

# 2025 AICPA Conference on Current SEC and PCAOB Developments: Highlights

December 2025

## OVERVIEW

Representatives from the Securities and Exchange Commission (SEC), Financial Accounting Standards Board (FASB), and the Public Company Accounting Oversight Board (PCAOB) shared their views on various accounting, reporting, and auditing issues at the annual AICPA Conference on Current SEC and PCAOB Developments (the “Conference”) held in Washington, D.C. on December 8-10, 2025.

The SEC’s Chairman, Paul Atkins, and Chief Accountant, Kurt Hohl, shared their priorities, and other SEC, FASB and PCAOB representatives provided insights on rulemaking priorities, and other accounting and reporting reminders related to:

- ▶ SEC reporting matters, including recent Compliance and Disclosure Interpretations (C&DIs) related to filer status; observations on segment reporting, non-GAAP financial measures, financial statement presentation, and management’s discussion and analysis; waiver and other requests about predecessor determinations; and financial statement requirements in common control and spinoff transactions.
- ▶ Accounting matters, including consultations with the Office of the Chief Accountant (OCA) and insight on natural gas contracts - normal purchase normal sales, accounting for artificial intelligence, private credit transactions and stablecoins.
- ▶ Auditing matters, including current priorities related to auditing standards and the PCAOB, auditor independence, and PCAOB focus areas.

This publication shares insight into these matters and other accounting and reporting issues addressed at the Conference. BDO’s companion publication, [2025 SEC Reporting Insights](#), provides a more comprehensive discussion of key disclosure and reporting reminders for upcoming filings, the SEC’s rulemaking, and other activities that affect financial reporting, many of which were highlighted at the Conference.

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## 1. SEC REPORTING MATTERS

Chairman Atkins shared insight into his robust regulatory agenda to simplify disclosures, encourage initial public offerings, and create a clear regulatory framework for cryptocurrencies. His capital formation initiatives are not only intended to streamline disclosures, but also to reform the litigation landscape for securities lawsuits and de-politicize shareholder meetings.<sup>1</sup>

The recent 43-day government shutdown significantly impeded progress on Chairman Atkins' agenda. Moreover, the shutdown impacted the Disclosure Review Program since the SEC staff was unable to review the approximately 1,000 registration statements (over 400 were initial public offerings) confidentially submitted or filed during the shutdown. To clear the backlog of reviews in a timely manner, the SEC staff will prioritize registration statements for initial public offerings over secondary or resale offerings and will review other registration statements filed prior to and after the shutdown on a first-in, first-out basis. Clearing the backlog of filings in addition to reviewing recurring filings and advancing Chairman Atkins' high priority rulemaking projects will require significant time. Accordingly, rulemaking activities, including a proposal on amendments to the quarterly reporting requirements,<sup>2</sup> are not expected until sometime in 2026.

The SEC staff provided additional insight and guidance on several reporting topics outlined in this section. Additionally, the SEC staff highlighted the recent updates to the Financial Reporting Manual (FRM)<sup>3</sup> to reflect the 2020 amendments to Regulation S-X ("S-X") for acquired and disposed businesses, the 2020 amendments to Regulation S-K, and the final rules on special purpose acquisition companies (SPACs), shell companies, and projections.<sup>4</sup>

### 1.1 Recent Compliance & Disclosure Interpretations

#### 1.1.1 Filer Status

The SEC staff provided additional guidance regarding C&DI [130.05](#) about the interaction between the filer status determination and the revenue test used to determine smaller reporting company (SRC) status. To provide context for the SEC staff guidance, consider the following reminders:

- ▶ SRC status is determined at the end of an issuer's second fiscal quarter based on its public float as of the same date and annual revenues for the most recently completed fiscal year.
  - An issuer that no longer qualifies as an SRC at the end of its second fiscal quarter may continue to use the scaled disclosure accommodations and reporting requirements available to SRCs through its annual report on Form 10-K. Beginning with the first Form 10-Q of the next fiscal year, the issuer must comply with non-scaled disclosure requirements.

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<sup>1</sup> More information about Chairman Atkins' views on these topics and others, including his opinion that disclosure requirements must be based on financial materiality and scaled to a company's size and maturity, is available in his December 2025 [speech](#) at the New York Stock Exchange.

<sup>2</sup> Chairman Atkins previously stated that the SEC will prioritize a proposal to give SEC registrants the option to report semiannually, rather than quarterly. The future proposal is in response to a Truth Social post made by President Trump suggesting that companies should move from quarterly reporting to semi-annual reporting "subject to SEC approval." The SEC requested comments on quarterly reporting in 2018 during the last Trump administration, but no changes were made.

<sup>3</sup> The FRM is an internal SEC staff reference document that provides general guidance on various SEC reporting topics. While not authoritative, the FRM is often a useful resource for evaluating SEC reporting issues.

<sup>4</sup> See BDO's Bulletins: [SEC Staff Updates FRM for Acquired and Disposed Business Rules](#), [SEC Staff Updates FRM for Regulation S-K Amendments and Other Topics](#), and [SEC Staff Updates FRM for Final Rules on SPACs, Shell Companies, and Projections](#).

► Filer status is determined as of the end of an issuer's fiscal year based on the issuer's public float as of the end of its second fiscal quarter. The accelerated and large accelerated filer definitions include a criterion that an issuer is "not eligible to use the requirements for SRCs under the revenue test."<sup>5</sup> Filer status determines:

- The filing deadlines for the current year annual report on Form 10-K and the quarterly reports on Form 10-Q for the next fiscal year
- Whether auditor attestation on internal controls over financial reporting is required

For more details on the definitions of accelerated filer and large accelerated filer, and the intersection of filer status and SRC status, see Appendix A.

The C&DI explains that an issuer who previously qualified as an SRC under the revenue test will not qualify as an accelerated or large accelerated filer at the end of the year in which SRC status is lost because it fails to meet the criterion that it is "not eligible to use the requirements for SRCs under the revenue test." This is because the issuer previously qualified as an SRC under the revenue test and is still eligible to provide SRC scaled disclosure accommodations in its Form 10-K for the year SRC status is lost. During the Conference, the SEC staff clarified that the C&DI applies to:

- Issuers that qualified as an SRC under the revenue test in the year preceding the current year assessment (SRC status for any other period is not considered).
- Issuers that continue to qualify as an SRC under the public float test if, in the prior year assessment, they qualified as an SRC based on their annual revenues.

The C&DI does not apply to an issuer that previously qualified as an SRC solely under the public float test.

The SEC staff also addressed the interaction between this C&DI and an issuer's status as an emerging growth company (EGC). An issuer that previously qualified as an EGC will no longer qualify as an EGC when it becomes a large accelerated filer. Assuming no other disqualifying triggers are met,<sup>6</sup> an issuer that does not qualify as a large accelerated filer in accordance with the C&DI (i.e., it is eligible to use the requirements for SRCs under the revenue test) will not lose its EGC status.

