companies to refocus on resilience. China is clearly a top concern for US companies. For many companies, China remains an essential but increasingly complex market. Despite rising risks – from the geopolitical fallout of the trade dispute to growing regulatory and market uncertainty – most companies cannot simply divest from China. Many maintain operations there or depend on China as a critical link in their supply chains. We're hearing that companies are once again adding built-in buffers because of the importance of boards holding management teams accountable for their strategy to address supply chain dependencies in China. Some European companies are even considering exposure to the US. Additionally, as companies evaluate future supply chain decisions, new FEOCs should be carefully evaluated. In this environment, boards should verify that supply chains and capital investments are pressure-tested for geopolitical volatility and sudden changes.

- **Design operations to withstand geopolitical shocks.**

Companies need to think about diversification and resilience strategies and evaluate whether losing access to a certain market is existential to the company. The economic fallout from the start of the Russian invasion of Ukraine in 2022 was a wake-up call for many, and some companies now structure operations – particularly in China – to be severable

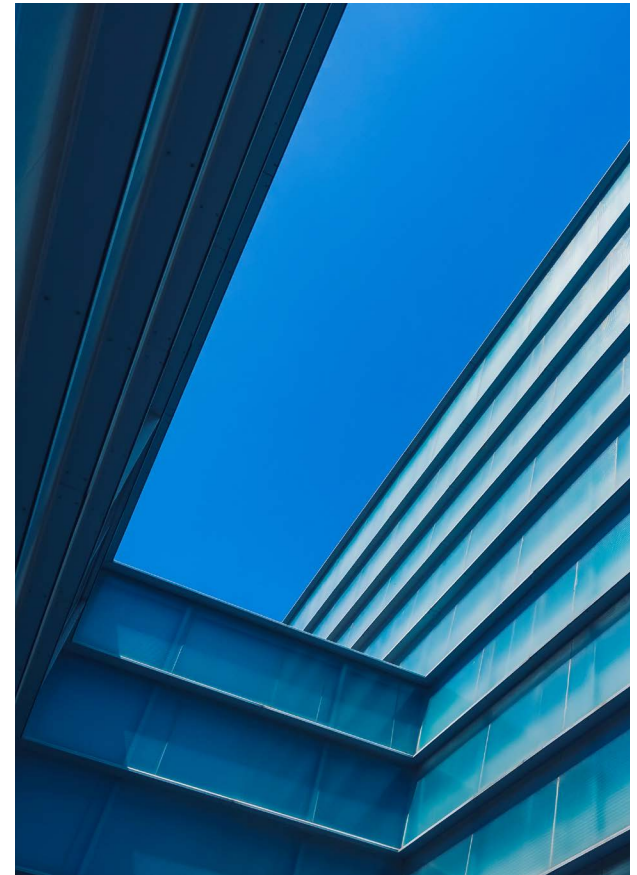
without threatening the broader enterprise. Boards should evaluate whether the company has considered whether current structures can withstand geopolitical shocks and adjust accordingly.

- **Remain alert to systemic risks and maintain crisis playbooks.** Leading audit committees understand the importance of remaining vigilant about “just-below-the-radar” systemic risks and to maintain flexible crisis plans. Companies should maintain adaptable crisis playbooks, regularly review escalation protocols, and clarify leadership responsibilities. Having a flexible, well-rehearsed response framework in place can significantly improve a company's ability to manage sudden disruptions.

- **Balance risk awareness with opportunity recognition.** Not all disruption is negative and some companies are searching for significant market opportunities.

Finally, audit committees should consider discussing with management how the various risks discussed here may impact financial reporting and related controls and disclosures.

^{1,2}Adapted from Tapestry Network's Navigating a Shifting Geopolitical Landscape, May 2025.



Accounting and disclosures

Navigating macroeconomic conditions along with trade policy developments will be an ongoing priority this quarter. Accordingly, audit committees will continue to evaluate evolving impacts of the uncertain economic environment and other shifts in the business landscape on their financial reporting processes.

