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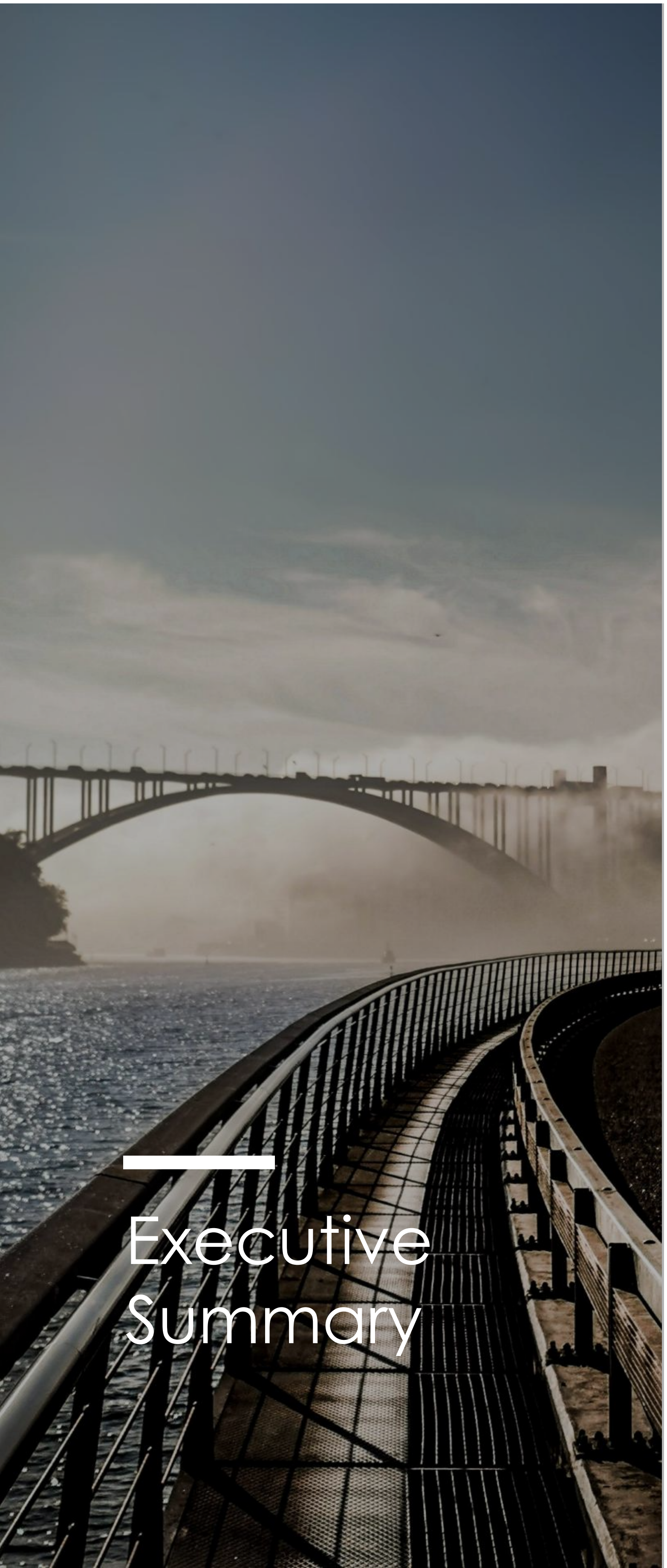
INDUSTRY INSIGHTS

Q2 2025 // PREPARED BY CNM PROFESSIONAL PRACTICE GROUP



Q2 2025

Key Insights

Dear Colleagues and Friends,

In this Issue of Industry Insights, we discuss the latest accounting and financial reporting developments for the second quarter of 2025.