To illustrate the C&DI concepts, the SEC staff provided the following examples, which we have expanded to provide additional details and context:

- Assume Issuer A is assessing its SRC status at the end of its second quarter in 20X5. Issuer A previously qualified as an SRC because its annual revenues in 20X3 were less than \$100 million and its public float at the end of its second quarter in 20X4 was less than \$700 million. Issuer A no longer qualifies as an SRC because its annual revenues were more than \$100 million in 20X4 and its public float at the end of its second quarter in 20X5 is more than \$250 million but less than \$700 million. Issuer A:
  - Does not meet the definition of an accelerated filer at the end of 20X5 because it is still eligible to apply the requirements for SRCs under the revenue test in its 20X5 Form 10-K.
  - Will be a non-accelerated filer for its 20X5 Form 10-K and 20X6 Form 10-Qs.
  - Must apply the disclosure requirements for non-SRCs no later than its first quarter in 20X6.
- Assume no facts change in 20X6. Issuer A:
  - Will be an accelerated filer for its 20X6 Form 10-K and 20X7 Form 10-Qs.

<sup>5</sup> See the definitions of "accelerated filer" and "large accelerated filer" in Exchange Act Rule 12b-2.

<sup>6</sup> An issuer may lose its EGC status due to one of the following other disqualifying triggers: annual gross revenues of \$1.235 billion or more as of the end of the fiscal year; more than \$1 billion in non-convertible debt securities issued in the previous rolling three-year period; or the end of the fiscal year following the fifth anniversary of the issuer's initial public offering (or other applicable initial sale of common equity securities pursuant to an effective registration statement).

- ▶ Assume the same facts as Issuer A, except that Issuer B is an EGC and its public float at the end of its second quarter in 20X5 is \$700 million or more. Issuer B:
  - Does not meet the definition of a large accelerated filer at the end of 20X5 because it is still eligible to apply the requirements for SRCs under the revenue test in its 20X5 Form 10-K.
  - Will be a non-accelerated filer for its 20X5 Form 10-K and 20X6 Form 10-Qs.
  - Must apply the disclosure requirements for non-SRCs no later than its first quarter in 20X6.
  - Will not lose EGC status at the end of 20X5 because it is not a large accelerated filer (assuming no other disqualifying triggers were met).
- ▶ Assume no facts change in 20X6, Issuer B:
  - Will be a large accelerated filer for its 20X6 Form 10-K and 20X7 Form 10-Qs.
  - Will lose EGC status at the end of 20X6 (assuming no other disqualifying triggers are met before then).

### 1.1.2 SPACs

The SEC's final rules on SPACs, shell companies, and projections require a private operating company target (the "target") to be treated as a co-Registrant in a registered de-SPAC transaction (i.e., transactions in which a SPAC acquires a target). The SEC staff reminded registrants of the guidance in C&DI [253.03](#), which clarifies how a target may suspend its reporting obligations after the de-SPAC transaction has closed. In these circumstances, the SEC staff would not object if a target files a Form 15 to suspend its reporting obligations when the target:

- ▶ Is wholly owned by the combined company; and
- ▶ Remained current in its reporting obligations through the date of filing Form 15.

The SEC staff clarified that the target is not required to file its annual report (e.g., Form 10-K) if it suspends its reporting obligations after its year-end but before the due date of its annual report. See BDO's Bulletin, [SEC Adopts Rules on SPACs, Shell Companies, and Projections](#), for more information on the final rules.

### 1.1.3 Clawback

The SEC staff reminded issuers about its clawback disclosure guidance.<sup>7</sup> This guidance applies when issuers update previously issued financial statements to correct errors. For more information on this guidance, see BDO's publication, [SEC Clawback Rules: A Snapshot](#).

## 1.2 Segments

The SEC staff provided insights on segment disclosures required by ASC 280, *Segment Reporting* ("ASC 280"), including the measure of segment profit or loss, disclosures for single segment entities, and other disclosure reminders and observations.

### 1.2.1 Measure of Segment Profit or Loss

A Chief Operating Decision Maker ("CODM") may use multiple measures of segment profit or loss to allocate resources and assess segment performance. In accordance with ASC 280, the measure most consistent with U.S. GAAP is the measure that is required to be disclosed.<sup>8</sup> When a CODM uses multiple measures of segment profit or loss, the SEC staff shared its view that the measure most consistent with U.S. GAAP is the measure that includes the most revenue and expense line items. To illustrate this point, the SEC staff discussed three scenarios where the CODM uses multiple measures of segment profit or loss to allocate resources and assess segment performance:

- ▶ Scenario 1: the CODM uses gross profit and operating income, both determined in accordance with U.S. GAAP
  - Operating income is the measure most consistent with U.S. GAAP because it includes more expense line items from the registrant's consolidated financial statements than gross profit.

<sup>7</sup> C&DIs 104.20 through 104.25.

<sup>8</sup> Registrants are permitted, but not required, to present additional measures of segment profit or loss used by the CODM to allocate resources and assess performance.

- ▶ Scenario 2: the CODM uses operating income, determined in accordance with U.S. GAAP, and EBITDA
  - Operating income is the measure most consistent with U.S. GAAP because EBITDA is not measured in accordance with U.S. GAAP.
- ▶ Scenario 3: none of the measures used by the CODM are measured in accordance with U.S. GAAP. In these circumstances, the registrant should consider the number of adjustments included in the measures and which measure includes the most revenue and expense line items from the registrant's consolidated financial statements. For example:
  - The CODM uses EBITDA and adjusted EBITDA. Adjusted EBITDA excludes restructuring expenses. EBITDA is the measure most consistent with U.S. GAAP because adjusted EBITDA includes more adjustments (and excludes more expenses) than EBITDA.
  - The CODM uses adjusted gross profit and adjusted operating income. Both measures exclude stock-based compensation expense. The measure most consistent with U.S. GAAP is adjusted operating income because it includes more expenses than adjusted gross profit.

For more information on the measure of segment profit or loss, see Section 4.3.1 in BDO's Blueprint, [Segment Reporting Under ASC 280](#).

### 1.2.2 Single Reportable Segment Entities

The SEC staff reminded registrants that the disclosures required by ASC 280 apply to single reportable segment entities. For registrants with a single operating and reportable segment managed on a consolidated basis, the SEC staff expects the measure of segment profit or loss to be consolidated net income (loss). The SEC staff observed instances where segment disclosures did not comply with ASC 280 because the registrant's segment disclosures only referenced the primary financial statements (which do not address all required disclosures). For example, ASC 280 requires the following disclosures:

- ▶ The title and position of the individual or name of the group or committee identified as the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources.
- ▶ Significant segment expenses regularly provided to the CODM, which may not be consistent with the expenses included on the consolidated income statement.
  - When significant segment expenses differ from the expense line items presented on the consolidated income statement, registrants must disclose the significant segment expenses in the footnotes.
  - When significant segment expenses are consistent with the expense line items presented on the consolidated income statement, registrants should disclose that fact.

