

# Financial reporting briefs

What you need to know about this quarter's accounting, financial reporting and other developments

December 2025

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# Top story

*Welcome to the December 2025 Financial reporting briefs. This edition highlights the latest developments in financial reporting and alerts you to some important considerations for 2025.*

*Interested in what happened at the AICPA & CIMA Conference on Current SEC and PCAOB Developments? We've got it covered in our Top Story.*

*In our Accounting update section, we discuss the FASB's final guidance on accounting for government grants, derivative accounting scope exceptions and accounting for internal-use software, among other topics.*

*In our Regulatory developments section, we provide updates on SEC and other developments.*

**Need more information?**  
*Check out our Reference library, where we list our recent publications on the topics discussed here and provide links to them.*

## AICPA & CIMA Conference on Current SEC and PCAOB Developments

Regulators and standard setters discussed a broad range of financial reporting and auditing topics at the annual AICPA & CIMA Conference on Current SEC and PCAOB Developments in Washington, DC. The speakers and panelists included representatives of the Securities and Exchange Commission (SEC or Commission), including Chairman Paul Atkins, the Financial Accounting Standards Board (FASB or Board) and the Public Company Accounting Oversight Board (PCAOB), who shared their views on various accounting, financial reporting, auditing and regulatory issues.

Highlights included:

**Audit quality and independence** – Regulators and standard setters emphasized auditor integrity, objectivity and independence as vital for investor protection amid a changing landscape, including the emergence of artificial intelligence (AI) and alternative firm structures. SEC Chief Accountant Kurt Hohl highlighted the PCAOB's role in enhancing audit quality and encouraged the PCAOB to focus on firm-level systems of quality control in inspections.

**International coordination** – Mr. Hohl called for greater convergence between US and international auditing and accounting standards to lower compliance costs, reduce complexity and promote consistency across the financial reporting system. He also noted the SEC's monitoring of changes in the governance and funding of the IFRS Foundation and the SEC's interest in addressing the governance complexity at the International Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants.

**AI** – Speakers addressed the opportunities and risks of using AI in financial reporting and its role in reshaping the auditing profession. The SEC staff emphasized that registrants need a governance structure with the appropriate expertise to develop strategies, policies and guidelines for AI implementation, and that auditors should consider companies' use of AI in risk assessments. The SEC staff also provided key reminders for auditors evaluating an entity's use of AI in internal control over financial reporting, including the need to understand and document the model's design and the importance of maintaining human oversight in AI-driven internal controls.

**Disclosure reform** – Mr. Atkins called for efforts to combat the declining number of public companies, with an emphasis on the need for streamlined disclosures grounded in materiality and reduced complexity in financial reporting. He said that SEC rule proposals to address these matters are expected in the next year. Mr. Hohl also discussed the joint effort between the SEC and FASB to balance timely accounting standard setting with robust cost-benefit analyses.

**Accounting and SEC reporting updates** – The SEC staff highlighted accounting complexities in emerging issues, including private credit lending, stablecoins and AI data centers. The staff discussed considerations for determining the predecessor and the financial statements required when certain registrants enter into license arrangements, as well as spin-off and "put-together" transactions. The staff also shared observations on segment disclosures following the adoption of the FASB's Accounting Standards Update 2023-07 and on financial statement presentation. The FASB provided updates on the items on last year's technical agenda and stressed the importance of stakeholder involvement in the standard-setting process.





# Accounting update

## FASB issues guidance to clarify, correct errors or make improvements to the Codification

The FASB issued guidance to clarify, correct errors in or make other minor improvements to a broad range of topics in the Accounting Standards Codification (ASC or Codification) that are intended to make it easier to understand and apply. The guidance is part of the Board's ongoing Codification improvements project to make technical corrections, clarifications and other incremental improvements to US GAAP.

