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INDUSTRY INSIGHTS



Executive Summary

Q3 2025

Key Insights

Dear Colleagues and Friends,

In this Issue of Industry Insights, we discuss the latest accounting and financial reporting updates, as well as regulatory and compliance updates for the third quarter of 2025.

In our Accounting and Financial Reporting section, we discuss ASU 2023-09, the income tax disclosure ASU, which is effective for public business entities (PBEs) with annual reporting periods after December 15, 2024. We also cover the issuance of three new Accounting Standards Updates (ASUs): **ASU 2025-05** introduces a simplified approach in determining credit losses in accordance with ASC 326 for short-term receivables and contract assets. **ASU 2025-06** establishes a revised framework for determining capitalization of internal-use software, designed to better align with the agile methodologies commonly used in modern software development. **ASU 2025-07**, which clarifies accounting treatment for noncash consideration received from a customer in exchange for goods or services, as well as expands the derivative scope exception for certain contracts.

We also provide an overview of several proposed standards currently under deliberation, including updates related to credit losses on purchased financial assets, derivative and hedge accounting guidance under Topic 815, as well as accounting for debt exchanges.

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

In our regulatory updates section, we discuss the upcoming California Climate Disclosure Laws, which take effect for companies doing business in California on January 1, 2026.

We hope you find this publication useful and insightful.

Best regards,
CNM LLP



Q3 2025

Year-End Reminder: ASU 2023-09 Improvements to Income Tax Disclosures Effective for PBEs for annual periods beginning after December 15, 2024

In December 2023, the FASB issued [ASU 2023-09](#), which is effective for PBEs with annual reporting periods beginning after December 15, 2024 (and after December 15, 2025, for other entities).

Public Business Entities should prepare to disclose specific categories in their tabular rate reconciliation, using both percentages and reporting currency amounts, for categories such as state and local income tax, foreign tax effects, effects of changes in tax law or rates enacted in the current period, effects of cross border tax laws, tax credits, changes in valuation allowances, nontaxable or non-deductible items, and changes in unrecognized tax benefits.

Separate disaggregation by nature is required for the following items meeting a 5% quantitative threshold (computed by multiplying pretax income or loss by the applicable statutory income tax rate) if the item is within:

- (a) The effect of cross-border tax laws, tax credits, or nontaxable or nondeductible items categories
- (b) The foreign tax effect category, required to be disaggregated by jurisdiction (country) and by nature except for items related to changes in unrecognized tax benefits
- (c) For reconciling items not within the categories listed above, disaggregation by nature is required.

For the state and local category, a public business entity is required to provide a qualitative description of the states and local jurisdictions that make up the majority (greater than 50 percent) of the effect of the state and local income tax category.



Accounting & Financial Reporting

A public business entity is required to provide an explanation, if not otherwise evident, of the individual reconciling items disclosed, such as the nature, effect, and underlying causes of the reconciling items and the judgment used in categorizing the reconciling items.

For entities other than public business entities, the amendments in this Update require qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate.

Refer to the ASU for additional details on required disclosures.

FASB Issued ASU 2025-06 on Targeted Improvements to Accounting for Internal-Use Software

In September 2025, the FASB issued [ASU 2025-06](#) to modernize the accounting for internal-use software costs, reflecting the shift from traditional sequential development methods, such as the waterfall approach, to more iterative and incremental approaches, including agile development. The update removes all references to prescriptive and sequential software development staged ("project stages") in Subtopic 350-40, instead, software costs should be capitalized only when management has authorized and committed funding to the project, and it is probable that the project will be completed, and the software will be used to perform the function intended (referred to as the "probable-to-complete recognition threshold"). In evaluating the probable-to-complete recognition threshold, entities are required to consider whether there is significant development uncertainty. This uncertainty is assessed based on two factors, (1) whether the software includes technological innovation or novel, unique, or unproven functions or features and the uncertainty related to these are unresolved through coding and testing, and (2) if the entity has determined what it needs the software to do, including whether the entity has identified or continue to substantially revise the software's significant performance requirements. By focusing on these factors, the guidance better aligns with current software development practices, thereby improving consistency and operability in financial reporting.