For more information on single reportable segment entities, see Section 4.3.2 in BDO's Blueprint, [Segment Reporting Under ASC 280](#).

### 1.2.3 Disclosure Observations

The SEC staff shared additional reminders and observations based on its review of segment disclosures:

#### 1.2.3.1 Significant Segment Expenses

- ▶ When no significant segment expense information is provided to the CODM, required segment disclosures include an amount and qualitative description of other segment items along with a description of the expense information used by the CODM to manage segment operations.<sup>9</sup>
  - For example, an entity with six reportable segments discloses significant segment expense for five of the reportable segments. This disclosure requirement applies to the sixth reportable segment that does not disclose significant segment expense information.

<sup>9</sup> See example in ASC 280-10-55-15G.

- ▶ An entity is not required to calculate significant segment expenses in accordance with U.S. GAAP, however:
  - When a significant segment expense does not comply with U.S. GAAP, registrants should:
    - Clearly label and disclose that fact. For example, if a registrant discloses an adjusted cost of sales amount (which excludes depreciation and amortization expense) as a significant segment expense, the segment disclosures should clearly indicate that the expense excludes depreciation and amortization. Additionally, the registrant should avoid a naming convention that is the same or similar to the U.S. GAAP expense (i.e., do not label the adjusted amount as “cost of sales”).
    - Consider whether additional disclosure is necessary to explain the expense. For example, if a registrant reports an adjusted general and administrative expense as a significant segment expense, it should also disclose the nature and amount of the adjustments.
  - When a significant segment expense caption is not clearly understood, a registrant should describe the composition of the expense.
    - For example, a significant segment expense labeled as “segment cost” requires further explanation.

For more information on significant segment expenses and other segment items, see Sections 4.3.4 and 4.3.5, respectively, in BDO’s Blueprint, [Segment Reporting Under ASC 280](#).

#### 1.2.3.2 Reconciliations

The SEC staff cautioned registrants in their presentation of the reconciliations required by ASC 280 and noted that certain presentations were not in accordance with ASC 280 or SEC rules, such as:

- ▶ Presenting an additional measure of segment profit or loss by including a subtotal of certain amounts within the reconciliation that differs from the measure(s) of segment profit or loss used by the CODM or is not accompanied by all disclosures required by ASC 280.
- ▶ Presenting a consolidated measure of profit or loss rather than the total of the reportable segments’ measure of profit or loss, such as including eliminations or amounts not related to a reportable segment (e.g., corporate amounts).
- ▶ Presenting a total or consolidated amount of significant segment expense and other segment items.
- ▶ Disclosing information that is not related to a reportable segment, such as combining certain amounts for some, but not all, reportable segments.

For more information on segment reconciliations, see Section 4.5 in BDO’s Blueprint, [Segment Reporting Under ASC 280](#).

#### 1.2.3.3 Other Reminders

The SEC staff also reminded registrants that ASC 280 requires an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources. This explanation is needed for each measure of segment profit or loss required to be disclosed and any additional measure of segment profit or loss disclosed.

For more information on recent SEC staff comments on segment disclosures, see Sections 2.2 and 2.5.3 in BDO’s publication, [2025 SEC Reporting Insights](#).

### 1.3 Waiver and Other Requests

During the Conference, the SEC staff shared recent trends in waiver and other requests, including:

- ▶ S-X Rule 3-05 (“Rule 3-05”) waiver requests, and the definition of a business in S-X Article 11 (“Article 11”)
- ▶ Predecessor questions and interpretations, including:
  - The determination of the predecessor in spin-off or put-together transactions
  - Circumstances in which the predecessor is not the accounting acquirer
  - Licensing arrangements that may represent the acquisition of a business

### 1.3.1 Rule 3-05 and Article 11

The SEC staff continues to receive waiver requests related to Rule 3-05 and emphasized the presumption that a separate legal entity, subsidiary, or a division is a business.<sup>10</sup> While certain facts and circumstances may overcome this presumption, the SEC staff noted such instances have been very limited.

As a reminder, the SEC staff may waive or modify certain financial statement requirements when such requests are consistent with investor protection.<sup>11</sup> Registrants may submit such requests for relief using an [online submission](#) form available on the SEC's website.

The SEC staff previously shared the following best practices related to the waiver process during the 2024 Conference:

- ▶ Provide all relevant details of the significance tests and consider providing the actual significance calculations.
- ▶ Consider including an alternative request if the SEC staff does not agree with the registrant's initial position. For example, registrants may consider including a waiver request for the historical financial statement requirements of an acquired entity if the SEC staff disagrees with a registrant's conclusion that the acquired entity does not meet the SEC's definition of a business.
- ▶ Involve all relevant stakeholders when drafting the letter, including the external auditor and its national office, who possess technical experience and can assist with navigating interactions with the SEC staff.
- ▶ Carefully consider who the primary point of contact will be if the SEC staff reaches out to the registrant for clarification. The SEC staff encourages registrants to select an individual who can speak to the facts of the transaction and also understands the relevant rules and accounting guidance.

### 1.3.2 Predecessor Considerations

An acquired business is deemed to be a predecessor<sup>12</sup> when a registrant succeeds to substantially all of a business (or a separately identifiable line of business) and the registrant's own operations before the succession are insignificant relative to the business acquired. For example, a shell company registrant that acquires an operating entity is generally deemed to have acquired its predecessor. Rule 3-05 does not apply to the acquisition of a business that is a predecessor of the registrant. Financial statements of the predecessor must comply with S-X Rules 3-01 and 3-02 (or S-X Rules 8-02 and 8-03 for SRCs).

#### 1.3.2.1 Spin-off Transactions

In a spin-off transaction, the financial statements of the predecessor may differ depending on:

- ▶ The legal form of the transaction, including whether a legal entity is being contributed to the spun-off business
- ▶ How the spun-off business historically operated and reported the results of its operations

The SEC staff discussed the following examples:

- ▶ Example 1: Registrant A plans to spin off a business to SpinCo A. The business historically operated through various legal entities that included the assets, liabilities, and operating results of other businesses that are not contributed to SpinCo A. Before these legal entities are contributed to SpinCo A, they dispose of the other non-contributed businesses. Accordingly, at the time Registrant A contributes the legal entities to SpinCo A, those legal entities only include the assets, liabilities, and operations of the one business to be operated by SpinCo A (and not the other businesses). Registrant A proposed to present SpinCo A's predecessor financial statements only depicting the historical results of the business contributed to SpinCo A (the business investors will be investing in), rather than the historical results of the legal entities (which included the other businesses). In this circumstance, the SEC staff did not object to that presentation because:

<sup>10</sup> See S-X Rule 11-01(d).

