

INTRODUCTION

RISK
MANAGEMENT

IN THE SPOTLIGHT:
BROADER PROJECT GLASSWING
BOARD IMPLICATIONS

FINANCIAL REPORTING AND
INTERNAL CONTROLS

SEC RULEMAKING
AND OTHER REGULATORY
CONSIDERATIONS

QUESTIONS FOR
THE AUDIT COMMITTEE
TO CONSIDER

EY Center for Board Matters

2026 Q2 audit committee update



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Introduction

Enhancing resilience in a disrupted environment

With disruption constant, audit committees must reassess risk, support resilience and oversee how AI and geopolitics impact performance.

Geopolitical instability; macroeconomic uncertainty; rapid advances in AI and cyber risk; and an evolving accounting, disclosure and regulatory agenda continue to redefine the operating environment. Together, these forces are increasing pressure on companies to strengthen resilience, preserve financial flexibility, and maintain confidence in reporting and governance.

Against this backdrop, audit committees play a critical role in helping management distinguish near-term disruption from longer-term structural change and in challenging whether responses remain aligned to strategy, risk appetite and reporting obligations.

This quarter, key areas of focus include the impact of geopolitical and macroeconomic shifts on assumptions and overall performance; the discipline around AI investment and value realization; the resilience of cyber and operational risk management; and readiness for new accounting and regulatory developments.

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Risk management

Risk oversight is evolving rapidly in the face of economic uncertainty, geopolitical instability and accelerating technological disruption. For many companies, disruption is no longer episodic; it is an ongoing operating condition that requires boards and audit committees to distinguish between short-term shocks and longer-term structural change.

AI is emerging as a critical lever for growth, but it is also expanding the board's risk lens beyond cyber to include data governance, model oversight, controllability of AI-enabled processes, workforce implications and changes to operating models. In response, leading companies are moving beyond traditional risk management approaches and embedding risk into strategic decision-making, with

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Rather than pausing and waiting for visibility to improve, companies are recalibrating growth strategies, emphasizing financial returns and execution discipline.

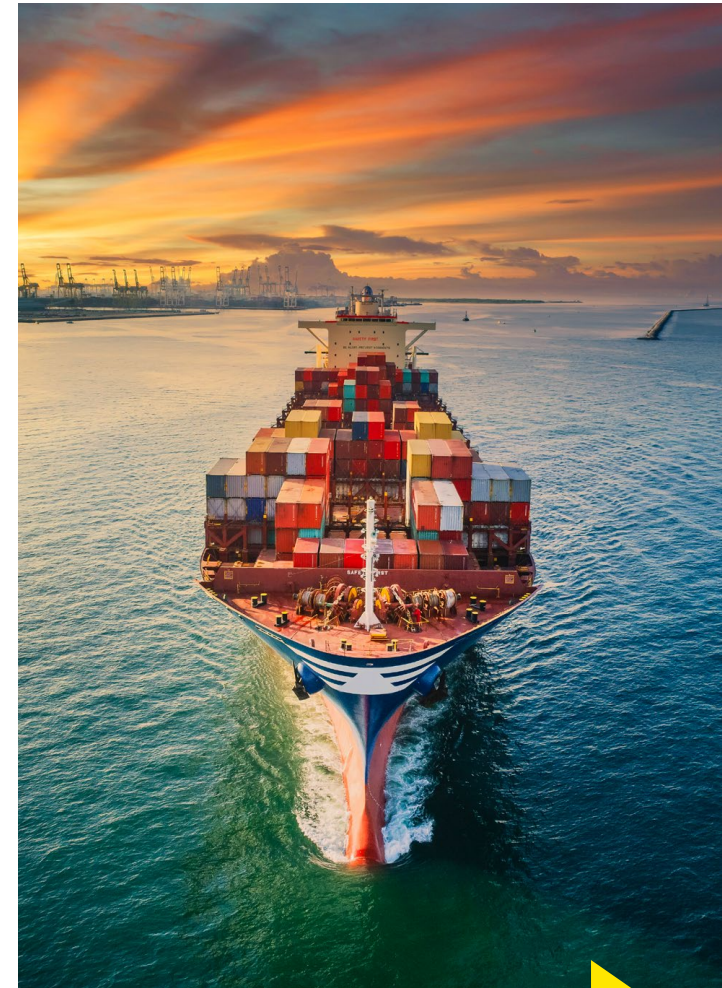
greater focus on structural dependencies across supply chains, technologies, third parties and critical markets.