Our Accounting and Financial Reporting section covers the final issuance of two new Accounting Standards Updates, ASU 2025-03 and ASU 2025-04, which introduce important changes to determining the accounting acquirer in the acquisition of a variable interest entity, and clarifications to share-based consideration payable to a customer, respectively. These updates reflect the FASB’s ongoing efforts to reduce diversity in practice and improve consistency in application.

We also provide an overview of several proposed standards currently under deliberation, including updates related to software cost capitalization, credit loss measurement, and derivative and hedge accounting guidance under Topic 815. These proposals signal areas of increased regulatory focus and potential change in the quarters ahead.

To support implementation planning, we’ve included a summary table that tracks the effective dates of recently issued standards and pending proposals. Finally, we close with an update on the FASB’s technical agenda, offering perspective on standard-setting activity and anticipated priorities for the remainder of the year.

We hope you find this publication useful and insightful.

Best regards,
CNM LLP

Q2 2025

FASB Issued Final ASU on Determining the Accounting Acquirer in VIE Acquisitions is Effective for PBEs

In May 2025, the FASB issued ASU 2025-03, which revises how entities determine the accounting acquirer in business combinations when a VIE is acquired primarily through an exchange of **equity interests**. Historically, if a legal acquiree was a VIE, existing guidance required that the primary beneficiary under Topic 810 be treated as the accounting acquirer, regardless of whether Topic 805's general indicators, such as voting rights, governance, and management continuity, pointed to a different conclusion. This default treatment often produced inconsistent results for acquisition transactions involving a VIE than those that did not involve a VIE, even though the transaction may be economically similar.

To address these concerns, ASU 2025-03 eliminates the automatic designation of the primary beneficiary as the accounting acquirer in certain VIE-related transactions. Instead, when a VIE is acquired primarily through the exchange of equity interests, entities are now required to apply the general factors in Topic 805 to assess which party controls the combined entity. This update is expected to enhance comparability and ensure that accounting reflects the underlying economic substance of the transaction. The new guidance is effective for all entities for annual periods beginning after **December 15, 2026**, and interim reporting periods within annual reporting periods beginning after December 15, 2027. Early adoption is permitted.

ASU 2025-04 on Share-based Payments Granted to Customers

In May 2025, the FASB issued **ASU 2025-04**, to reduce diversity in accounting for share-based payments granted to customers. The update makes three important changes affecting share-based consideration granted to customers in conjunction with selling goods and services. The update revises the definition of "performance condition" for share-based consideration payable to a customer to explicitly include conditions (such as vesting conditions) based on the volume or monetary amount of a customer's purchases, including purchases made by third parties that buy from the customer. This change helps companies better determine when to recognize revenue tied to share-based awards issued to customers with contingent vesting criteria. The update eliminates policy election that allowed companies to account for forfeitures of customer share-based awards that have service conditions as they occurred. Going forward, grantors must estimate expected forfeitures when the awards are subject to service conditions. Lastly, it specifies that the constraint on variable consideration under Topic 606 does not apply to share-based payments made to customers; instead, the probability of vesting must be assessed solely under Topic 718.

Importantly, the ASU clarifies that this revised performance condition definition does not apply by analogy to employee or nonemployee awards granted in exchange for goods or services used in the grantor's own operations—those arrangements must continue to follow their respective guidance. The ASU applies to all entities that issue share-based consideration to a customer in the scope of ASC 606. It is effective for annual and interim periods beginning after **December 15, 2026.** Early adoption is permitted.

Update on FASB's various previously proposed standards

Accounting for Disclosure of Software Costs

In May 2025, FASB reaffirmed its direction on proposed amendments to Subtopic 350-40 as part of its initiative to modernize the accounting for internal-use software. The proposal removes the existing project development stages model and introduces a clearer two-step capitalization threshold when:

1. Management has formally committed funding to the project.
2. It is probable the project will be completed and used as intended.

Capitalization would be deferred if significant uncertainties remain, such as untested features or revisions in software's performance requirements.