The amendments, among other things, clarify the guidance in ASC 260, *Earnings Per Share*, on how to calculate diluted earnings per share when an entity has a loss from continuing operations and a contract that may be settled in stock or cash that is reported as an asset or liability for accounting purposes.

The amendments apply to all reporting entities in the scope of the affected accounting guidance (i.e., both public and nonpublic entities). While the Board does not intend for the amendments to result in significant changes for most entities, they may result in accounting changes for some entities.

The guidance is effective for fiscal years beginning after 15 December 2026, and interim periods within those years. Entities should apply the amendments to ASC 260 retrospectively. All other amendments may be applied prospectively or retrospectively. Early adoption is permitted.

## FASB clarifies interim disclosure requirements

The FASB issued final guidance clarifying the current interim disclosure requirements and the applicability of ASC 270, *Interim Reporting*.

The guidance creates a comprehensive list of interim disclosures required under US GAAP and incorporates a disclosure principle that requires disclosures at interim periods when an event or change that has a material effect on an entity has occurred since the previous year end. The guidance also clarifies that interim reporting can take different forms based on the type of entity (e.g., SEC registrants, non-SEC registrants, not-for-profit entities). The guidance does not change the fundamental nature or expand or reduce the interim disclosure requirements.

The amendments are effective for public business entities (PBEs) for interim periods within fiscal years beginning after 15 December 2027. They are effective for all other entities for interim periods within fiscal years beginning after 15 December 2028. The guidance may be applied prospectively or retrospectively. Early adoption is permitted.

## FASB issues guidance on accounting for government grants by business entities

The FASB issued final guidance on the recognition, measurement and presentation of a government grant received by a business entity (i.e., an entity that is not a not-for-profit entity or an employee benefit plan in the scope of ASC 960, ASC 962 or ASC 965). US GAAP did not provide such guidance, and many business entities have been analogizing to International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*, or other guidance when accounting for government grants.

The standard incorporates elements of IAS 20 into US GAAP, modifying certain aspects of that standard's scope, recognition threshold and other implementation guidance. The guidance is intended to reduce diversity and promote greater consistency in the accounting for government grants.

The guidance is effective for PBEs for fiscal years beginning after 15 December 2028, and interim periods within those years. It is effective for all other business entities for fiscal years beginning after 15 December 2029, and interim periods within those years. Entities may apply the guidance using a modified prospective, modified retrospective or retrospective approach. Early adoption is permitted.

## FASB clarifies and enhances hedge accounting guidance

The FASB amended certain aspects of its hedge accounting guidance to better reflect an entity's risk management activities in the financial statements.

The new guidance expands the hedged risks permitted to be aggregated in a group of individual forecasted transactions and increases the variable price components eligible to be designated as the hedged risk in the forecasted purchase or sale of nonfinancial assets. It also eliminates the requirement to apply the net written option test when certain compound derivatives are used in hedges of interest rate risk.

In addition, the guidance simplifies the application of hedge accounting for entities hedging forecasted interest payments on choose-your-rate debt instruments and addresses application issues related to "dual hedges," where a foreign-currency-denominated debt instrument is designated as a hedging instrument and a hedged item.

The guidance is effective for PBEs for fiscal years beginning after 15 December 2026, and interim periods within those years. For all other entities, it is effective for fiscal years beginning after 15 December 2027, and interim periods within those years. Entities are required to apply the guidance prospectively. In addition, the transition guidance allows entities to modify certain aspects of existing hedging relationships without dedesignating the hedge to enable the application of the amendments to those hedges. Early adoption is permitted.

## FASB amends ASC 326 to expand use of the gross-up approach

The FASB issued final guidance requiring entities to apply the gross-up approach in ASC 326, *Credit Losses*, to all "purchased seasoned loans." This approach was previously only applied to purchased credit deteriorated (PCD) assets.

The guidance defines purchased seasoned loans as loans that are not PCD assets, credit card receivables, debt securities or trade receivables that are (1) acquired in a business combination or (2) obtained through a transfer that is not a business combination or initially recognized through the consolidation of a variable interest entity, if certain seasoning criteria are met. A loan is considered seasoned if it is obtained more than 90 days after its origination date and the transferee was not involved in the origination.