Following are the key risks, trends and considerations that boards and audit committees should prioritize for the upcoming quarter:

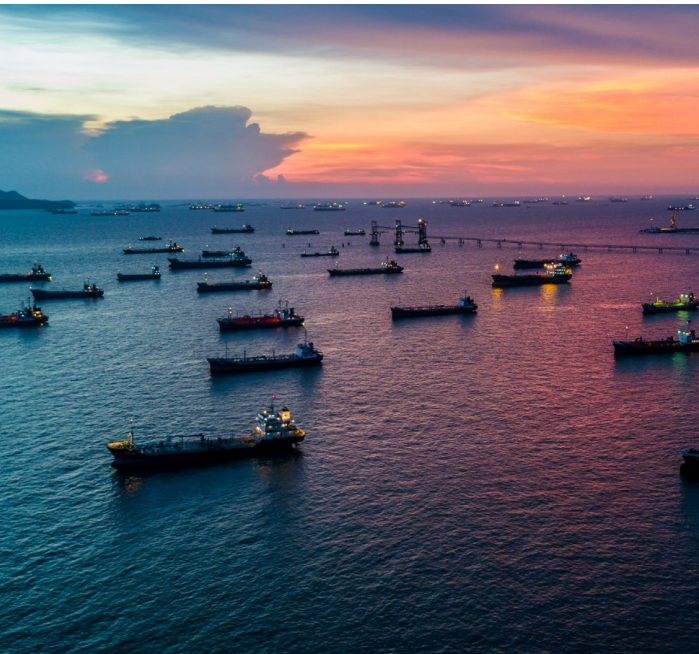
- **The conflict in the Middle East has pushed geopolitical risk even higher on the corporate agenda, yet companies are not responding as they did in prior crisis periods.**

Rather than pausing and waiting for visibility to improve, companies are recalibrating growth strategies, emphasizing financial returns and execution discipline. Geopolitics is increasingly viewed not as a separate macro overlay but as a multiplier of risks across supply chains, costs, cyber exposure and regulation, pushing political risk into the core of strategy, operating models and investment decisions. This also heightens the importance of dependency risk: boards should understand not only where the company is exposed today, but where reliance on key countries, suppliers, technologies or ecosystems could become a structural vulnerability over time.

According to the [latest EY survey of CEOs](#), 56% of global CEOs cite geopolitical tensions, instability and conflict as the top near-term risk for business, compared to six months ago when technology disruption and AI, combined with access to talent, were top of mind for the C-Suite.



The conflict in the Middle East has led to a near-complete halt of traffic through the Strait of Hormuz, a vital artery of global trade, driving higher commodities prices, increased market volatility and tightening financial conditions. As a result, 46% of CEOs say sustained energy price shocks would create significant headwinds to their business, while 42% expect they would struggle to absorb prolonged and significant ecosystem disruptions.



Beyond immediate shocks, geopolitics continues to shape the global operating environment more widely, from rising state interventionism to intensifying competition over critical resources. With so much yet unclear, management teams are taking a measured and disciplined approach in the face of these interconnected external disruptions

Key actions leading organizations are taking include:

1. Tightening financial discipline, including prioritizing high-return investments, cutting inefficiencies and protecting funding for long-term growth.
2. Building resilience to geopolitical shocks by diversifying supply chains, stress-testing scenarios and embedding political risk into decision-making.
3. Continuously reassessing operations and ecosystems: identifying weak points, adapting partnerships and ensuring the business can withstand ongoing disruption.