Additional changes would clarify when software should be accounted for separately under ASC 350-40 versus included with tangible assets under ASC 360. The proposal would also eliminate ASC 350-50, website development costs guidance, and incorporate recognition requirements for website-specific development costs into the internal-use software model. Lastly, the proposal would require capitalized costs to be presented as investing outflows on the statement of cash flows.

The proposal does not change which cost types are eligible for capitalization, nor does it affect software developed for sale, which remains under ASC 985-20.

FASB expects to issue a final ASU on this topic in Q3 2025.

Credit Losses on Purchased Financial Assets (Topic 326)

As of Q2 2025 FASB is deliberating on changes to Topic 326, broadening the CECL gross-up approach beyond PCD assets to a wider range of purchased financial assets. The update aims to improve the accounting for purchased financial assets, below we highlight some of the important changes this update will make:

- **Initial measurement at gross-up (amortized cost):**
  The initial amortized cost of a purchased financial asset with deteriorated credit equals the purchase price plus expected credit losses at acquisition. This expands acquired asset treatment with CECL for originated loans, where losses are estimated on Day 1, and eliminates the need to distinguish between PCD and non-PCD assets, simplifying the accounting and improving comparability.
- **Seasoning Criteria for Non-Business Acquisitions**
  Introduction of a bright-line 90-day seasoning threshold combined with qualitative assessments of the acquirer's involvement in origination to determine whether the gross-up approach applies to financial assets acquired through asset acquisitions or consolidation of VIEs that are not businesses.
- **Recognition of noncredit-related discount or premium:**
  Discounts or premiums not related to credit risk are amortized over the asset's life using the effective interest method. This avoids distorting loss recognition with yield-based adjustments.
- **Optional use of non discounted cash flows pooling models:**
  Entities may measure expected losses using non-discounted cash flow models by pooling loans and existing financial assets with **similar risk characteristics**. This optionality can reduce complexity and cost.
- **Exclusion of recovery guidance:**
  The recovery provisions in 326-20-30-13A do not apply when estimating expected recoveries to measure expected credit losses on acquired loans that are not considered PCD.

The effective date of this ASU will be determined once the Board issues a final ASU, which they expect to do by Q3 2025.

Topic 815 – Derivatives Scope Refinements

In Q2 025, the FASB continued deliberating on the proposed updated to refine the scope of ASC 815. The goal is to clarify the definition of a derivation and scope exceptions related to contingent features.

The proposal introduces several clarifications:

- Contracts referencing internal metrics (e.g., revenue, output, regulatory milestones) may qualify for scope exceptions if not tied to external market variables.

- A predominant risk test must be applied when contracts have multiple underlying; companies assess which component most significantly drives the contract's fair value.
- Certain instruments, such as ASC 815-40 equity contracts and indexed debt, remain excluded from these scope changes.

This guidance is intended to prevent overapplication of mark-to-market rules and improve consistency.
The final ASU is expected to be effective for annual and interim periods beginning after December 15, 2026, with early adoption permitted.

Topic 815 – Hedge Accounting Improvements

In September 2024, the FASB proposed enhancements to hedge accounting aimed at increasing alignment with risk management strategies and reducing operational complexity. In March 2025, the FASB Board reaffirmed its decision related to the following:

The proposal addresses five key areas:

1. Similar Risk Assessment for Cash Flow Hedges – The Board reaffirmed amendments that provide guidance on assessment of hedged risks for a group of individual forecasted transactions in a cash flow hedge.
2. Choose-Your-Rate Debt Flexibility – Supports continued hedge accounting when borrowers adjust their choose-your-rate debt terms.
3. Nonfinancial components – Expands eligibility for hedging commodity and supply chain exposures using the clearly and closely related standard instead of the contractually specified component rule.
4. Net written options – Clarifies hedge qualification where options are paired with non-option instruments.
5. Dual hedge designations – Resolves accounting mismatches when the same foreign-currency-denominated debt is used in both net investment and fair value hedges.