<sup>11</sup> See S-X Rule 3-13.

<sup>12</sup> The definition of a predecessor is found in Rule 405 of Regulation C.

- SpinCo A did not directly or indirectly own any of the assets, liabilities, or operations of the other businesses that remain with Registrant A. At the time the legal entities were contributed to SpinCo A, they only included the one business (and not the other businesses).
- The business contributed to SpinCo A historically operated independently of the other business lines and Registrant A historically presented the business as a reportable segment. Accordingly, presenting historical financial statements of the legal entities, including the other businesses, would have quantitatively distorted the historical financial statements of SpinCo A's predecessor.
- ▶ Example 2: Registrant B plans to spin off a legal entity to SpinCo B. The legal entity holds several businesses related to Registrant B's operations in one foreign country. Certain businesses historically included in this legal entity will not be contributed to SpinCo B. In this circumstance, the SEC staff shared that the predecessor financial statements of SpinCo B should present the historical results of the legal entity, including the businesses that were not contributed to SpinCo B because:
  - The presentation reflects how the legal entity contributed to SpinCo B historically operated. The businesses were complementary, shared services and financing, and had the same key management (including the same Chief Executive Officer).

### 1.3.2.2 Accounting Acquirer

The SEC staff indicated that the business identified as the predecessor is not always the accounting acquirer. For example, in a put-together transaction, the parties may create a new registrant ("NewCo") to complete the transaction. In some cases, the NewCo is substantive and treated as the accounting acquirer. However, one or more of the businesses acquired by the NewCo is considered the predecessor when the NewCo's operations before the succession are insignificant relative to the business(es) acquired.

When a substantive NewCo acquires multiple businesses, the SEC staff highlighted that, while uncommon, some instances result in multiple predecessors. The SEC staff reminded registrants to consider the following factors when determining the predecessor(s):

- ▶ The order in which the entities were acquired
- ▶ The size of the entities
- ▶ The fair value of the entities
- ▶ The ongoing management structure

For more information about put-together transactions and identifying the accounting acquirer, see Sections 1.1.3 and 2.2, respectively in BDO's Blueprint, [Business Combinations Under ASC 805](#).

### 1.3.2.3 License Arrangements

If a registrant enters into a licensing arrangement, it may represent the acquisition of a business for SEC reporting purposes.<sup>13</sup> In these circumstances (which typically occur in the life sciences industry), the licensor (or a carve-out of the licensor) may be the predecessor if the registrant succeeds to substantially all of a business of the licensor and its own operations prior to the succession were insignificant. When evaluating whether the licensor (or a carve-out of the licensor) is a predecessor, the SEC staff may consider the relevance of the licensor financial statements, including the following factors:

- ▶ The stage of the drug development process. The financial statements of the licensor may have less relevance in the early stages (e.g., discovery) of drug development and more relevance further into the development process (e.g., clinical development).
- ▶ The terms of the license and how the licensee's use of the intellectual property (IP) compares to the licensor's use of the IP.

<sup>13</sup> The definition of a business in Rule 11-01(d) differs from the definitions of a business for accounting purposes in accordance with U.S. GAAP and IFRS-IASB. A transaction that is not accounted for as a business combination under U.S. GAAP or IFRS-IASB may still meet the definition of a business under SEC rules and regulations.

The SEC staff also shared the following fact patterns:

- ▶ Fact pattern 1: A newly formed registrant (“NewCo”) entered into an in-license arrangement whereby it planned to use the existing drug discovery work and continue the development. Accordingly, the NewCo succeeded to substantially all of the operations of the licensor related to this business and NewCo is required to present predecessor financials statements depicting the carve-out business of the licensor. In this circumstance, the SEC staff did not object to NewCo’s request to present audited footnote disclosures of the amount of research and development expense in lieu of full carve-out financials statements because:
  - There were no assets or liabilities related to the business.
  - The only operational activity of the business that would have been presented in the income statement and the statement of cash flows related to research and development expenses incurred.
- ▶ Fact pattern 2: A NewCo entered into a license arrangement for IP whereby the NewCo was permitted to use the IP to develop and commercialize the drug for any application, including the historical use by the licensor. The NewCo plans to use the drug to treat a different health condition than that of the licensor. The NewCo also receives access to data obtained from clinical trials performed by the licensor. Accordingly, the NewCo succeeded to substantially all of the operations of the licensor related to this business and NewCo is required to present predecessor financials statements depicting the carve-out business of the licensor. Due to unique challenges specific to this circumstance, the SEC staff did not object to the NewCo presenting abbreviated financial statements of the business.
- ▶ Fact pattern 3: An existing registrant plans to transfer cash, equity instruments, and certain tax liabilities to an entity to be spun-off (“SpinCo”). Historically, the registrant, as the licensor in an out-license arrangement, licensed its drug discovery program to a third party. In connection with the spin-off, the registrant plans to terminate the out-license arrangement, and the SpinCo plans to enter into a new license arrangement with the same third-party. In this fact pattern, there was no predecessor to the SpinCo because SpinCo was not succeeding the operations of the registrant for the following reasons:
  - The third-party licensee did not express interest in the registrant’s historical or ongoing drug discovery program.
  - The research and development related to the registrant’s drug discovery program was not contributed to the SpinCo.
  - The SpinCo’s business model focused on acquiring other companies to conduct drug discovery work.

The SEC staff encouraged registrants to consult prior to confidentially submitting or filing a registration statement when unique circumstances exist and reminded registrants to involve their auditors (including the auditors’ national office, when appropriate) in the consultation.

#### 1.4 Common Control

When a reorganization of entities under common control results in a change in the reporting entity, the receiving entity reports the net assets transferred on the date of the transfer and must present a retrospective combination of the entities for all periods presented as if the combination had been in effect since the inception of common control.

In connection with an initial public offering (IPO), the presentation of the financial statements included in the initial registration statement may differ depending on the timing of the reorganization. The SEC staff addressed certain scenarios when a reorganization of entities under common control occurs in connection with an IPO. If the reorganization occurs:<sup>14</sup>

- ▶ At, or after effectiveness of the initial registration statement but no later than the IPO closing
  - The SEC staff may consider requests to present financial statements on a combined basis (rather than presenting separate financial statements of the registrant and each entity). Registrants must preclear this presentation with the Division of Corporation Finance’s Office of Chief Accountant (CF-OCA).<sup>15</sup>

<sup>14</sup> This guidance is included in sections 13410.3 and 13410.4 of the FRM. The SEC staff updated section 13410.4 of the FRM in its August 2025 updates (for more information on these updates, see BDO’s Bulletin, SEC Staff Updates FRM for Regulation S-K Amendments and Other Topics).