The amendments address concerns stakeholders raised during the FASB's post-implementation review of ASC 326 about the lack of comparability between PCD and non-PCD loans, and that the accounting for non-PCD financial assets was unintuitive and did not reflect their economics.

The guidance is effective for fiscal years beginning after 15 December 2026, including interim periods within those years. Entities are required to apply the guidance prospectively. Early adoption is permitted.

## FASB expands derivative scope exceptions and clarifies guidance for share-based noncash consideration

The FASB issued final guidance to expand the scope of contracts excluded from derivative accounting (i.e., measured at fair value through earnings) to certain contracts with underlyings that are based on the operations or activities of one of the parties to the contract. The guidance addresses stakeholder questions about the application of the definition of a derivative and related scope exceptions to contracts such as research and development funding arrangements, litigation financing arrangements and bonds with interest payments based on environmental, social and governance metrics.

The guidance also clarifies that an entity receiving share-based noncash consideration from a customer that is consideration for the transfer of goods or services in a revenue contract is required to apply the guidance on noncash consideration in ASC 606, *Revenue from Contracts with Customers*. An entity would not apply the guidance in other topics (e.g., ASC 815, *Derivatives and Hedging*; ASC 321, *Investments – Equity Securities*) to share-based noncash consideration from a customer for the transfer of goods or services unless and until the entity's right to receive or retain the share-based noncash consideration is unconditional under ASC 606. The guidance addresses stakeholder concerns about the lack of clarity over which guidance should be applied to recognize such consideration.

The guidance is effective for fiscal years beginning after 15 December 2026, and interim periods within those years. Entities may apply the guidance on a modified retrospective or prospective basis. Early adoption is permitted.

## **FASB modernizes guidance on accounting for internal-use software**

The FASB issued final guidance to clarify and modernize the accounting for costs related to internal-use software in ASC 350-40, *Intangibles – Goodwill and Other – Internal-Use Software*. The guidance addresses stakeholder concerns that many entities developing internal-use software have shifted to an incremental and iterative development method from a prescriptive and sequential method. The current internal-use software accounting guidance does not address software developed using an incremental and iterative method.

The guidance removes all references to project stages and clarifies the threshold entities apply to begin capitalizing costs. It also specifies that the disclosures under ASC 360-10, *Property, Plant and Equipment – Overall*, are required for all software costs capitalized under ASC 350-40, regardless of how those costs are presented in the statement of financial position.

The guidance applies to all entities and is effective for fiscal years beginning after 15 December 2027, and interim periods within those years. Entities may apply the guidance using a prospective, retrospective or modified transition approach. Early adoption is permitted.

## **FASB proposes initial measurement guidance for paid-in-kind dividends on equity-classified preferred stock**

The FASB proposed 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 proposal would apply to preferred stock that meets certain conditions, regardless of whether it is classified as permanent or temporary equity.

The proposal, which is based on a recommendation of the Emerging Issues Task Force, is intended to address stakeholder concerns about the lack of authoritative guidance on how an issuer should initially measure PIK dividends on equity-classified preferred stock. The proposal would address how to initially measure these dividends but not when to recognize them.

Entities would 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 would be permitted.

## **FASB adds several projects to its technical agenda**

The FASB added projects to its technical agenda on the classification of certain digital assets as cash equivalents and the accounting for transfers of crypto assets (including wrapped tokens and receipt tokens), based on feedback received as part of its 2025 Invitation to Comment (ITC), *Agenda Consultation*, and the recommendations from President Trump's Working Group on Digital Asset Markets. The Board also added a project on the accounting for equity method investments to its technical agenda based on input it received on the ITC.