Accounting and reporting considerations for the effects of tariffs

Companies may need to consider the effects of tariffs imposed by the US and other countries on their accounting and financial reporting and assess whether the potential risk factors associated with tariff exposure, material risks to their financial performance or other factors are significant enough to warrant disclosure. Reporting entities will need to consider, among other things, whether (1) additional risks need to be disclosed in risk factors in SEC filings, (2) changes to management's discussion and analysis (MD&A) of financial condition and results of operations, (3) material changes in internal control over financial reporting (ICFR) have occurred that must be disclosed, (4) additional disclosures for the current reporting periods are needed, (5) changes in the valuation of assets are required and (6) debt covenant violations exist or are probable.

Companies also will need to consider whether their going concern evaluation requires more robust analysis and whether they need to update disclosures inside and outside the financial statements.

Management should also carefully evaluate the implications for projections and other assumptions used in preparing the financial statements. This includes determining how tariffs may be affecting cash flow projections used in prospective financial information and what discount rate is used to discount those cash flows. Audit committees should inquire with management whether projections are consistently applied across accounting topics (e.g., long-lived asset impairment tests, goodwill impairment tests, realizability of deferred tax assets tests) and reflect the direct and indirect effects of the current economic environment, including tariffs.

Audit committees may consider inquiring with management as to whether the company has considered the impact of any disruptions to its operations, customers and suppliers and evaluated whether existing controls continue to be operating at a level that mitigates risks of material misstatement to the financial statements.

Finally, audit committees may want to evaluate with management the robustness of the company's risk assessment for accounts impacted by estimation processes and make sure the company has appropriate processes in place to adequately identify and evaluate known facts and circumstances when developing its estimates. Depending on the business and industry, some of these processes may be based on data that is subjective or likely to change.

Because trade policy is evolving, audit committees should make sure management teams continue to monitor changes for potential effects on accounting and reporting.

Other reminders and considerations

- Starting in calendar year 2025, public business entities will need to provide significantly more tax – related disclosures than previously required for the rate reconciliation and income taxes paid under the amended guidance in ASC 740, *Income Taxes*.
- Additionally, companies may be getting ready to implement the FASB's new disaggregated expense disclosure requirements ASC 220-40, *Income Statement – Reporting Comprehensive Income Expense Disaggregation Disclosures*. This guidance is effective for fiscal years beginning after 15 December 2026, and interim periods within fiscal years beginning a year later.
- Audit committees should evaluate whether the company has the appropriate systems, processes and controls in place to comply with these new requirements.

SEC rulemaking and other regulatory considerations

The new chair of the SEC, Paul Atkins, was sworn into office on 21 April 2025. At a ceremony at the White House, he emphasized his commitment to establishing a solid regulatory framework for digital assets, advocating for a “rational, coherent and principled approach.” In [remarks](#) at his confirmation hearing, he outlined several other key priorities, including “commonsense” regulation that is not overly burdensome to issuers and clear rules of the road that encourage investment in the US economy. He noted that while serving as an SEC commissioner from 2002 to 2008, he advocated for greater transparency at the SEC and emphasized robust cost-benefit analysis when considering new regulations. He also underscored the role of accounting and auditing in safeguarding investor protection and integrity in the capital markets.

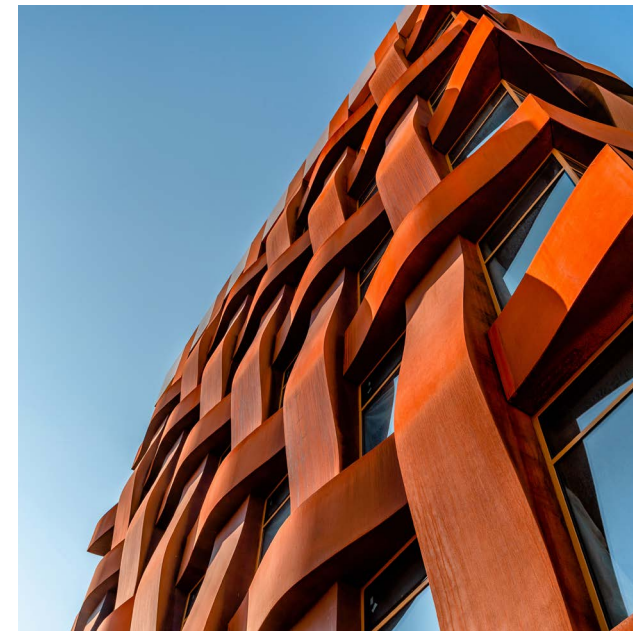
Since taking his seat, Atkins has presided over several SEC actions aimed at obtaining public input on disclosure topics. This includes approving a [concept release](#) on the definition of “Foreign Private Issuer” (FPI) to solicit comments on whether the definition should be revised in light of changes in the population of FPIs in recent years. The Commission also held a [public roundtable](#) in June on its executive compensation disclosure requirements and is seeking [written comments](#) on the same topic. Atkins also has begun to

name his senior leadership team, including retired EY partner [Kurt Hohl](#) as Chief Accountant.