<sup>15</sup> Preclearance requests may be made using an online submission form available on the SEC’s website.

► Before effectiveness of the initial registration statement

- The SEC staff will not object to the presentation of the financial statements on a consolidated basis (rather than presenting separate financial statements of the registrant and each entity). CF-OCA does not require registrants to pre-clear this presentation.
  - When the reorganization does not occur before the initial submission of filing, the registration statement includes a “to-be-issued” or “legend” auditor’s report. Under this approach, the auditor provides a report with a signed legend instead of a signed auditor’s report. The legend states that the auditor expects to sign the report in the form set forth following the legend after the reorganization has occurred. The IPO registrant must file the signed auditor’s report (with the legend removed) in a pre-effective amendment before the SEC staff will declare the registration statement effective.

However, the SEC staff noted that a shell company registrant organized after the latest balance sheet date included in the initial registration statement may not apply this guidance.<sup>16</sup> Rather, the registrant must present its financial statements separately from the other entities and clearly indicate that financial statements of the other entities are not the financial statements of the registrant.

Lastly, when a reorganization of entities under common control occurs in connection with an IPO, the SEC staff reminded registrants to disclose the effects of the reorganization in the pro forma financial information, capitalization table, and other applicable captions in the registration statement.

For more information on common control transactions, see Appendix B in BDO’s Blueprint, [Business Combinations Under ASC 805](#).

### 1.5 Spin-offs

Under U.S. GAAP, a registrant may account for a spin-off transaction as a forward or reverse spin-off. In a reverse spin-off, the legal spinee is the accounting acquirer. In either scenario, the registrant must file a registration statement to register the shares of the legal spinee. The SEC staff discussed the following financial statement requirements in the registration statement for spin-off transactions:

- In a forward spin-off, the registration statement must include audited carve-out financial statements of the legal spinee.
- In a reverse spin-off, the registration statement must include financial statements of the existing registrant and carve-out financial statements of the legal spinee. In these circumstances, the SEC staff noted:
  - The pro forma financial information may reflect the disposal of the operations retained by the existing registrant (i.e., the operations that were not contributed to the legal spinee)
  - Historical financial statements for periods after the reverse spin-off are those of the existing registrant and reflect the change in the reporting entity. These financial statements will also reflect the disposal of the operations retained by the existing registrant/legal spinnor (and not contributed to the legal spinee), which may require those operations to be presented as discontinued operations when the applicable criteria are met.
  - When the existing registrant spins off substantially all of its operations, the SEC staff may allow the carve-out financial statements of the legal spinee to be omitted (i.e., the registration statement only includes the financial statements of the existing registrant) in very limited circumstances.

For more information on spin-offs, see B.6.1 in BDO’s Blueprint, [Business Combinations Under ASC 805](#).

<sup>16</sup> Section 1160.1 of the FRM includes guidance on when financial statements of a recently organized registrant may be omitted from the registration statement.

## 1.6 Financial Statement Presentation and Other Disclosures

The SEC staff continues to comment on income statement presentation in accordance with S-X Rule 5-03 (“Rule 5-03”). In that regard, the SEC staff reminded registrants to reassess income statement captions each year. Changes in a registrant’s business (e.g., launching a new product or service) may necessitate updates to revenue or expense line items on the face of the income statement. The SEC staff:

- ▶ Provided its views on the presentation of revenue for certain software arrangements.
- ▶ Addressed the interaction between Rule 5-03, ASC 606, *Revenue From Contracts With Customers* (“ASC 606”), and ASU 2024-03, Disaggregation of Income Statement Expenses (“DISE”).
- ▶ Provided other financial statement presentation reminders.
- ▶ Clarified whether supplementary financial information must be repeated.

### 1.6.1 Software Arrangements

Certain software arrangements include multiple deliverables, such as licenses, updates, post contractual support (“PCS”), and software-as-a-service (“SaaS”). Since Rule 5-03 requires separate presentation of revenue from tangible products and services when those amounts exceed 10% of net sales, registrants must evaluate the revenue presentation for the components of a software arrangement.

When a license is a separate performance obligation under ASC 606, the SEC staff believes that license revenue should be separately presented as product revenue on the face of the income statement because license revenue is typically recognized at a point-in-time, whereas revenue for services such as updates, PCS and SaaS is typically recognized over time.

The SEC staff noted that this view aligns with the objectives of ASC 606 (i.e., disclosures about the nature, amount, and timing of revenues) and the concepts within S-K Item 303 (i.e., disclosures about the material impacts on a registrant’s results of operations).

#### 1.6.1.1 Incentives to End Users

Under ASC 606, registrants account for consideration payable to a customer as a reduction of revenue unless the payment relates to a distinct good or service from the customer. Determining whether incentive payments made by agents to end users fall inside (i.e., reduce revenues) or outside (i.e., a marketing expense) the scope of ASC 606 may require significant judgement.

The SEC staff provided the following considerations when assessing the treatment of payments to an end user:

- ▶ Who is the agent’s customer?
- ▶ Does the agent have an agreement (explicit or implicit) to provide the incentive payment to the supplier?
- ▶ Does the supplier have a valid expectation that the agent will provide the incentive?

A registrant that classifies these incentive payments as a marketing expense should quantify and discuss these amounts (to the extent they are material) in management’s discussion and analysis (“MD&A”). Additionally, the SEC staff may issue a comment letter to understand the registrant’s conclusion.

For more information on revenue recognition, see BDO’s Blueprint, [Revenue Recognition Under ASC 606](#), and BDO’s Industry Supplement to this Blueprint, [Identifying Performance Obligations in the Software Industry](#).

#### 1.6.2 Interaction between Rule 5-03, ASC 606, and DISE

Due to the disclosure requirements in ASC 606 and DISE, the SEC staff has received questions about the ongoing need for Rule 5-03. The SEC Staff noted that Rule 5-03 creates a more consistent income statement presentation across registrants by providing line items to disclose on the face of the income statement. ASC 606 and DISE require different, complementary disclosures compared to Rule 5-03 and therefore, do not replace Rule 5-03’s presentation requirements.

The disaggregated revenue disclosures under ASC 606 provide categories that depict the nature, amount, timing, and uncertainty of revenue based on economic factors. However, ASC 606 does not prescribe specific categories. For example, a company may disaggregate revenues by geography in the footnotes to the financial statements under ASC 606, whereas the Rule 5-03 presentation distinguishes between product and service revenues on the face of the income statement.

Similarly, DISE requires the disaggregation of expense line items presented on the face of the income statement into specified categories (e.g., inventory purchases, employee compensation, and depreciation) in the financial statement footnotes. DISE omits other Rule 5-03 disclosure requirements, such as the separate presentation of cost of tangible goods sold, cost of services, and other items on the face of the income statement.