# Regulatory developments

## **SEC staff publishes guidance on accelerated filer status determination for certain smaller reporting companies**

The SEC staff published a compliance and disclosure interpretation (C&DI) to clarify that a registrant that qualified as a smaller reporting company (SRC) based on the two-part revenue and public float test (and therefore was a non-accelerated filer) will remain a non-accelerated filer for filings due in the year after losing SRC status.

As a result, the registrant does not need auditor attestation under Section 404(b) of the Sarbanes-Oxley Act for the year SRC status was lost and can file its periodic reports that are due in the next year by the non-accelerated filer deadlines. However, the registrant will not be eligible for SRC accommodations (e.g., scaled disclosure requirements) beginning with its Form 10-Q for the first fiscal quarter of the year after losing SRC status.

The C&DI does not apply to registrants that qualified as SRCs based on the public float test only. Registrants should engage with legal counsel when considering whether this SEC staff guidance applies to their facts and circumstances.

## **SEC and CFTC extend Form PF amendments compliance date**

The SEC and the Commodity Futures Trading Commission (CFTC) further extended the compliance date for amendments to Form PF, the confidential reporting form for certain SEC-registered investment advisers to private funds, to 1 October 2026.

The SEC said the extension will provide time to complete a substantive review of Form PF in accordance with a Presidential Memorandum and take any further appropriate actions, which may include proposing new amendments to Form PF.

# Other considerations

## Reminders on additional income tax disclosures

Beginning in calendar year 2025, PBEs need to annually disclose in their rate reconciliation table specific categories of reconciling items under the amended guidance in ASC 740, *Income Taxes*. PBEs also need to provide more details in certain categories if the reconciling items meet or exceed a quantitative threshold of 5% of the amount computed by multiplying the income (or loss) from continuing operations before income tax by the applicable statutory federal (national) income tax rate. Additionally, the amendments provide more specific guidance for entities other than PBEs regarding quantitative disclosures of the reconciling items in their rate reconciliation tables.

All entities need to annually disclose income taxes paid (net of refunds received) disaggregated by federal (national), state and foreign taxes and to disaggregate the information by jurisdiction based on a quantitative threshold equal to or greater than 5% of total income taxes paid (net of refunds received).

All entities also need to annually disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign, as well as income tax expense (or benefit) from continuing operations disaggregated by federal (national), state and foreign.

Entities should apply the amendments on the additional income tax disclosures prospectively but have the option to apply them retrospectively for each period presented. The amendments are effective for PBEs for fiscal years beginning after 15 December 2024, and for other entities for fiscal years beginning after 15 December 2025.

Additionally, entities need to consider how H.R. 1, the tax legislation signed into law by President Trump on 4 July 2025 (commonly referred to as the One Big Beautiful Bill Act), affects the accounting for income taxes and how certain aspects of the law may affect the income tax disclosures required under ASC 740 and other required disclosures.

## Considerations for valuation allowances

Companies need to continually assess both positive and negative evidence in determining whether to record, maintain or reverse a valuation allowance under ASC 740. This assessment can be challenging and requires companies to apply judgment.

As a reminder, the SEC staff frequently asks companies to explain how they considered both positive and negative evidence when evaluating the need for a valuation allowance. By its very nature, future taxable income (exclusive of the reversal of existing temporary differences and carryforwards) requires estimates and judgments about future events that may be predictable but are far less certain than past events that can be objectively measured.

Companies also need to consider the effects of H.R. 1 in their valuation allowance assessment. Starting on 4 July 2025, H.R. 1's provisions may cause changes in reversal patterns of existing temporary differences, origination of additional taxable temporary differences and changes to projections of future taxable income.

