

SEC Regulations Committee Highlights

CAQ

Joint Meeting with SEC Staff

March 5, 2025

NOTICE:

The Center for Audit Quality (CAQ) SEC Regulations Committee meets periodically with the staff of the SEC to discuss emerging financial reporting issues relating to SEC rules and regulations. The purpose of the following highlights is to summarize the issues discussed at the meetings. These highlights have not been considered or acted on by senior technical committees of the AICPA and do not represent an official position of the AICPA or the CAQ. As with all other documents issued by the CAQ, these highlights are not authoritative, and users are urged to refer directly to applicable authoritative pronouncements for the text of the technical literature. These highlights do not purport to be applicable or sufficient to the circumstances of any work performed by practitioners. They are not intended to be a substitute for professional judgment applied by practitioners.

These highlights were prepared by a representative of the CAQ who attended the meeting and do not purport to be a transcript of the matters discussed. The views attributed to the SEC staff are informal views of one or more of the staff members present, do not constitute an official statement of the views of the Commission or of the staff of the Commission and should not be relied upon as authoritative. Users are urged to refer directly to applicable authoritative pronouncements for the text of the technical literature.

As available on the CAQ's website, highlights of Joint Meetings of the SEC Regulations Committee and the SEC staff are not updated for the subsequent issuance of technical pronouncements or positions taken by the SEC staff, nor are they deleted when they are superseded by the issuance of subsequent highlights or authoritative accounting or auditing literature. As a result, the information, commentary or guidance contained herein may not be current or accurate, and the CAQ is under no obligation to update such information. Readers are therefore urged to refer to current authoritative or source material.

I. ATTENDANCE

SEC Regulations Committee	Securities and Exchange Commission	Observers and Guests
Kyle Moffatt, Chair Paula Hamric, Vice-Chair Lauren Alexander Timothy Brown Fred Frank Greg Faucette Pat Gilmore Chris Hatto Ellie May Mark Shannon Marc Siegel Mat Watson Scott Wilgenbusch Alan Wilson	<i>Staff from the Division of Corporation Finance (Division) and Office of the Chief Accountant</i>	Lauren Buoniconti, PwC Kendra Decker, Grant Thornton Annette Schumacher Barr, CAQ Observer Erin Cromwell, CAQ Observer



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II. STAFF UPDATE

The staff reporting on the following recent developments in the Division:

A. Personnel Changes

- Melissa Rocha and Christie Adams have announced their retirements.
- [Cicely LaMothe](#) has been named Acting Director.
- [Sebastian Gomez Abero](#) has been named Acting Deputy Director (Legal and Regulatory Policy).

B. Recent Staff Actions/Statements

On January 23, 2025, the staff issued [Staff Accounting Bulletin \(SAB\) No. 122](#), which rescinds the guidance in SAB No. 121 that required an entity to record a liability when it had an obligation to safeguard third-party crypto assets. The staff noted it has not received any questions related to this announcement. In addition, on March 3, 2025, the Division issued an [announcement](#) expanding the accommodations available for issuers to submit draft registration statements for nonpublic review.

III. CURRENT FINANCIAL REPORTING MATTERS

A. Clawback Rule Checkboxes

Pursuant to the SEC's [final clawback rules](#), the cover pages of annual reports (Forms 10-K, 20-F, and 40-F) include two separate checkboxes related to financial statement errors and clawbacks. At the AICPA National Conference on Current SEC and PCAOB Developments in December 2024, the SEC staff provided guidance about the application of these checkboxes. At the Joint Meeting, the staff reiterated the following points that were expressed at the Conference:

- **The first checkbox** should be checked to reflect the correction of an error (i.e., the term “error” defined by U.S. GAAP or IFRS-IASB, as applicable) that results in a change to previously issued annual financial statements (e.g., fiscal years in a previously issued Form 10-K or 20-F). This includes:



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- ✓ Any required restatements, defined in the final rule as “Big R” or “little r” restatements, and
- ✓ Any voluntary error corrections (i.e., immaterial error corrections that do not meet the definition of “Big R” or “little r” restatements).

The following changes would **not** trigger the requirement to check this box:

- ✓ Any out-of-period adjustments (i.e., adjustments made in the current period that are related to prior periods but do not change the amounts presented in the previously issued financial statements).
 - ✓ Changes made as a result of the implementation of a new accounting standard.
 - ✓ Disaggregation of a financial statement line item.
 - ✓ Change in accounting principle.
 - ✓ Change in accounting method, if the previous method used was not a misapplication of U.S. GAAP.
- **The second checkbox** should be checked to indicate whether any of the error corrections reported in the first checkbox are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period. The requirement to check this box applies to all “Big R” or “little r” restatements as defined in the rules, and does not apply to voluntary error corrections. As examples, this checkbox must be selected in cases where, 1) no incentive-based compensation was received by executive officers during the prescribed recovery period, or 2) the incentive-based compensation received by executive officers during the recovery period was not based on financial reporting measures affected by the restatement. When the outcome of the recovery analysis results in no actual recovery, disclosure is still required. A brief explanation of why the no recovery conclusion was reached by applying the recovery policy must be disclosed. In cases when the restatement has been filed in an amended filing (e.g. 10-K/A), the clawback analysis disclosures required by Regulation S-K Item 402(w) must appear in the next proxy and Form 10-K, even if the amended annual report properly included a brief explanation of why application of the recovery policy did not require recovery.

