

INTRODUCTION

RISK
MANAGEMENT

IN THE SPOTLIGHT:
PRESIDENT TRUMP'S
SECOND ADMINISTRATION

ACCOUNTING
AND DISCLOSURES

SEC RULEMAKING
AND OTHER REGULATORY
CONSIDERATIONS

QUESTIONS FOR
THE AUDIT COMMITTEE
TO CONSIDER

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2026 Q1 audit committee update



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Introduction

Complex global shifts demand stronger board and audit committee oversight

Global conflicts, macroeconomic volatility, shifting trade and industrial policy, evolving regulation, and accelerating AI adoption are placing new pressure on capital allocation, operating models, internal controls and financial reporting judgments.

While the Supreme Court's recent decision on the Trump-era tariffs provided some legal clarity, uncertainty remains about the durability of the tariff

changes, the potential for tariffs to return under other statutory authorities and how to treat tariffs that have already been collected.

Additionally, the war in Iran has elevated geopolitical risks, prompting companies to evaluate various business impacts such as supply chains, lead times, shipping routes, supply availability, possible revenue impacts and adjusting hedging strategies to prepare for multiple oil price scenarios.

Companies are actively scrutinizing operations and evaluating possible tariff exposures, contingency

planning and pricing discipline. Key areas of focus for audit committees include the governance and control impacts of scaling AI, increased cyber and data risks, workforce disruption tied to automation and policy change, and the financial reporting impacts of rapid regulatory and policy shifts in the US and globally.

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



Risk management

Geopolitical uncertainty and uneven economic momentum are intensifying pressure on companies to adapt their business models more rapidly, with many accelerating adoption of AI to boost agility and competitiveness.

As these forces increasingly converge, companies must strengthen integrated oversight of risk, strategy and financial planning to respond effectively. Below are the key risks, trends and considerations that boards and audit committees should prioritize for the upcoming quarter:

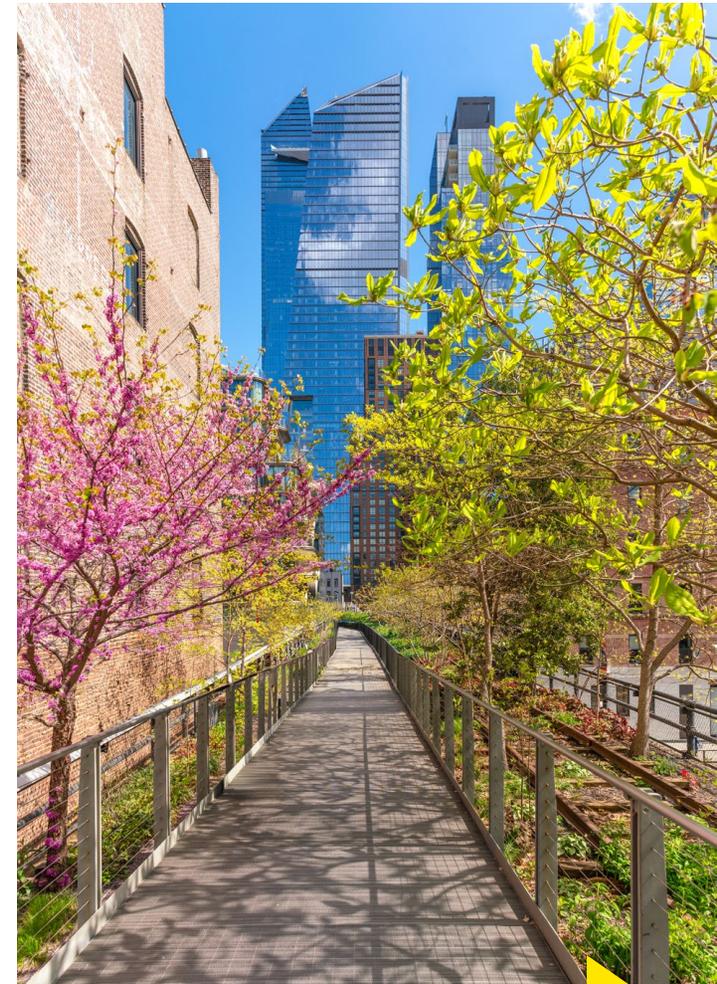
- Macroeconomic volatility is amplifying financial and operational risks.** Slowing growth, tariff-driven inflation divergence, elevated global debt and shifting monetary policy paths are increasing pressure on liquidity, treasury management, forecasting accuracy and internal controls. According to the latest EY survey of CEOs, while approximately 90% of CEOs expect revenue, profitability and productivity growth in 2026, rising energy, labor and compliance costs – combined with reduced ability to pass through price increases – are putting pressure on margins. In response, CEOs are prioritizing operational optimization and productivity, with 43% citing digitalization as a top objective, alongside a renewed focus on customer engagement and retention to stabilize demand. Looking ahead, we anticipate