# Reference library

## To the Point

- ▶ [FASB clarifies interim disclosure requirements](#) (11 December 2025)
- ▶ [FASB issues guidance on accounting for government grants by business entities](#) (11 December 2025)
- ▶ [FASB clarifies and enhances its hedge accounting guidance](#) (26 November 2025)
- ▶ [Updates on proposed rulemaking and legal challenges related to California climate disclosure laws](#) (21 November 2025)
- ▶ [FASB amends ASC 326 to expand use of the gross-up approach](#) (13 November 2025)
- ▶ [FASB proposes initial measurement guidance for paid-in-kind dividends on equity-classified preferred stock](#) (2 October 2025)
- ▶ [FASB expands derivative scope exceptions and clarifies guidance for share-based noncash consideration](#) (2 October 2025)
- ▶ [FASB modernizes guidance on accounting for internal-use software](#) (19 September 2025)

## Technical Line

- ▶ [A closer look at the FASB's amended guidance on accounting for internal-use software costs](#) (11 December 2025)
- ▶ [FASB requires entities to provide additional income tax disclosures](#) (9 October 2025)
- ▶ [Reminders on reporting and filer status considerations for SEC registrants](#) (25 September 2025)

## Financial reporting developments

- ▶ [Issuer's accounting for debt and equity financings](#) (30 September 2025)
- ▶ [Fair value measurement](#) (30 September 2025)
- ▶ [Credit impairment under ASC 326](#) (25 September 2025)
- ▶ [Transfers and servicing of financial assets](#) (24 September 2025)
- ▶ [Gains and losses from the derecognition of nonfinancial assets \(ASC 610-20\)](#) (23 September 2025)
- ▶ [Certain investments in debt and equity securities](#) (18 September 2025)
- ▶ [Foreign currency matters](#) (18 September 2025)
- ▶ [Earnings per share](#) (17 September 2025)

## Comment letters

- ▶ [SEC proposed postponement of the effective date of PCAOB QC 1000](#) (24 September 2025)

## Other

- ▶ [2025 AICPA & CIMA Conference on Current SEC and PCAOB Developments](#) (13 December 2025)
- ▶ [2026 SEC quarterly reports – Form 10-Q](#) (4 December 2025)
- ▶ [2025 SEC annual reports – Form 10-K](#) (4 December 2025)
- ▶ [Pro forma financial information – A guide for applying Article 11 of Regulation S-X](#) (4 December 2025)
- ▶ [2026 proxy statements – An overview of the requirements](#) (4 December 2025)
- ▶ [Sustainability reporting developments – Greenhouse Gas Protocol](#) (29 October 2025)
- ▶ [SEC in Focus – October 2025](#) (23 October 2025)
- ▶ [Effective date matrix as of 30 September 2025](#) (6 October 2025)
- ▶ [Quarterly tax developments – September 2025](#) (2 October 2025)
- ▶ [Guide to preparing carve-out financial statements](#) (26 September 2025)
- ▶ [NAIC Bulletin – Summer 2025 edition](#) (25 September 2025)

## On-demand webcasts

- ▶ [BEPS 2.0 Pillar Two: navigating uncharted tax waters](#) (24 September 2025)
- ▶ [Diving deeper: What to know about the FASB's DISE accounting standard](#) (25 September 2025)
- ▶ [Global economic outlook: complex crosscurrents](#) (30 September 2025)
- ▶ [Financial reporting for private companies - what you need to know for 2025](#) (12 November 2025)
- ▶ [Evolving stablecoin regulation: insights on strategic impact](#) (3 December 2025)
- ▶ [Year-end US information reporting changes](#) (3 December 2025)
- ▶ [Staying ahead: derivatives and hedging standard update](#) (8 December 2025)
- ▶ [2025 year-end tax considerations](#) (8 December 2025)
- ▶ [What audit committees need to know for 2026](#) (17 December 2025)

## Upcoming webcasts

- ▶ [What you need to know for Q4 2025 financial reporting \(Offering – 1 of 2\)](#) (18 December 2025)
- ▶ [What you need to know for Q4 2025 financial reporting \(Offering – 2 of 2\)](#) (6 January 2026)
- ▶ [2026 global economic outlook: navigating a bifurcated landscape](#) (14 January 2026)

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