Prior to Atkins taking his seat, Commissioner Mark Uyeda served as acting chair. Under his leadership, the Commission reversed several measures put in place by the Commission under former SEC Chair Gary Gensler. For example, the Division of Corporation Finance issued [Staff Legal Bulletin No. 14M](#) (SLB 14M), which expands the criteria under which companies can exclude shareholder proposals. This bulletin rescinded SLB 14L which had limited companies’ ability to exclude shareholder proposals that raised issues with “broad societal impact.” SLB 14M instead requires a company-specific evaluation of significance.

Additionally, the Commission [voted](#) to formally end its legal defense of SEC climate-related disclosure rules. The Commission had voluntarily stayed implementation of these rules in April 2024 pending the U.S. Court of Appeals for the 8th Circuit’s judicial review of the consolidated challenges to the rules. Despite the Commission vote, the litigation over the rules continues as several Democratic state attorneys general continue to defend the rules. Most recently, the 8th Circuit granted a request to suspend the litigation and has directed the Commission to provide a status report by July outlining its plans regarding the rules.

Atkins is expected to take steps to overturn these rules, having previously opposed the disclosure rules when they were being developed.

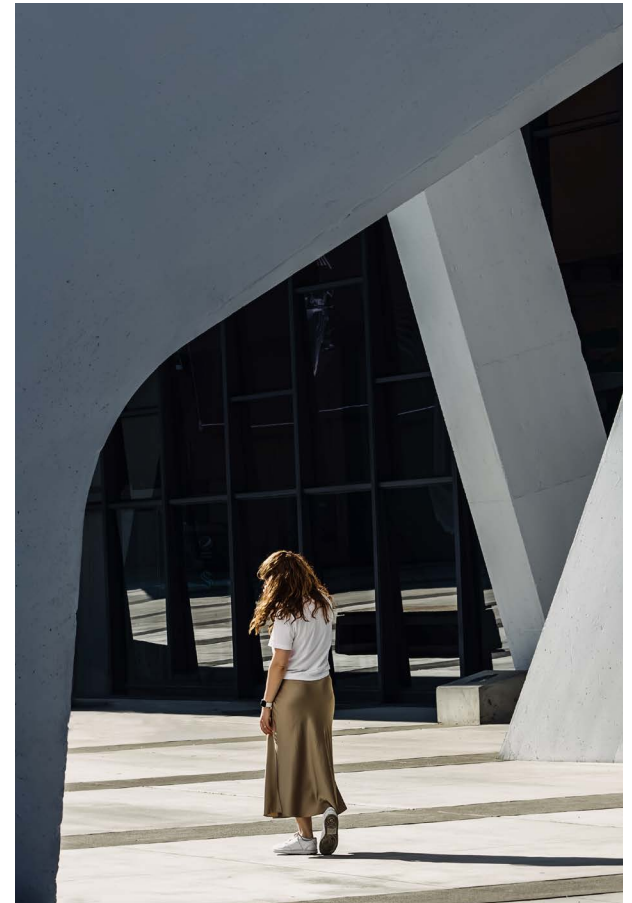


PCAOB developments

The Public Company Accounting Oversight Board (PCAOB) has reported significant [improvements](#) in inspection deficiency rates identified during its 2024 inspections, particularly among the four largest accounting firms. Williams has cited the return to in-office work, more focused training for newer professionals, and better supervision and review as sources of the improvements. PCAOB staff also published a [spotlight report](#) on 2024 inspection results, which highlights common Part 1.A deficiencies and provides examples of quality control criticisms found in Part II of inspection reports to support ongoing improvements in audit quality.