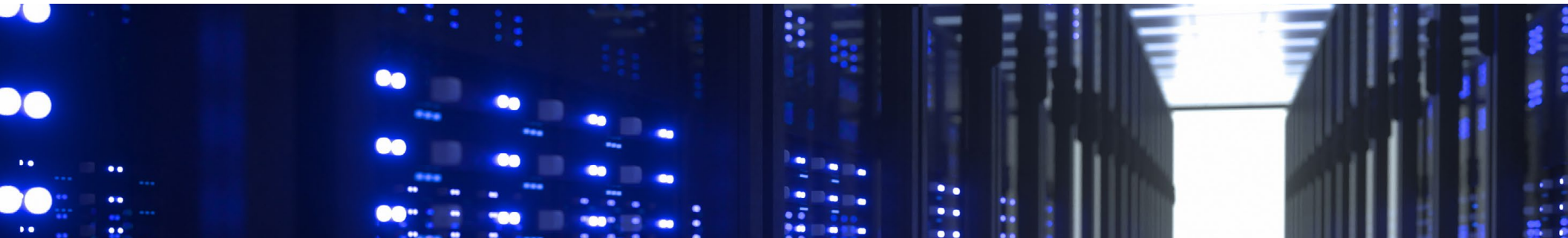
For audit committees, the focus remains resiliency. In addition to overseeing management's response to these pressures, leading audit committees are helping management distinguish between short-term headlines and longer-term trendlines, assess how those trendlines affect assumptions and strategy, and challenge whether the organization is prepared for sustained disruption rather than isolated events.

■ **Macroeconomic volatility continues to elevate financial risks and sharpen scrutiny on returns from AI investments.**

According to the EY [US economic outlook](#), successive shocks to trade, immigration, energy and capital are keeping inflation well above the Fed's 2% target, while the labor market remains resilient, but uncertain. Together, these dynamics increase the risk of margin pressure, softer demand and tighter financial conditions, even in the absence of a sharp downturn.

Beyond geopolitics, persistent trade policy uncertainty, lingering inflation pressures and emerging vulnerabilities in private credit and AI-related investment warrant close monitoring by audit committees and boards. While these risks are not yet systemic, limited transparency raises the risk that liquidity strains could evolve into solvency stress. Against this backdrop, there may be greater recession risks, with risks skewed to the downside in the event of a more prolonged or severe Middle East conflict. In this context, companies are increasingly looking to AI as a primary growth lever. The [2026 EY-Parthenon Growth Survey](#) found that even though 80% of corporate growth leaders view the current environment as more challenging than a year ago, Nearly four in five (78%) expect AI to ultimately accelerate their growth. The tension between near-term financial pressure and longer-term AI driven upside is putting greater focus on execution and value realization.

INTRODUCTION

RISK
MANAGEMENTIN THE SPOTLIGHT:
BROADER PROJECT GLASSWING
BOARD IMPLICATIONSFINANCIAL REPORTING AND
INTERNAL CONTROLSSEC RULEMAKING
AND OTHER REGULATORY
CONSIDERATIONSQUESTIONS FOR
THE AUDIT COMMITTEE
TO CONSIDER

We're seeing organizations becoming more operationally serious about AI. The focus is shifting from whether to adopt AI to how and where to scale it for the greatest business impact and financial return. In some companies, AI is already delivering measurable value across operations, supply chains, product and service innovation, customer experience, strategy and risk management. These are no longer only back-office or isolated use cases. As a result, AI programs that cannot demonstrate measurable financial impact will increasingly struggle to compete for investment internally.

For audit committees, the priority is twofold: maintaining financial resilience while monitoring AI's effect on performance. This includes overseeing balance sheet strength, cost discipline and liquidity in a higher-for-longer rate environment, as well as evaluating how AI deployments affect both the P&L and the balance sheet. Leading audit committees

recognize that strong AI governance is not only a control mechanism, but it can also enable faster, more confident adoption by clarifying accountability for data, models, unstructured information and human oversight. Boards increasingly need to understand where AI is creating value, where it is not, when benefits are expected to materialize, and whether governance is keeping pace with the way AI is reshaping operations

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- **Technology risk is accelerating as leading-edge AI resets the speed of cyber discovery and exploitability.**

AI can now quickly identify and chain multiple low-severity vulnerabilities together, automatically and at scale. As a result, vulnerabilities that were once considered acceptable or low risk can now contribute to material business risk. Early signals suggest that advanced AI systems are considerably shortening the time between vulnerability discovery and exploitation – from months to, in some cases, hours.