organizations will continue to sharpen cost discipline through productivity-enhancing investments such as AI and adopt more targeted, customer-informed pricing strategies.

- As trade alliances and supply chains shift, companies are deciding where to pursue growth – and where to optimize flexibility and manage risk, often pulling back from some markets while doubling down on others.** The recent conflicts in Iran have further caused disruptions and continue to fuel uncertainty around the macroeconomic impacts as well as impacts to the business (e.g., supply chain, shipping routes, energy and fuel costs). We anticipate organizations will be stress-testing both short- and long-term impacts stemming from the war in Iran. Additionally, aggressive use of reciprocal and sector-specific tariffs is accelerating supply chain

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redesign, localization and “friendshoring,” causing companies to carefully evaluate capital deployment, third-party risk and margin resilience. The majority of CEOs are using strategic investment decisions to better manage geopolitical risk and build in more resilience. Our recent EY study shows that 83% of companies adjusted investments over the past 12 months in response to geopolitical and trade policy developments, with 40% accelerating investments. Additional actions – such as entering or exiting markets and relocating assets – signal that companies are actively incorporating geopolitical scenarios into capital allocation decisions and reducing exposure to single market dependencies.

- **AI is emerging as both a growth catalyst and a governance challenge.** The vast majority of CEOs report that their AI initiatives have met or exceeded expectations. Many report that AI deployments have demonstrated solid economic fundamentals: automation of routine work, faster and more accurate forecasting, improved risk detection, and accelerated product development. Among leading companies, the focus is shifting from proliferating pilots to scaling proven use cases, prioritizing depth over breadth by embedding AI across critical value chains. Boards are increasingly focused on understanding how AI governance is evolving as well as oversight of AI related risks, including data governance, cyber resilience, regulatory compliance

and talent disruption. Additional themes we recently heard from audit committee chairs¹ include:

- Strong foundations are the key to responsible AI use. Effective oversight is rooted in clear principles, disciplined processes, and a shared view of where AI creates value and where it introduces risk.
- Unauthorized or informal AI use is a growing and under-recognized risk.
- Clear ownership is becoming harder – but more critical – as AI systems grow more autonomous. The emergence of agentic AI complicates accountability, heightening the need for explicit assignment of responsibility for AI decisions, outcomes and controls.
- Data provenance and privacy are core compliance risks that need to be closely monitored. The EU AI Act raises expectations for traceability and lawful sourcing of training data, requiring audit committees to scrutinize how data is obtained, used and shared – especially with third-party AI vendors.
- Conflicting global rules, particularly around data sovereignty, mean that audit committees must define risk tolerance explicitly and establish that management has defensible strategies for compliance, mitigation and exit where required.

¹ Adapted from: Tapestry Networks European Audit Committee Leadership Summary of Themes, December 2025

- **Cyber risk continues to escalate in scale and consequence.** Heightened geopolitical tensions, expanding digitalization and broader AI adoption are increasing exposure to cyber incidents, operational disruption and intellectual property loss, elevating cyber resilience as a sustained audit committee priority.
- **Talent dynamics are evolving rapidly – boards are grappling with how automation, augmentation and new operating models will reshape jobs, skills and communities.** In particular, we anticipate boards and audit committees will seek to understand how automation and AI adoption affect talent risks, cost structures and internal controls. As a result, boards and audit committees are increasingly embedding

talent considerations into broader transformation and risk discussions. Leading companies will also be prioritizing workforce planning, reskilling and productivity enhancing investments as well as building in AI-related workforce scenarios directly into enterprise risk planning.

These rapid changes and risks continue to challenge and expand audit committee agendas. To be effective in this environment, strong audit committees are making continuous learning a key part of how the committee operates. Leading audit committees are building regular deep dives and training sessions into their rhythm, covering topics like cyber, AI, sustainability, regulatory and geopolitical change, and core business operations.