For more information on DISE, see BDO's Bulletin, [FASB Finalizes ASU to Disaggregate Income Statement Expenses \(DISE\)](#).

### 1.6.3 Other Financial Statement Presentation Reminders

The SEC staff provided the following reminders:

- ▶ The statement of cash flows must separately present material items on a gross basis. Registrants may not combine amounts with other dissimilar items. For example, operating activities should separately present the changes in:
  - Receivables
  - Inventory
  - Payables
- ▶ Related party transactions must be separately presented on the balance sheet, income statement, and statement of cash flows, as applicable.<sup>17</sup>

### 1.6.4 Supplementary Financial Information

A non-SRC registrant must present supplementary financial information in accordance with S-K Item 302(a) when one or more material retrospective changes occurred in any quarter during its two most recent fiscal years. When a registrant is required to present this information in its current year Form 10-K, the SEC staff clarified that it will not object if the registrant excludes the same information from its Form 10-K filed in the following year. If, after the current year Form 10-K is filed, a new event occurs that results in a material retrospective change, the registrant must present supplementary financial information, including the new event, in the 10-K for the following year.

## 1.7 Comment Letter Topics

The SEC staff provided reminders on frequent comment letter topics, including non-GAAP measures and MD&A.<sup>18</sup>

### 1.7.1 Non-GAAP Measures

Determining whether a non-GAAP measure is misleading, and therefore violates the SEC's rules,<sup>19</sup> may require judgment based on individual facts and circumstances. The SEC staff shared the following observations:

- ▶ A request or expectation from investors to present the non-GAAP measure does not preclude the measure from being misleading.
- ▶ Measures presented in accordance with U.S. GAAP (such as the single measure of segment profit or loss required by ASC 280) and measures that relate to a registrant's compliance with debt covenants are not prohibited.

<sup>17</sup> See S-X 4-08(k). Although SRCs are encouraged to report material related party transactions on the face of the financial statements, they are not required to comply with S-X 4-08(k).

<sup>18</sup> For more information about these and other frequent areas of SEC staff comment, see Section 2.5 in BDO's publication, [2025 SEC Reporting Insights](#).

<sup>19</sup> Regulation G or S-K Item 10(e).

During the comment letter process, the SEC staff may conclude that a non-GAAP measure presented by the registrant is misleading. In these circumstances, the SEC staff generally expects the registrant to remove or update adjustments in the misleading measure in the next filing and all future filings. The measure should also be removed or updated for any comparable prior periods that are presented. However, the SEC staff shared that such updates may be impracticable or overly burdensome in certain circumstances, such as when the registrant receives a comment letter shortly before an earnings release. In such cases, registrants should communicate with the SEC staff to discuss timing and transition plans. Depending on the nature of the misleading non-GAAP measure, the SEC staff may object to its presentation even when the update is overly burdensome.

The SEC staff encourages registrants to contact them when they do not understand why the SEC staff deemed the non-GAAP measure to be misleading.

For more SEC staff guidance on non-GAAP measures, see BDO's Bulletin, [SEC Updates C&DIs on Non-GAAP Financial Measures](#).

#### 1.7.1.1 IFRS 18

Disclosure of management-defined performance measures (MPMs) is required upon adoption of IFRS 18, *Presentation and Disclosure in Financial Statements* ("IFRS 18"). In accordance with IFRS 18, when a registrant presents MPMs outside the financial statements, the registrant must also disclose the MPMs and other information, such as a reconciliation to the most similar IFRS amount, in the notes to the financial statements. As MPMs are first disclosed outside of the financial statements, the SEC staff noted that registrants must consider the SEC's non-GAAP rules. Accordingly, MPMs disclosed outside the financial statements are subject to the SEC's non-GAAP rules. However, MPMs required to be disclosed in the financial statements by IFRS 18 are not subject to the SEC's non-GAAP rules.<sup>20</sup>

For more information on IFRS 18, see BDO's publication, [IFRS Accounting Standards In Practice - IFRS 18 Presentation and Disclosure in Financial Statements](#).

#### 1.7.2 Management's Discussion and Analysis

The SEC staff reminded registrants that MD&A must disclose material known trends and uncertainties and information that had or could have a material impact on the registrant's financial condition, cash flows, and results of operations. The SEC staff provided the following questions that registrants should consider when assessing the materiality of tariff disclosures:<sup>21</sup>

- ▶ What is the magnitude of the impact of tariffs?
- ▶ Is the registrant able to mitigate the impact? If so, how?
- ▶ What are the impacts to the registrant's operations, financial condition, and liquidity?
- ▶ Are there other possible material impacts, such as impairment or increases in the allowance for credit losses or other expenses?

For additional guidance on accounting and disclosure considerations in response to macroeconomic developments, see BDO's publication, [Accounting and Reporting in Times of Economic Uncertainty](#).

The SEC staff highlighted the importance of maintaining robust disclosure controls and procedures to ensure that the registrant appropriately identifies and discloses known uncertainties reasonably likely to have a material effect.

<sup>20</sup> The SEC staff noted that this topic was also discussed during the May 2025 CAQ International Practices Task Force Joint Meeting with SEC Staff (see Topic II).

<sup>21</sup> The SEC staff noted that these considerations should also be applied to other emerging issues such as developments in AI and were similar to those for previous events, such as COVID-19.

## 2. ACCOUNTING MATTERS

The Chief Accountant Hohl shared his top agenda priorities, including:

- ▶ Emerging issues, such as artificial intelligence (AI), and digital assets and cryptocurrency, and their effect on accounting and financial reporting.
- ▶ High quality accounting standards, including the timeliness in developing new accounting standards, the cost of implementing new accounting standards, and the cooperation and alignment with international standard setters. Observing that approximately 75% of foreign companies listed in the U.S. use International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), Hohl expressed support for continued collaboration between the FASB and IASB on accounting standard-setting to reduce unnecessary differences and improve the usefulness of financial reporting for investors.
- ▶ High quality audit standards (see Section 3).

The SEC staff in OCA also shared recent consultations and guidance related to the application of the normal purchases and normal sales (NPNS) exception under ASC 815, *Derivatives and Hedging* (“ASC 815”) to certain natural gas contracts, accounting for AI, private credit transactions, and stablecoins.

### 2.1 Natural Gas Contracts - Normal Purchases and Normal Sales

The SEC staff has observed an expansion in the liquified natural gas (LNG) markets, which has led to accounting questions including the application of the NPNS exception under ASC 815. The use of the NPNS exception under ASC 815 impacts an entity’s scoping analysis under ASC 606. That is, if a commodity forward contract for the sale of a specified quantity of a product at a spot price does not qualify for the NPNS exception, the contract (or portions of the contract) is outside the scope of ASC 606 and typically accounted for as a derivative under ASC 815.