In April 2026, Project Glasswing was announced, a controlled release of their frontier AI model, Claude Mythos Preview, to approximately 40 major companies in the technology, cybersecurity, financial services and infrastructure sectors. This initiative allowed the select group of founding partners and organizations early access to Claude Mythos Preview, enabling



participants to identify and remediate weaknesses in their own environments before adversaries gain comparable capabilities and exploit the existing vulnerabilities. Anthropic's decision to restrict access and lead with a defensive coalition signal both the power of the technology and the seriousness of the risk companies now face. By late July 2026, Anthropic's 90-day public report on Glasswing findings will be available. The Glasswing report will be the first public data on what AI-augmented vulnerability scanning finds at scale across various sectors and platforms, many of which are deemed as critical to our daily interactions.

Once the Glasswing report is made public, boards should consider requesting from management a formal board update: what the report found, what it means for the company's cybersecurity risk posture specifically, whether this changes the company's cyber risk profile, where the company stands relative to the possible actions outlined in the report, what the company's 12-month AI and cybersecurity threat horizon looks like, whether the organization will augment their patch management processes, including determining whether to shorten the patch window, and discussing the impact of third-party relationships and outsourced functions.

The evolving cybersecurity landscape has been fundamentally changed as a result of the supercharged AI attacks, which demands a shift from periodic, point-in-time cybersecurity assessments to continuous, AI-enabled resilience models. Audit committees and boards need confidence that management understands

the company's risk exposure in business terms, including third-party risk, and is prepared to respond at speed and scale. This includes assessing readiness to deploy agentic AI in threat modeling, vulnerability management and security operations, as well as the governance and operating model changes required to support speed, agility and resilience. Boards should also challenge whether technology risk oversight extends beyond cyber to the reliability of AI-enabled processes, the resilience of critical data and vendor ecosystems, and horizon scanning for emerging technologies that could materially alter the company's risk profile. Management should continue hardening foundational controls such as segmentation, egress



controls, multifactor authentication and layered defenses to contain exploit chains and limit blast radius. Additionally, organizations need to remain diligent with their overall cyber hygiene practices.

Finally, audit committees should broaden their view of leading risk indicators. In periods of sustained disruption, fatigue and breakdowns in information flow can signal weakening execution, deteriorations in culture and/or control discipline. Boards should consider whether they are receiving sufficiently direct and unfiltered insight from management, internal audit, compliance and other key functions to identify issues before they crystallize into larger risk events.

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In the spotlight

Broader Project Glasswing board implications

Project Glasswing does not introduce a wholly new category of risk; it highlights the speed and scale at which risk can now become reality. As cloud, AI and digital ecosystems reshape how value is created, they also reshape where exposure sits.

Companies therefore need to look beyond opportunity and understand how risk is evolving across increasingly interconnected systems.

COVID-19 did not create risk; it revealed hidden dependencies, fragile supply chains and the speed at which disruption can spread through interconnected systems. The lesson was not only the event itself, but how systems behave under pressure.

Project Glasswing represents a similar moment in a digital context: vulnerabilities can now be identified and acted upon faster than many organizations can respond using traditional processes.

In light of this, we highlight a few notable shifts and risks that boards should be monitoring:

- Speed and scale of change have accelerated. Known weaknesses can now be identified and exploited in hours rather than months. When vulnerabilities can be found and acted on at machine speed, the window between exposure and impact collapses, creating a threat environment that many existing defensive frameworks were not designed to absorb.

This raises the ceiling for both cyber defense and cyber offense, forcing a rethink of long-held security assumptions and practices. As time compresses, organizations have less time to detect threats, make decisions and respond, while the likelihood of simultaneous disruption across multiple systems increases.