The proposal is expected to expand hedge accounting access and eliminate disruptions tied to technical limitations.

FASB expects to issue a final ASU on this topic by Q3 2025.

Upcoming FASB Standard Effective Dates

ASU	Topic	Effective Date
2025-04	Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Clarifications to Share-Based Consideration Payable to a Customer	For all entities, effective for annual reporting periods beginning after December 15, 2026, including interim periods within those annual periods. Early adoption is permitted.
2025-03	Business Combinations (Topic 805) and Consolidation (Topic 810): Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity	For all entities, effective for annual and interim reporting periods beginning after December 15, 2026. Early adoption is permitted.
2025-02	Liabilities (405): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 122	For all entities, effective immediately and on a fully retrospective basis to annual periods beginning after December 15, 2024.
2024-04	Debt—Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments	For all entities, effective for annual periods beginning after December 15, 2025, and interim periods within those annual reporting periods. Early adoption is permitted.
2024-03	Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses	For all PBEs, effective for annual periods beginning after December 15, 2026, and interim periods within annual reporting periods beginning after December 15, 2027. Early adoption is permitted.
2024-01	Compensation—Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards	For PBEs, effective for annual periods beginning after December 15, 2024 (2025 for all other entities), and interim periods within those annual periods. Early adoption is permitted.
2023-09	Income Taxes (Topic 740): Improvements to Income Tax Disclosures	For PBEs, effective for annual periods beginning after December 15, 2024 (2025 for all other entities). Early adoption is permitted.
2023-08	Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets	For all entities, effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted.
2023-05	Business Combinations – Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement	Effective prospectively for all joint venture formations with a formation date on or after January 1, 202. Early adoption is permitted.

FASB Technical Agenda* as of June 18, 2025

FASB Next Milestone	Project
RESEARCH PROJECTS	Accounting for and Disclosure of Intangibles Accounting for Commodities Accounting for Derivatives Agenda Consultation Consolidation for Business Entities Financial Key Performance Indicators for Business Entities Hedge Accounting Statement of Cash Flows
BOARD DELIBERATIONS	Statement of Cash Flows Targeted Improvements
EXPOSURE DRAFT	Measurement of Pain-in-Kind Dividends on Equity-Classified Preferred Stock
BOARD REDELIBERATIONS	Accounting for Debt Exchanges Accounting for Environmental Credit Programs Accounting for Government Grants Codification Improvements(Evergreen)
EXPECTED FINAL ASU	Credit Losses—Topic 606 Receivables (PCC) Topic 815—Hedge Accounting Improvements Accounting for and Disclosure of Software Costs Financial Instruments—Credit Losses(Topic 326)—Purchased Financial Assets Topic 815—Derivatives Scope Refinements Interim Reporting- Narrow-Scope Improvements
FINAL ASU	**ASU 2025-03**—Business Combinations (Topic 805) and Consolidation (Topic 810): Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity **ASU 2025-04**—Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Clarifications to Share-Based Consideration Payable to a Customer

* https://www.fasb.org/technicalagenda

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Who is CNM?

Founded in 2003, CNM LLP is recognized as one of the premier technical advisory firms in Southern California with Big 4 experience that provides the responsive customer service of a boutique firm. And we're a dynamic team that enlists all our energy to help transform the way your company does business – carefully evaluating your needs, simplifying your financial processes, and passionately solving problems in the most cost-effective way.

Our extensive knowledge of US GAAP, ICFR and SEC reporting skills has given us the ability to assist our clients with transactions that are not only multifaceted, but the capability to implement new or complex accounting standards. We have over 200 global professionals in our Los Angeles, Orange County, San Diego, New York City, and Kuala Lumpur offices. Many of our clients are developed from direct referrals from the Big 4 accounting firms, speaking to the level of quality services we provide.

To learn more about how we can help, visit our website at www.cnmllp.com.

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