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In the spotlight

President Trump's second administration: key developments and what to watch

The enterprise risks we've highlighted are being further shaped by significant shifts in US policy under President Trump's second administration.

In the first year of President Trump's second administration, the shifts in US policy have been dramatic, spanning trade and industrial policy, including a wave of new tariffs; a deregulatory push; a new approach to AI and energy policy; and a significant reshaping of the role of the federal government.

Many of the changes to date have been driven through executive orders. The executive orders span a wide range of policy actions aimed at addressing tariffs, the size of the federal workforce, immigration, deregulation priorities, and competitiveness and innovation, among others.

There have also been hundreds of legal challenges filed to slow or stop certain executive actions. We've highlighted below seven key policy issues and what companies can expect in 2026:

1 Trade and industrial policy

President Trump's second term has been marked by a sweeping overhaul of US trade policy, driven by the administration's desire to promote US manufacturing and reshore jobs, address what it perceives as global trade imbalances and strengthen national security.

Trade negotiations and tariff levels remain fluid, although the US average tariff rate currently is far below its peak in April 2025. The Trump Administration also has taken a reinvigorated approach to US industrial policy – often prompting US companies across several sectors to reshape corporate strategies.

Policy changes also have created some additional uncertainty as the US renegotiates trading terms with dozens of governments, and corporate dealmaking adjusts to a new paradigm where in some instances the Trump Administration is at the negotiating table alongside them. During the current quarter, the U.S. Supreme Court invalidated the emergency tariffs imposed by President Trump under the International Emergency Economic Powers Act (IEEPA).

As a result of this ruling, President Trump announced he would be leveraging a different authority (Section 122 of the Trade Act of 1974) to impose 10% tariffs globally (which may subsequently be hiked to 15%). While uncertainty around trade



INTRODUCTION

RISK
MANAGEMENT

IN THE SPOTLIGHT:
PRESIDENT TRUMP'S
SECOND ADMINISTRATION

ACCOUNTING
AND DISCLOSURES

SEC RULEMAKING
AND OTHER REGULATORY
CONSIDERATIONS

QUESTIONS FOR
THE AUDIT COMMITTEE
TO CONSIDER

policy looms, there are a few key pending policy milestones companies should closely monitor: 1) Rollout of IEEPA tariff refund process; 2) additional tariffs aimed at rebuilding the tariff regime struck down by the Supreme Court; 3) 2026 review of the US-Mexico-Canada Agreement, the most economically significant trade agreement for the US; and 4) the 2026 midterm elections.

2 Regulatory landscape

Deregulation has been another prominent priority of the Trump presidency. As a part of this goal, in 2025, President Trump directed agencies to eliminate restrictive and costly regulations and streamline rulemaking agendas to align with White House priorities, including efforts to reduce compliance costs, embrace innovation and spur economic growth.

We anticipate active rulemaking across agencies to implement a range of the administration's priorities, including those promoting energy production, technology, digital assets, capital formation and AI development and adoption. Actions also will include additional moves to roll back rules implemented during the previous administration, such as those related to sustainability, labor and financial regulation.

We are seeing an increase in bill activity at the state level, which continues to create added complexity and compliance challenges for companies trying to operate across the nation.

3 Technology

The administration has made US leadership in artificial intelligence a central policy priority, leveraging energy, trade, infrastructure and industrial policy to accelerate AI development and deployment. A defining feature of this approach is deep private-sector engagement through public-private partnerships, advisory bodies and councils, alongside increased government intervention in AI-related ecosystems.

At the same time, both federal and state-level AI regulation remain evolving areas to watch, while the growing energy demands of technology and AI infrastructure are heightening tensions between federal objectives and local capacity constraints. Going forward, companies may also want to closely monitor operational implications of rising energy demands.