Additional resources:

- [Effective board oversight of geostrategic risk webcast](#), 22 May 2025
- [How boards can reframe strategic resiliency in a time of uncertainty](#), April 2025
- [SEC in Focus](#), April 2025



Questions for the audit committee to consider

In discussions with management, compliance personnel and internal and external auditors, audit committees should consider the following in addition to standard inquiries:

Risk management-related inquiries:

- How strong are the organization's capabilities to be highly informed about the internal and external environment and risks, events and opportunities that may influence or compromise enterprise resilience?
- How effective is the board's oversight of emerging risks and other evolving external risks such as geopolitical developments, uncertain economic conditions and climate risk? Does it have the information, expertise and professional skepticism it needs to challenge management in these areas? How will new tariffs and "America First" trade policies impact the organization's supply chain, cost structure, customer contracts and customer demand signals?
- What risk mitigation plans are in place to navigate geopolitical risks and maintain market presence in countries targeted by tariffs?
- What steps is the organization taking to adapt its supply chain footprint and operating model in response to possible geopolitical disruption?
- With expected regulatory adjustments and a "lighter touch" regulatory environment expected, how will the organization continue to enhance compliance and leverage new opportunities for innovation and growth?
- Does management use horizon scanning to monitor for new and emerging regulatory changes?
- What is management's governance process over evaluating the applicability and impact of regulatory changes?
- Does management use tools of technology to evaluate the changes in regulations and the impacts on obligations, policies and controls?
- Does the organization perform stress tests to confirm that its financial reserves can absorb distress in the economy? Does the organization have confidence in the financial strength of its counterparties?
- Does the organization deploy future scenario planning to inform its long-term planning process to enable rapid adaptation during changing circumstances?
- How is the board equipping itself to oversee the AI space if most directors may not have relevant experience? How effectively is the company communicating the board's ongoing training and education around AI and emerging technologies, including how the board is accessing external specialists? Do disclosures make clear where oversight of AI resides in the board's committee structure?
- What laws, regulations and contractual agreements affect the company's use of generative AI (GenAI) and how does the company enforce compliance? How does the company assess and monitor compliance, especially concerning biases in GenAI that could lead to noncompliance?
- How has management considered GenAI technologies in its fraud risk assessment? Has the company identified new incentives, opportunities or pressures to commit fraud it ties to the deployment of GenAI technologies?
- How does management consider data privacy risks when selecting or developing GenAI technologies? Does the company use a public instance of GenAI that tracks and saves inputs and data that is accessible by third parties or a private instance where inputs and data are tracked and saved only by the company?
- How does the company consider cybersecurity risks when selecting or developing GenAI? Has the company performed a cybersecurity risk assessment to evaluate threats and safeguards?
- Does the organization have a clear and comprehensive understanding of the relationships and interdependencies between the company's critical business services; third parties such as suppliers; business processes; and supporting technology?
- How aligned is the company in meeting its recovery time objective (RTO) and does it have alternative business strategies to manage any gaps in the RTO?
- Has the board participated with management in one of its cyber breach simulations in the last year? How rigorous was the testing? What changes were implemented by the organization as a result?

- Has the company leveraged a third-party assessment to validate that its cyber risk management program is meeting its objectives? If so, is the board having direct dialogue with the third party related to the scope of work and findings?
- Is the organization equipped to respond to any crisis scenario and operate/deliver services at the minimum acceptable levels? Does the organization test/flex its resilience against a range of operational and strategic scenarios? How has the company identified environmental and social factors that are material to the business? Has it conducted a recent sustainability materiality assessment and disclosed the results?
- What changes (if any) does the organization anticipate on its corporate sustainability commitments and program given the potential changes in climate and environmental policies?
- Have there been any meaningful changes to the company's key policies, any material exceptions granted or any unusual allowances to any compliance provisions?