- The nature of risk itself is changing. AI is reshaping how organizations operate, with processes once overseen by people increasingly executed by software acting on the organization's behalf. This creates new points of exposure, including system configuration and how data is accessed and controlled. Additionally, upskilling talent to provide proper oversight over what AI is doing and how it operates on the company's behalf is becoming increasingly important.
- Organizations are becoming more dependent on a small number of large technology and AI providers, creating significant concentration risk. The challenge is no longer what organizations do not know, but what they already know and cannot address quickly enough. Risk has not fundamentally changed. Its exposure has accelerated and its impact is now immediate, consequential and societal.

In some jurisdictions, such as Europe, regulatory expectations are moving beyond a narrow focus on cybersecurity. NIS2 tightens requirements around digital security, while the Critical Entities Resilience



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Directive (CERD) widens the scope to include all types of disruption: cyber, physical, environmental and geopolitical. DORA introduces similar expectations for financial services, including direct oversight of critical third party providers.

Taken together, these regulations reflect a clear change in emphasis. The key question for boards is no longer “are we secure?” but “can our systems keep running when disruption is prolonged or repeated?” For boards, this means evaluating whether the company has designed essential services to operate under pressure, fail safely and recover quickly. It also means verifying that management teams are building resilience into systems from the outset rather than relying on reactive continuity controls.

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KEY ACTIONS AND CONSIDERATIONS FOR BOARDS

- **Assume breach, design for continuity**
Confirm that critical services can operate even when systems are compromised. Resilience is measured by continuity and recovery, not by the absence of incidents.
- **Understand the company’s AI dependencies**
Identify where AI systems are critical to operations, decision making and automation. Define acceptable disruption thresholds and recovery expectations when those systems fail or are manipulated.
- **Reduce exposure by addressing technical debt**
Legacy and unpatched systems are not just inefficient; they are active sources of exposure. Boards should require continuous reduction of technical debt, including timely patching and configuration hygiene, because resilience begins with a shrinking attack surface.
- **Map critical dependencies**
Understand reliance on key suppliers, platforms, models and infrastructure. Resilience failures increasingly propagate across ecosystems, not single organizations.
- **Focus on recovery velocity**
How quickly can essential services be restored when disruption occurs? How much downtime can we tolerate, and how quickly can we realistically recover?
- **Continuously test resilience**
Look beyond plans and documentation to see how recovery and decision making actually perform under real conditions, including AI accelerated scenarios.



Financial reporting and internal controls

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.

FASB issues new guidance on environmental credit programs

The Financial Accounting Standards Board (FASB or the Board) issued final guidance establishing requirements on how to recognize, measure, present and disclose environmental credits and environmental credit obligations.

The guidance applies to all entities that buy, receive or internally generate environmental credits they intend to sell, trade or distribute. It also applies to entities that use such credits for compliance or voluntary purposes (e.g., for use in carbon-neutral or net-zero initiatives). The guidance specifies when an entity is required to recognize the cost of an environmental credit as an asset or an expense and, if the cost is recognized as an asset, how the entity measures it.

The guidance also specifies when an entity is required to recognize an environmental credit obligation (ECO) liability related to environmental compliance programs, and how those liabilities are measured. Entities are required to present environmental credits and ECO liabilities on a gross basis and provide certain annual disclosures about those amounts.

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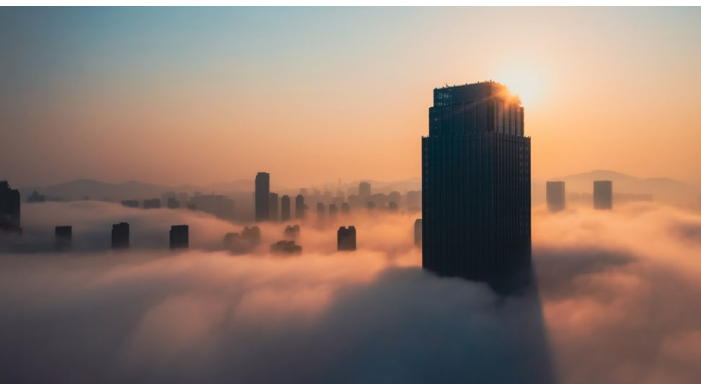
The guidance addresses stakeholder feedback that US GAAP did not specifically address how to recognize and measure environmental credits or the related obligations, leading to diversity in practice.