B. Review Observations

The Committee asked the staff from the Disclosure Review Program leadership team for an update regarding any disclosure observations based on current filing reviews. Staff members noted that they are in the early phases of reviewing 2024 year-end filings and indicated they will share observations at a later date if and when there is more information available. The Committee and staff discussed how registrants are disclosing the risks and benefits relating to



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their generative AI activities, especially as compared to information provided outside of SEC filings.

The staff also commented on the implementation of [ASU 2023-07, Segment Reporting \(Topic 280\): Improvements to Reportable Segment Disclosures](#), noting that they are reviewing disclosures for compliance and will comment where appropriate. The staff reminds registrants that they are not precluded from disclosing additional measures of segment profitability used by Chief Operating Decision Maker (CODM) in assessing performance and allocating resources in accordance with ASC 280-10-50-28A through 28C. However, any additional reported measures of segment profit or loss that are not calculated using measurement principles consistent with the corresponding measure presented in a registrant's consolidated financial statements prepared in accordance with U.S. GAAP should be identified as non-GAAP measures and must comply with the SEC's non-GAAP regulations, rules and guidance. Although Item 10(e) of Regulation S-K includes a general prohibition against the inclusion of non-GAAP measures in the financial statement footnotes, the staff will not object to additional measures of segment profitability disclosed in accordance with ASC 280-10-50-28A through 28C being included in the notes to the financial statements, provided they otherwise comply with the non-GAAP rules.

The Committee shared its observations about the judgment required for the disclosure of significant segment expenses, particularly a) for single segment entities whose measure of segment performance is consolidated net income or loss, and b) entities that provide the CODM with disaggregated expense information in multiple ways (e.g., by functional expense and by project expense), including the ability to view expense category details in dashboards.

C. Adjustments for amounts used in the investment test for acquisitions that include repurchases of its own shares

The investment test under Regulation S-X Rule 1-02(w)(1)(i)(A)(1), for purposes of determining the significance of business acquisitions pursuant to Regulation S-X Rule 3-05, contemplates dividing the total consideration transferred by the acquirer (with certain adjustments) by the aggregate worldwide market value (AWMV) of the registrant at a specific time in order to determine significance.

The SEC's [Financial Reporting Manual \(FRM\)](#), Section 2015.11, Significance - Intercompany Transactions, contains the following guidance:

“When measuring significance for all three S-X 1-02(w) tests, intercompany transactions between the registrant and acquiree should be eliminated in the same way that would occur if the acquiree were consolidated. See by analogy S-X 1-02(w)(2). (Last updated: 9/30/2009).”



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The Committee noted that this FRM guidance was written in 2009 – prior to the update of the S-X 1-02(w) significance tests – and as such did not contemplate the investment test for acquisitions, after the 2020 amendments. Common shares of the acquirer held by the acquiree would be eliminated in consolidation, if the acquiree was a consolidated subsidiary of the registrant.

Given this guidance, the Committee asked the staff whether a registrant should adjust amounts used in the investment test for acquisitions that include repurchases of its own shares. Specifically, where a registrant is purchasing an entity, or a portion thereof, that constitutes a business under Article 11 of Regulation S-X, and that entity holds common equity in the registrant that is used for purposes of calculating AWMV, should either the numerator or the denominator of the investment test be adjusted to remove the repurchase of those shares?

The staff did not analogize to FRM section 2015.11 in responding as they noted that current Rule 1-02(w) requires adjustments for intercompany eliminations for both the asset and income tests but does not include adjustments for intercompany eliminations for the investment test, including in circumstances when total assets should be used instead of AWMV (i.e., when a company does not have AWMV).

With respect to the use of AWMV in the denominator of the investment test, the staff indicated that because Rule 1-02(w) does not include any adjustments in the investment test for intercompany transactions as the other tests do, there does not appear to be a basis to exclude the repurchase of a registrant's own shares.

Further, S-X 1-02(w) uses the term “consideration transferred” to determine the numerator of the investment test. The staff notes that “consideration transferred” is a concept in US GAAP (ASC 805) and IFRS. Therefore, if the company includes the value of the shares repurchased in determining the “consideration transferred” under US GAAP or IFRS, the staff believes the full amount of the “consideration transferred” should be reflected in the numerator and there does not appear to be a basis to exclude a portion of the consideration related to the repurchase of shares for the purposes of the investment test.

Registrants that believe the application of Rule 1-02(w) produces anomalous results are encouraged to consult with the staff.

IV. NEXT MEETING

The next Joint Meeting of the Committee and the staff is set for June 26, 2025.