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INTRODUCTION

RISK
MANAGEMENT

IN THE SPOTLIGHT:
PRESIDENT TRUMP'S
SECOND ADMINISTRATION

ACCOUNTING
AND DISCLOSURES

SEC RULEMAKING
AND OTHER REGULATORY
CONSIDERATIONS

QUESTIONS FOR
THE AUDIT COMMITTEE
TO CONSIDER

4 Digital assets

President Trump has signaled strong support for the digital assets sector through executive actions, pro-crypto appointments and engagement with the business community, emphasizing private sector leadership, regulatory clarity, innovation and US global competitiveness. Federal agencies will continue rulemaking to implement the [Guiding and Establishing National Innovation for US Stablecoins](#) (GENIUS) Act and advance the administration's broader digital assets agenda, with the Act expected to take effect in the coming year.

At the same time, debate over the taxation of digital asset transactions – representing significant potential federal revenue – will remain a key issue for Congress and an area worth monitoring. In parallel, the House passed Digital Asset Market Clarity (CLARITY) Act (which proposes a regulatory framework for non-stablecoin digital assets) is a priority for Senate Republican leadership in 2026, although it remains stalled amid policy disagreements.

5 Tax

In developments impacting income tax provisions for 2026 and Q1 estimated annual effective tax rates, the indirect effects to income tax provisions of the Supreme Court decision on the IEEPA tariffs are a focus, as well as (for US parented multinational entities) questions regarding how, and when, the OECD guidance on the Side-by-Side tax regime safe harbor (discussed further below) will be enacted in participating countries.

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INTRODUCTION

RISK
MANAGEMENTIN THE SPOTLIGHT:
PRESIDENT TRUMP'S
SECOND ADMINISTRATIONACCOUNTING
AND DISCLOSURESSEC RULEMAKING
AND OTHER REGULATORY
CONSIDERATIONSQUESTIONS FOR
THE AUDIT COMMITTEE
TO CONSIDER**6 Workforce**

Rollbacks of diversity, equity and inclusion (DEI) policies, tightening of immigration policies and federal workforce reductions have been central to President Trump's second-term policy approach to workforce policy issues. The cumulative effects of these changes are reverberating through the business community, and tensions are expected to persist in the months ahead. We expect the following:

- The administration's "America First" labor efforts will continue to impact talent access, availability and mobility across sectors, industries and geographies. Continued efforts to roll back Biden-era DEI policies and ongoing legal challenges to these actions will continue to drive uncertainty. Increased scrutiny of foreign workers will persist; access to and use of foreign talent will be more costly, complex and uncertain. Additional rulemakings will impact the H-1B program as a whole, Optional Practical Training for foreign students and potentially H-4 work authorization.
- The administration will continue to seek opportunities to "reshore" jobs and promote US-based manufacturing and production via various tax and other incentives as well as trade barriers.

7 Energy

Energy policy under the Trump Administration has shifted strongly toward deregulation and traditional production, while scaling back and delaying clean energy mandates. These efforts have focused on improving domestic energy supply chains and incentivizing investments in infrastructure.

Energy is also a major component of President Trump's international economic agenda, with a strong emphasis on facilitating the export of American energy and securing energy investments from US trading partners. In 2026, the administration will focus on actions to mitigate the effects of the energy shock caused by the conflict in Iran and the Middle East, enacting large-scale permitting reform to accelerate electric grid modernization projects, development of new energy production facilities and improvements to overall energy infrastructure.

Taken together, the pace and breadth of US policy change heighten the audit committee's role in overseeing how management identifies, interprets and responds to evolving regulatory, trade, technology, workforce and energy risks. Audit committees should focus on whether these developments are appropriately reflected in risk assessments, internal controls, financial reporting judgments and disclosures, and whether scenario planning is informing capital allocation and resilience decisions. Sustained vigilance will be critical to ensure that rapid policy shifts, deregulation and innovation do not outpace governance, risk management and compliance discipline.

Additional resources

- [The Trump Administration at the one-year mark](#), February 2026



Accounting and disclosures

This quarter, audit committees are prioritizing how they navigate macroeconomic conditions and adapt to the shifting legislative and regulatory landscape.

They are actively evaluating how ongoing economic uncertainty and changes in the business environment will impact financial reporting processes. Key financial reporting developments are outlined below:

Customs and Border Protection provides initial plan for tariff refunds

Customs and Border Protection (CBP) on 6 March 2026 outlined its plans to establish a system for tariff refunds in 45 days following an order by the Court of International Trade (CIT) on 4 March 2026 for CBP to progress with the tariff refund process. CBP said it would work on a streamlined system to process the refunds after noting it was operationally infeasible for the agency to manually process millions of individual refund requests.