The SEC staff described a fact pattern in which a registrant that produces natural gas in the U.S. enters into a forward contract with its customer for the sale of natural gas to be delivered to a U.S. location where title to the asset will transfer before it is liquefied and transported to a European location. The contract pricing was based on Dutch Title Transfer Facility (TTF), a European index, and was further adjusted by a fixed percentage. The registrant considered whether the NPNS scope exception would apply through an assessment of whether the TTF price, adjusted by a fixed percentage, is clearly and closely related to the natural gas being sold based on the guidance in ASC 815-10-15-32. The SEC staff indicated that in their assessment, it was important to determine whether other market participants would price the natural gas contract similarly, as well as:

- ▶ Whether there are other natural gas forward sale contracts with the same TTF price index and fixed percentage adjustment that are being transacted by other market participants at the U.S. delivery location.
- ▶ Whether there is evidence that a fixed percentage adjustment to the TTF price index is a reasonable approximation of the cost that would be incurred by a buyer to deliver the natural gas from the U.S. location to the European location.

The SEC staff did not object to the TTF pricing index adjusted by the fixed percentage being considered clearly and closely related to natural gas being sold. The SEC staff also observed that in evolving markets, available data needed to support the assessment may be limited, and judgment may be required.

### 2.2 Accounting for Artificial Intelligence

The SEC staff highlighted certain areas of potential complexity related to accounting for the development of AI, given the number of parties that may be involved, including the entity developing the AI capabilities, the entity financing the construction of the data centers and the entity providing the energy source.

## 2.2.1 Consolidation

The SEC staff provided some considerations when a data center that is under construction or operating is held in a separate legal entity determined to be a variable interest entity (VIE) under ASC 810, *Consolidation* (“ASC 810”). The guidance in ASC 810 requires each variable interest holder determine whether it is the primary beneficiary of that VIE and must consolidate the VIE. This includes determining which activities most significantly impact the VIE's economic performance. The SEC staff noted in the context of a data center, such activities (when considered over the life of the VIE) may include making decisions about design and construction, leasing, operations and maintenance, or remarketing the data center at lease-end. Determining which activities most significantly impact the VIE's economic performance can require significant judgment, and certainly may differ depending on individual facts and circumstances.

### BDO INSIGHTS: DETERMINING CONTROL OF A SINGLE-ASSET ENTITY

Questions about whether a reporting entity controls a legal entity that holds a single asset (such as a data center, a building, warehouse, or renewable energy project) are common. Reaching a conclusion requires the application of professional judgment based on the facts and circumstances. For more information on making this determination, see BDO's Blueprint, [Control and Consolidation Under ASC 810](#).

## 2.2.2 Leases

The SEC staff provided some reminders related to lease accounting under ASC 842, *Leases* (“ASC 842”) in the context of AI as a registrant may be leasing the data center or a power plant providing energy to the data center. The guidance in ASC 842 requires the lessee to determine when a lease commences and, if applicable, whether the lessee may be considered an owner during construction. The guidance provides examples of factors that demonstrate that a lessee controls the underlying asset. However, the SEC staff reminded issuers that this is not an exhaustive list, which means that an entity should consider the totality of facts and circumstances when making this determination since it can significantly impact whether and when a lessee recognizes an asset, or right of use asset, and the related financing, or lease liability on its balance sheet.

For more information on whether a lessee may be considered an owner during construction, see our Blueprint, [Accounting for Leases Under ASC 842](#).

## 2.2.3 Long-lived assets

The SEC staff observed significant capital expenditures on AI infrastructure and reminded registrants of the requirement to continually evaluate the appropriateness of useful lives assigned to long-lived assets. The SEC staff noted that recognition of an impairment charge is not an acceptable substitute for choosing an appropriate initial amortization or depreciation period, or for subsequently adjusting as company or industry conditions change. However, the SEC staff reminded registrants that when an entity is performing a recoverability test of its long-lived assets, ASC 360, *Property, Plant and Equipment* requires an estimate of cash flows based on the entity's own assumptions about its use of an asset or asset group. This estimate should incorporate all available information.

## 2.3 Private Credit Transactions

The SEC staff highlighted the increase in private credit activity in recent years. The providers of private credit such as a private equity fund or business development company are typically required to apply investment company accounting and remeasure all investments at fair value pursuant to ASC 820, *Fair Value Measurement*. These investments often do not have market transactions or other observable data that can be used to determine fair value and entities often use unobservable (i.e., level 3) inputs to determine fair value. The SEC staff reminded registrants that these investments are required to reflect assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. Since these investments are inherently unobservable, the entity must develop its level 3 inputs using the best information available which often includes the entity's own proprietary data. The SEC staff provided some key reminders for preparers related to level 3 inputs:

- ▶ Consider adjustments to level 3 inputs to reflect the assumptions of a market participant.
- ▶ Calibrate the valuation model when the entity's internal valuation model produces an initial fair value that differs from the transaction price.
- ▶ Ensure the valuation technique used by the entity does not engineer gains or losses.

The SEC staff also reminded registrants of the role of the board of directors to oversee fair value determinations of the investments of a registered investment company or business development company in good faith in accordance with rule 2a-5 under the Investment Company Act of 1940.

## 2.4 Stablecoins

### 2.4.1 Issuer

The SEC staff described a fact pattern related to a registrant that issues stablecoins. Each stablecoin is required to be fully backed by reserve assets that are segregated from other non-reserve proprietary assets of the registrant.

Additionally, the stablecoins must be held by certain financial institutions for the benefit of the stablecoin holders, as well as limited in the specific assets in which the reserves may be held. In this case, the registrant believed it should not recognize the reserve assets and redemption obligation related to stablecoin issuances on the balance sheet based on the stablecoin issuer's assertion that it does not control the reserve assets due to the segregated accounts and regulatory limitations on investing the reserve assets. The SEC staff considered the following factors:

- ▶ The registrant is regulated as a stablecoin issuer and is the sole obligor to redeem stablecoins.
- ▶ The registrant controls and manages the reserve assets through investing those reserve assets within the bounds of the regulatory requirements and benefits from the resulting yield, which could include sharing it with partners, attracting business, as well as expanding its stablecoins.

The SEC staff also observed that recognizing the reserve assets helps investors understand the nature and value of the reserve assets as compared to the redemption obligation associated with the outstanding stablecoins. The SEC staff objected to the registrant not recognizing, on its balance sheet, the reserve assets and redemption obligation related to stablecoin issuances.

### 2.4.2 Holder

The SEC staff described a fact pattern related to a registrant that holds stablecoins and the definition of a cash equivalent under U.S. GAAP. The definition of cash equivalent under U.S. GAAP is short term, highly liquid investment that meets two criteria:

- ▶ Readily convertible to known amounts of cash.
- ▶ So near its maturity such that it presents insignificant risk of changes in value because of interest rates.