The guidance is effective for fiscal years beginning after 15 December 2027, including interim periods within those years, for public business entities and a year later for all other entities. Early adoption is permitted. Entities are required to adopt the amendments using a retrospective approach by recognizing a cumulative effect adjustment to retained earnings at the date of initial application (i.e., prior annual reporting periods will not be recast).

New guidance on paid-in-kind dividends on equity-classified preferred stock

The FASB issued guidance requiring entities to initially measure paid-in-kind (PIK) dividends on equity-classified preferred stock using the PIK dividend rate stated in the preferred stock agreement. The guidance applies to dividends convertible and non-convertible preferred stock classified as either permanent or temporary equity.

The guidance is effective for fiscal years beginning after 15 December 2026, including interim periods within those fiscal years. Companies can apply the guidance either prospectively to PIK dividends recognized on equity-classified preferred stock on or after the effective date or on a modified retrospective basis for PIK dividends on equity-classified preferred stock that is outstanding as of the initial application date. Early adoption is permitted.



INTRODUCTION

RISK
MANAGEMENT

IN THE SPOTLIGHT:
BROADER PROJECT GLASSWING
BOARD IMPLICATIONS

FINANCIAL REPORTING AND
INTERNAL CONTROLS

SEC RULEMAKING
AND OTHER REGULATORY
CONSIDERATIONS

QUESTIONS FOR
THE AUDIT COMMITTEE
TO CONSIDER

Updates on tariff refunds and reminders on accounting considerations

Customs and Border Protection (CBP) has implemented a streamlined process for importers to request refunds of tariffs collected under the International Emergency Economic Powers Act (IEEPA), in compliance with a Court of International Trade (CIT) order following the Supreme Court’s February ruling invalidating IEEPA-based tariffs. Additionally, companies should continue to monitor developments with other ongoing legal challenges to the Administration’s trade and tariff policies.

CBP’s new Customs Automated Processing Environment (CAPE) tool in the Automated Commercial Environment (ACE) Secure Data Portal can process IEEPA-based tariff refund claims for most imports. CBP generally expects to pay refunds, including interest, within about 60 to 90 days after acceptance.

Companies should continue to apply their current accounting policies for IEEPA-based tariff refunds, typically by analogizing to the cost recovery model in ASC 410-30 or applying the gain contingency model in ASC 450-30. Companies should also determine whether refunds affect any rights and obligations in customer and vendor contracts (e.g., an explicit or implicit obligation to pass tariff refunds to customers, a right to recover tariff costs from vendors).

As the CAPE process moves forward, companies should closely monitor developments and evaluate any impact



on their financial statements and related information (e.g., management’s discussion and analysis (MD&A), risk factors) and update disclosures in future reporting periods when information that is known and can be reasonably estimated becomes available that assists users’ understanding of the impacts on the company’s financial statements.

New COSO guide on internal controls over GenAI

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued a publication, *Achieving Effective Internal Control Over Generative AI*, to provide a practical approach for managing the risks and opportunities resulting from the rapidly growing use of generative artificial intelligence (GenAI) technologies.

Organizations are already using AI-enabled tools to automate reconciliations, accelerate analysis and support decision-making, often faster than traditional governance models anticipated. The guide highlights risks that can affect operations, reporting and compliance if controls are not strengthened. Such risks include increased cyber exposure, prompt-based manipulation, opaque reasoning, model drift and frequent configuration changes. Audit committees should inquire with management as to how the internal controls environment is keeping pace with these technology changes.

SEC rulemaking and other regulatory considerations

SEC Chairman Paul Atkins has [framed](#) the Commission's plans for modernizing its rulebook around an advance, clarify and transform (A-C-T) strategy.

The A-C-T strategy aims to *advance* by updating legacy regulatory frameworks to reflect how markets operate today; *clarify* the regulatory jurisdiction between the SEC and Commodity Futures Trading Commission (CFTC) to support innovation, particularly around crypto assets; and *transform* the Commission's rulebook by streamlining requirements that call for or result in the disclosure of immaterial information. Consistent with this framing, Chair Atkins has emphasized plans to provide clearer pathways for innovative products to enter the market, signed a memorandum of understanding with the CFTC to align policymaking

and collaborate on examinations and enforcement matters, and directed the SEC staff to revisit disclosure requirements using a materiality lens.