The CIT noted in its order that “all importers of record whose entries were subject to IEEPA duties are entitled to the benefit of” the Supreme Court’s 20 February 2026 ruling that tariffs imposed by President Donald Trump in April 2025 under the International Emergency Economic Powers Act (IEEPA) are unlawful.

While the CIT order and CBP’s response provide additional information on eligibility and potential refund processes, uncertainty continues to exist. Companies will need to closely monitor developments and evaluate any impact of these developments on their financial statements.

OECD releases side-by-side package on Pillar Two global minimum tax

The Organisation for Economic Co-operation and Development (OECD) released a side-by-side arrangement that includes a new side-by-side safe harbor (safe harbor) under the Pillar Two Global Anti-Base Erosion (GloBE) rules. The safe harbor, once enacted into local jurisdictional law, exempts a multinational entity (MNE) from certain Pillar Two taxes, mainly the income inclusion rule and the undertaxed profits rule top-up tax charging provisions, when the ultimate parent entity is located in a jurisdiction that maintains a qualified side-by-side tax regime. However, the MNE would remain subject to the qualified domestic minimum top-up tax charging provision in the jurisdictions in which they maintain constituent entities.

The OECD determines whether a jurisdiction has a qualified side-by-side tax regime based on whether the regime contains minimum tax elements such that it will qualify as a side-by-side comparison to the Pillar Two taxes. Once enacted into local jurisdictional law, the safe harbor is applicable for fiscal years beginning

on or after 1 January 2026. The safe harbor does not impact any Pillar Two taxes related to periods before 2026 (e.g., 2025 for calendar-year-end companies).

The OECD has determined the US maintains a qualified side-by-side tax regime, and accordingly, once the safe harbor is enacted into local jurisdictional law, it is expected to reduce the amount of Pillar Two taxes that US parent MNEs would otherwise be subject to if the safe harbor was not in place.

For the safe harbor to be recognized within a jurisdiction, there generally must be enacted tax legislation that recognizes the safe harbor within that particular jurisdiction. Entities should continue to update their estimated annual effective tax rate in each interim reporting period to consider developments in the period.

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SEC rulemaking and other regulatory considerations

SEC Chairman Paul Atkins continues to position capital formation, innovation and crypto assets as SEC top priorities.

One change in the SEC's crypto plans came with Atkins' January announcement that Project Crypto, an internal initiative to modernize crypto regulations, is now a joint initiative with the Commodity Futures Trading Commission (CFTC). Among the goals of this work is to create a unified approach to the federal oversight of crypto asset markets, remove duplicative compliance requirements and reduce regulatory fragmentation.

The SEC approved an interpretive release outlining a token taxonomy defining various categories of crypto assets to create certainty for market participants and safeguard investors. Chairman Atkins has said that tokenization and blockchain have the potential to streamline both trading and the entire issuer-investor relationship.

The SEC also continues to consider updates to current corporate reporting requirements to center disclosures on materiality and to reduce regulatory compliance burdens. Chairman Atkins has signaled that a proposal is expected early this year to shift SEC registrants to semi-annual reporting, with the option to continue filing quarterly. He also has [invited](#) the public to submit input

on potential revisions to Regulation S-K's non-financial statement disclosure requirements to avoid the disclosure of immaterial information.

Corporate governance may also be an area of SEC activity in the coming months, having come under heightened scrutiny recently by both the White House and the SEC. President Trump issued an [executive order](#) (EO) in December directing the SEC to consider rescinding all rules and guidance relating to shareholder proposals. This includes Rule 14a-8, which governs the proxy process. The EO also directs the SEC to review and possibly revise or rescind rules and guidance on proxy advisors (especially to the extent they implicate DEI- and ESG-related policies).

Separately, Chairman Atkins has expressed the view that both shareholder proposals and proxy advisory firms contribute to a less attractive environment for companies to go public and indicated plans to consider related rule changes.

The start of 2026 has brought changes to both the Commission's leadership and senior staff. Former Commissioner Caroline Crenshaw's [departure](#) from the SEC in early January as her term expired left two vacant seats on the Commission, both previously held by Democrats. The Trump Administration has not indicated plans to put forward nominees to fill those



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slots. The Commission continues to fill out its senior leadership team, including a new [chief economist](#), deputy directors in the Divisions of [Corporation Finance](#) and [Enforcement](#) and deputy chief accountants in the Office of the Chief Accountant (OCA).