Accounting, disclosures and other financial reporting-related inquiries:

- Are there any nonrecurring events and/or circumstances that have transpired in the past quarter? If so, what are the related financial reporting and disclosure implications?
- How is enacted policy and related policy uncertainty expected to impact the financial statements for the current and upcoming reporting periods?
- What steps are we taking to evaluate the impacts of tariffs on financial statements (for example, impairment of assets, fair value measurements, valuation of inventory, expected credit losses, onerous contracts, accounting for levies)?
- How are we ensuring that our financial statement disclosures adequately reflect the risks and uncertainties associated with the tariffs? What specific measures have been taken to assess the impact of tariffs on going concerns assumptions and related disclosures?
- How is the company's preparing to adopt Accounting Standards Codification (ASC) 220-40, Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures? What additional processes and controls will be necessary to comply with these new disclosure requirements?
- Are the company's nonfinancial disclosures fit for purpose given current investor stewardship priorities, investing trends and related investor data needs?
- Does the company have robust internal controls and procedures in place to identify cybersecurity risks and incidents promptly and communicate them to the parties responsible for oversight and disclosure? How does the company assess the materiality of cybersecurity incidents and what is the protocol for determining when to disclose such incidents?
- How is the organization proactively assessing the opportunity to enhance stakeholder communications, including corporate reporting to address changes in operations and strategies as well as changing stakeholder expectations? How would a potential reduction in the corporate tax rate to 15% for domestic corporations impact the company's financial planning and investment strategies? Are there specific areas where we anticipate significant benefits or challenges?
- Has management evaluated the impact, if any, of increased tariffs on the pricing of intercompany transactions and the related party transfer pricing rules for tax purposes?



- With the potential extension of the TCJA, how is the organization preparing to leverage the extended provisions to optimize its tax position? Are there any specific provisions that are particularly beneficial or concerning to our business?
- How is management progressing with its analysis of the impact of the OECD Pillar 2 global minimum tax model? What impact do the rules have on the estimated annual effective tax rate (EAETR) for 2025 and is management monitoring proposed tax legislation for potential impact on the projected EAETR in those countries that have yet to adopt the Pillar 2 rules?
- Have there been any material changes to ICFR or disclosure controls and procedures to address the changing operating environment?
- How is the company evaluating any initiatives (e.g., cost-saving initiatives) that may impact resources or processes that are important to ICFR or disclosure controls and procedures?

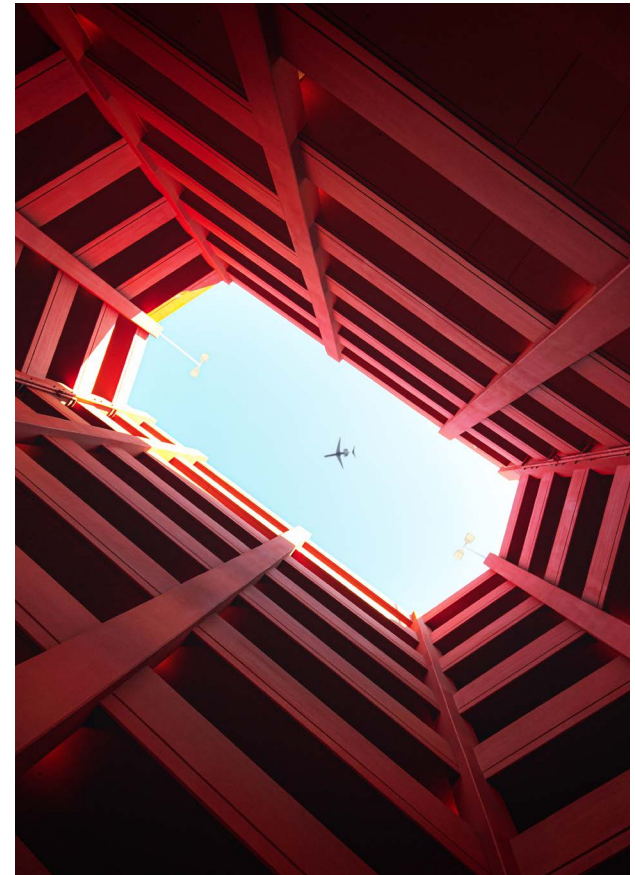
Inquiries to auditors:

■ External auditors:

- Does the engagement team expect significant changes in hours or staffing mix from previous audits? Why or why not?
- Did the engagement team notice any red flags arising from management responses? How has the engagement team considered changes to the incentive, opportunity and rationalization of the fraud triangle?
- What plans does the auditor have to assess impacts of tariffs, policy uncertainty, and any other current quarter developments to financial reporting? What are the impacts to the related internal controls environment?

■ Internal auditors:

- How is internal audit evaluating the company's capabilities around regulatory compliance?
- What action has internal audit taking to align with the Global Internal Audit Standards?



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