Chair Atkins has signaled an ambitious pace of rulemaking for this year and into 2027. In recent remarks, he [said](#) that the SEC will “probably have 30 proposals out this year” and [expects](#) “another 30” proposals next year.

The SEC recently issued proposals to give public companies the option of filing semiannual rather than quarterly interim reports; simplify the filer status framework and allow scaled disclosure for more companies; and enhance the registered offering process. Comments on these proposals are due in July. Additionally, the Commission has submitted several rule proposals to the White House for review, a new requirement for all independent regulatory agencies like

the SEC under an [executive order](#) released last year. Two of those proposals aim to provide a safe harbor for crypto issuers seeking to raise capital and rescind the climate disclosure rules finalized by the previous Commission. These are expected to be proposed by the SEC for comment over the next several months.

The SEC also released its [enforcement results](#) from FY25, reporting 456 filed enforcement actions, down 22% from FY24 (the last full year under then-SEC Chair Gary Gensler). The release states that the Commission has refocused the enforcement program on offering fraud, market manipulation, insider trading and other cases that directly harm investors and the integrity of the US securities markets. In his statement in the accompanying press release, Chair Atkins [said](#) the results demonstrate a “course correction” in enforcement priorities, moving “from approaches that prioritized

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volume and record-setting penalties” toward a “renewed emphasis on holding individual wrongdoers accountable.”

Separately, the SEC [named](#) David Woodcock as the Director of the Division of Enforcement following Judge Margaret Ryan’s resignation in March. The agency also has created a new “SOX Group” within the Division of Enforcement to investigate and litigate matters involving potential violations of auditing and related professional standards and provisions of the Sarbanes-Oxley Act and other relevant federal securities laws.

PCAOB developments

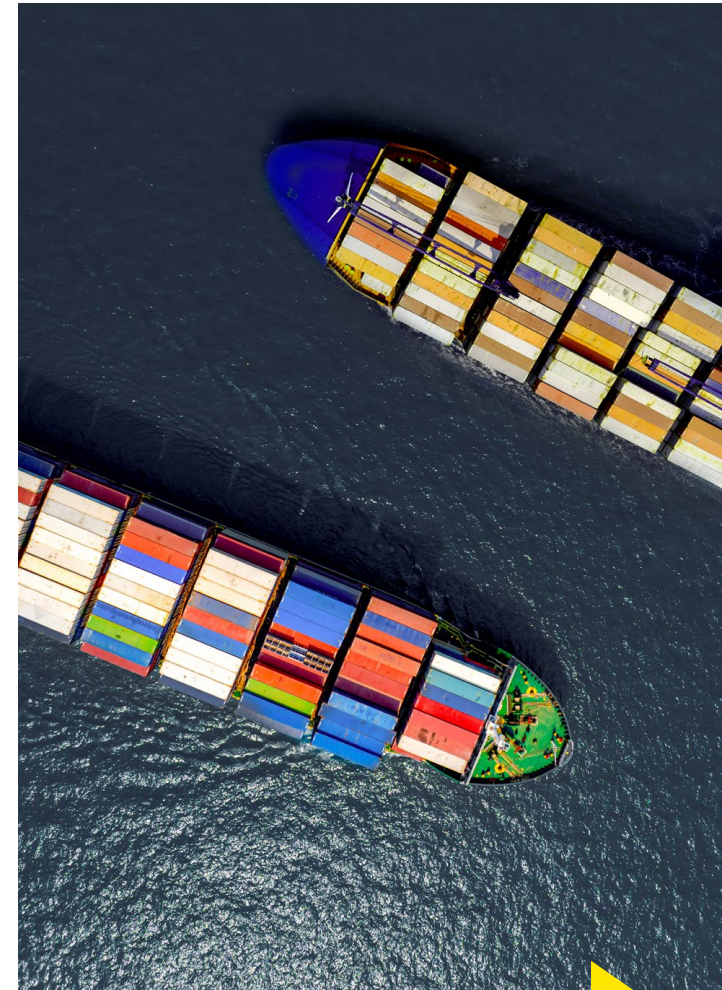
PCAOB Chairman Demetrios (Jim) Logothetis has begun identifying his priorities, including [getting](#) “back to the basics” of audit quality, investor protection and disciplined auditor oversight. In recent remarks, Chair Logothetis indicated that the Board is considering ways to better leverage artificial intelligence (AI) in the inspections program and increase the Board’s inspection focus on firms’ systems of quality management. He said this shift could result in inspection reports that are clearer and more decision useful for stakeholders, particularly audit committees and investors.