PCAOB developments

The PCAOB is entering a period of transition, marked by changes in board leadership, oversight and strategic direction. The SEC [announced](#) a new board in January, consisting of Demetrios (Jim) Logothetis as chairman and Mark Calabria, Kyle Hauptman and Steve Laughton as board members. All but Hauptman have been sworn in; Hauptman has [indicated](#) he will join the PCAOB once

his successor is in place at the National Credit Union Administration. George Botic has stepped down as Acting PCAOB Chairman and returned to his board seat. It is anticipated that board activity will remain slow while the newly appointed board members settle in.

The SEC also recently [approved](#) a reduced PCAOB budget and accounting support fee for 2026. A significant portion of the budget reduction is reflected in lower board member salaries, including a 52% and 42% decrease in the chairman and other board members' compensation, respectively. Looking ahead, Chairman Atkins [stated](#) that the Commission remains committed to provide "robust oversight" of the PCAOB

and signaled that updating the board's strategic plan should be a key priority this year.

Although the new PCAOB chairman has not yet discussed his plans for the PCAOB, SEC Chief Accountant Kurt Hohl has [outlined](#) his priorities for SEC oversight of the PCAOB, much of which is delegated to OCA. He stated that OCA will review how innovation across the financial reporting ecosystem impacts audit committees, among other stakeholders, to identify where standards may need to evolve. He also said OCA will encourage the PCAOB to consider whether inspection reports are providing meaningful information to stakeholders.

Other priorities he has highlighted include reviewing auditor independence rules; examining the governance, funding and standard setting of international auditing standard setters; and considering a shift in PCAOB inspections more toward an assessment of a firm's system of quality management.

Additional resources

- [SEC in Focus](#), January 2026
- [SEC Top Priorities](#)



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 changing 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 regions targeted by tariffs?
- What steps is the organization taking to adapt its supply chain footprint and operating model in response to possible geopolitical disruptions?
- With deregulatory 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 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 has the company challenged its traditional risk appetite to fully consider the upside potential of bold AI investments?
- Does the company have clear signals and monitoring capabilities for reevaluating strategy when AI developments (such as early indicators of AI-driven disruption in the business) emerge?
- How is the organization balancing AI-driven efficiency gains with long-term talent needs and its reputation as a responsible employer of choice?
- Does management have robust mechanisms – such as red team testing and clear principles around legal responsibility – to mitigate the risks of AI-generated errors, bias and unintended consequences?
- Is AI a core part of board and committee discussions on strategy, talent and risk, or is it siloed as a technology-related agenda item?
- Does the organization have a clear and comprehensive understanding of the relationships and interdependencies between the company's critical business services; third parties, including suppliers; business processes; and supporting technology?
- How aligned is the company in meeting its recovery time objective and does it have alternative business strategies to manage any gaps in it?
- 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 and deliver services at the minimum acceptable levels? Does the organization test or flex its resilience against a range of operational and strategic scenarios?
- 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 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 the evolving tariff landscape on the financial statements (for example, recognition of tariff-related receivables and obligations, impact on contracts with customers, impairment of assets, valuation of inventory)?
- 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?
- What measures have been taken to assess the impact of continuing tariffs on going concern assumptions and related disclosures?
- Are the company's nonfinancial disclosures fit for purpose given current investor stewardship priorities, investing trends and related investor data needs?
- 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?

- Did management incur any difficulties or surprises in adopting the new income tax disclosure requirements under ASU 2023-09?
- 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 and future projections of taxable income for purposes of valuation allowance assessments?
- How is management progressing with its analysis of the impact of the OECD Pillar Two global minimum tax model? What impact do the rules have on the estimated annual effective tax rate (EAETR) for 2026 and is management monitoring proposed tax legislation for potential impact on the projected EAETR in those countries that have yet to adopt the Pillar Two rules?
- Have there been any material changes to internal controls over financial reporting 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 internal controls over financial reporting or disclosure controls and procedures?

Inquiries to auditors

External auditors

- How is the engagement team's use of AI changing the way risks are identified, assessed or addressed in this year's audit?
- Has the engagement team identified any significant deficiencies or lack of internal controls to mitigate risks related to the company's use of AI?
- 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?

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