In this case, the registrant had a specific agreement with the respective stablecoin issuers that was separate and apart from the general terms and conditions of the stablecoin issuers that provided the registrant a guaranteed one for one redemption of the stablecoin to U.S. dollars within two business days. The stablecoin issuer was also subject to regulation that requires all stablecoins issued and fully backed by an equivalent amount of specified liquid assets which were limited to financial instruments that otherwise would be considered cash equivalents. In this case, the SEC staff did not object to the registrant on accounting for this specific stablecoin holding as a cash equivalent.

For more information on the accounting for digital assets, see BDO's publication, [Accounting for Cryptocurrencies](#).

## 3. AUDIT MATTERS

Chairman Atkins emphasized a "back to the basics" approach for the audit profession and highlighted the importance of the PCAOB's focus on audit quality and independence matters. Chief Accountant Hohl also shared his priorities with respect to auditing standards and the PCAOB, including:

- ▶ The development of high quality auditing standards and a desire for more convergence with international auditing standards to reduce investor confusion.
- ▶ The PCAOB inspection process and whether the inspection program should focus more on a firm's system of quality management and how it supports engagement teams in the execution of high quality audits. Such changes may require updates to the inspection report (e.g., to add more contextual information).
- ▶ Whether the PCAOB should be responsive to consultations from accounting firms on inspection and other matters, like the OCA consultation process with issuers on accounting matters.

### 3.1 Independence

The SEC staff also provided reminders and addressed recent consultations related to auditor independence.<sup>22</sup> These include:

- ▶ Financial reporting oversight role - a one year “cooling off” period is required before a member of the engagement team takes a financial reporting oversight role at an audit client. The SEC staff shared its view that determining whether a position is a financial reporting oversight role is not based on the employee’s job title. For example:
  - Before employing a member of the engagement team, the audit client changes a financial reporting oversight role to a different role for the one year cooling off period. After the cooling off period, the audit client intends to change the role back to financial reporting oversight. The SEC staff does not consider this fact pattern to be in the spirit of the auditor independence standards because the standards are anchored in what a reasonable investor believes.
- ▶ Partner rotation - the SEC staff encourages consultations on partner rotations when circumstances are not addressed in OCA’s Application of the Commission’s Rules on Auditor Independence, [Frequently Asked Questions](#) (FAQs). The SEC staff provided the following example:
  - An existing private company client is pursuing an IPO. The lead engagement partner previously served as an other engagement partner for one year prior to the IPO. In connection with the IPO, the lead engagement partner will sign one audit opinion covering the three years of financial statements included in the registration statement. The SEC staff views this partner as serving one year toward their lead audit partner rotation period.

### 3.2 PCAOB Focus Areas

PCAOB Acting Chair, George Botic, shared the PCAOB’s pillars of investor protection, including:

- ▶ The inspection program
- ▶ Significant audit standards, especially:
  - QC 1000, *A Firm’s System of Quality Control*
  - The audit of internal control over financial reporting (ICFR)
- ▶ Transparency of the audit process, especially:
  - Form AP
  - Critical Audit Matters (CAMs)

He also shared the following focus areas for auditors:

- ▶ Independence
- ▶ Knowledge about the business to identify and respond to audit risk
- ▶ Professional skepticism
- ▶ Quality, including adequate time and resources
- ▶ CAMs

<sup>22</sup> See S-X Rules 2-01, and Section 206 of the Sarbanes-Oxley Act of 2002.

## APPENDIX A: FILER STATUS



### SEC REFERENCES

Securities Exchange Act of 1934 (Exchange Act), Rule 12b-2

Small Entity Compliance Guide, [Accelerated Filer and Larger Accelerated Filer Definitions](#)

An issuer will enter accelerated or large accelerated filer status as of its fiscal year-end if all the following criteria from Rule 12b-2 are met:

ACCELERATED FILER	LARGE ACCELERATED FILER
Aggregate worldwide public float of at least \$75 million but less than \$700 million (calculated as of the last business day of its most recently completed second fiscal quarter)	Aggregate worldwide public float of \$700 million or more (calculated as of the last business day of its most recently completed second fiscal quarter)
Subject to the requirements of Section 13(a) or 15(d) of the Exchange Act for at least 12 calendar months	Same
Filed at least one annual report under Section 13(a) or 15(d) of the Exchange Act	Same
Not eligible to use the requirements for SRCs under the Revenue Test	Same

Rule 12b-2 does not include a definition of “non-accelerated filer.” Accordingly, an entity is considered a non-accelerated filer if it does not meet either of the accelerated filer or large accelerated filer definitions.

The following table summarizes the initial qualification<sup>23</sup> requirements related to public float and annual revenues and the interplay between accelerated filer status and SRC status:

STATUS	PUBLIC FLOAT	ANNUAL REVENUES
Non-accelerated filer (SRC)	Less than \$75 million	Not applicable
	None or at least \$75 million and less than \$700 million	Less than \$100 million
Accelerated filer (SRC)	\$75 million to less than \$250 million	\$100 million or more
Accelerated filer (not SRC)	\$250 million to less than \$700 million	\$100 million or more
Large accelerated filer (not SRC)	\$700 million or more	Not applicable

<sup>23</sup> The thresholds for the annual reassessment of SRC and filer status may differ from the initial qualifications. For example, once an issuer fails to qualify as an SRC, it will remain a non-SRC until it crosses 80% of the initial threshold that caused it to lose SRC status. Similarly, an issuer that qualifies as either a large accelerated or accelerated filer will remain as such until the end of the fiscal year that it determines that its public float as of the last business day of its second fiscal quarter has fallen below 80% of the initial public float thresholds (i.e., \$60 million for an accelerated filer and \$560 million for a large accelerated filer), or revenue has fallen below 80% of the revenue threshold, if applicable (i.e., \$80 million).

## CONTACTS

### **TIMOTHY KVIZ**

National Managing Principal, SEC Services  
703-245-8685 / [tkviz@bdo.com](mailto:tkviz@bdo.com)

### **PAULA HAMRIC**

Professional Practice Principal, SEC Services  
312-616-3947 / [phamric@bdo.com](mailto:phamric@bdo.com)

### **BRANDON LANDAS**

Professional Practice Principal, SEC Services  
312-233-1887 / [blandas@bdo.com](mailto:blandas@bdo.com)

### **JEREMIAH SAUNDERS**

Professional Practice Principal, SEC Services  
203-905-6249 / [jsaunders@bdo.com](mailto:jsaunders@bdo.com)

### **MEGHAN DEPP**

Professional Practice Principal, SEC Services  
248-688-3368 / [mdepp@bdo.com](mailto:mdepp@bdo.com)

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