The Board held its first open meeting under the new leadership and [voted](#) to issue a request for public comment on the PCAOB’s strategic priorities to help inform its 2026-2030 strategic plan, future standard-setting agenda and annual budgets.

Chair Logothetis described the request for comment as an early transparency measure and said the Board would separately issue a draft strategic plan for public comment later this year. Additional engagement opportunities are expected, including a request for public comments on narrow changes to the new QC 1000 quality control standard.

Additional resources

- [SEC in Focus](#), April 2026
- [Five ways boards can respond to investor expectations on AI](#), February 2026
- [To the Point – FASB issues guidance on accounting for environmental credits and environmental credit obligations](#)
- [To the Point – FASB issues initial measurement guidance for paid-in-kind dividends on equity-classified preferred stock | EY - US](#)
- [To the Point – SEC proposes optional semiannual reporting in lieu of quarterly Form 10-Q reporting](#)
- [To the Point – SEC proposes enhancements to registered offering process](#)
- [To the Point – SEC proposes changes to simplify the filer status framework and allow scaled disclosure for more companies](#)



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:

- Are we distinguishing clearly between short-term disruption and structural change, and are our risk oversight and response plans calibrated accordingly?
- Where are our most significant dependencies across suppliers, third parties, technologies, data, markets and geographies, and how are we reducing vulnerability where concentration is too high?
- How are tariffs, trade policy changes and geopolitical developments affecting our supply chain, cost structure, customer demand, contracts and market access?
- Do we have credible stress tests, scenario plans and contingency actions for prolonged economic, geopolitical, cyber and operational disruption?
- Are balance sheet strength, liquidity, counterparty exposure and financial reserves sufficient to absorb downside scenarios without undermining strategic flexibility?
- Do we have clear governance over AI use, including accountability for data, models, controls, human oversight and measurable value realization?
- Are we evaluating not only the risks of adopting AI, but also the risks of moving too slowly or failing to adapt our operating model?
- Is technology risk oversight broad enough to cover cyber resilience, AI-enabled processes, critical data, vendor ecosystems and emerging technologies that could materially change our risk profile?
- Do we understand the recovery time and continuity requirements for critical business services, and are they tested under realistic disruption scenarios?
- Are culture, fatigue, control breakdowns or information bottlenecks being monitored as early warning indicators of broader execution or compliance risk?
- Do the board and audit committee have enough information, expertise and direct access to management, internal audit, compliance and external advisors to challenge effectively in these areas?
- Have there been any meaningful changes to key policies, material exceptions or unusual allowances that could signal weakening discipline in the control environment?



INTRODUCTION

RISK
MANAGEMENT

IN THE SPOTLIGHT:
BROADER PROJECT GLASSWING
BOARD IMPLICATIONS

FINANCIAL REPORTING AND
INTERNAL CONTROLS

SEC RULEMAKING
AND OTHER REGULATORY
CONSIDERATIONS

QUESTIONS FOR
THE AUDIT COMMITTEE
TO CONSIDER



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)?
- What procedures is the company undertaking to assess the potential effects of the SEC’s proposals should they be implemented? Has the company formed any perspectives regarding the SEC’s proposals that it intends to communicate to the SEC?
- How are we ensuring that our financial statement disclosures adequately reflect the risks and uncertainties associated with the tariffs?
- 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?
- Has management evaluated the impact, if any, of changing tariffs on the pricing of intercompany transactions and the related-party transfer-pricing rules for tax purposes?
- 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 as countries begin to take action to enact the new side-by-side safe harbor agreement into their 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?

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