Additionally, the ASU consolidates website development cost guidance from Subtopic 350-50 into Subtopic 350-40. The update also clarifies disclosure requirements by mandating property, plant, and equipment disclosures for all capitalized internal-use software costs, regardless of how those costs are presented in the financial statements, while removing certain intangible asset disclosures previously required. Although the dual model, which distinguishes internal-use software from external-use software, remains unchanged, the amendments aim to reduce inconsistencies, particularly in cloud computing arrangements, where capitalization of costs may be decreased to better align with external-use software accounting. Effective for all entities for annual reporting periods beginning after December 15, 2027, and interim reporting periods within those annual reporting periods. The update offers flexible transition options—prospective, retrospective, or a modified approach to accommodate varying preparer circumstances, emphasizing the importance of judgment in applying the new standards while balancing improved transparency with implementation costs.

FASB Issued ASU 2025-05 on Measurement of Credit Losses for Accounts Receivable and Contract Assets

The FASB issued [ASU 2025-05](#) to amend Topic 326, Financial Instruments—Credit Losses, with a focus on current accounts receivable and contract assets arising from revenue contracts under Topic 606. The Update provides (1) all entities with a practical expedient and (2) entities other than public business entities with an accounting policy election when estimating expected credit losses for current accounts receivable and contract assets as follows:

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- **Practical expedient:** Entities (PBEs and Other than PBEs) may assume current conditions as of the balance sheet date remain unchanged over the asset's remaining life when estimating credit losses.
- **Accounting policy election:** Other than public business entities that elect the practical expedient are permitted to make an accounting policy election to consider activity after the balance sheet date when estimating expected credit losses.

The amendments apply prospectively for annual reporting periods beginning after December 15, 2025, and interim reporting periods within those annual reporting periods. Early adoption is permitted. The scope includes current accounts receivable and contract assets, including those acquired in business combinations or through the consolidation of certain variable interest entities, that arose from transactions accounted for under Topic 606. The ASU also requires disclosure of the election of the practical expedient for PBEs and, for businesses other than PBE, the accounting policy election and the date through which it has considered subsequent collection activity.

FASB Issued ASU 2025-07 on Derivatives and Hedging (Topic 815) and Revenue from Contracts with Customers (Topic 606)

On September 29, 2025, FASB issued [ASU 2025-07](#), which addresses two separate accounting issues:

1. Issue one provides derivative scope refinement to address stakeholders' concerns that the current definition of a derivative is too broad, specifically for contracts with variables (referred to as "underlyings") based on operations or activities specific to one of the parties to the contract. This resulted in an overly complex application of scope exception rules and often resulted in accounting that provided limited decision usefulness. The Board is issuing this ASU to address this issue by expanding the scope of a current exception in Topic 815. The ASU excludes from derivative accounting non-exchange-traded contracts with underlyings that are based on operations or activities specific to one of the parties to the contract.

This exception does **not** apply to (1) variables based on market rate, price or indices, (2) variables based on the price or performance of a financial asset or financial liability of one of the parties to the contract, (3) contracts (or features) involving the issuer's own equity that are evaluated under the guidance in Subtopic 815-40, Derivatives and Hedging – Contracts in Entity's Own Equity, or (4) call options and put options on debt instruments. This improvement is expected to result in more contracts and embedded features being excluded from the scope of Topic 815 and improve decision usefulness of financial reporting for such contracts.

2. Issue two addresses stakeholder concerns on the lack of clarity on which guidance to apply to recognize share-based noncash consideration, such as warrants or shares, received from a customer that is consideration for the transfer of goods or services. For example, should the entity receiving share-based non-cash consideration that is contingent on the satisfaction of performance obligations recognize such shares as a derivative asset under Topic 815, and equity security under Topic 321, or defer recognition until the entity satisfies the performance obligation under Topic 606?
 - To address this issue, FASB clarifies in this ASU that an entity should apply the guidance in ASC 606, including the guidance on noncash consideration, to all share-based noncash consideration (for example, shares, share options, or other equity instruments) from a customer for the transfer of goods or services. The guidance in other Topics such as Topic 815 on derivatives and hedging and Topic 321 on equity securities) does not apply to share-based non-cash consideration from a customer for the transfer of goods or services unless and until the entity's right to receive or retain the share-based noncash consideration is unconditional under Topic 606.

The amendments in this Update are effective for all entities for annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods. Early adoption is permitted.

Update on FASB's various previously proposed standards

Credit Losses on Purchased Financial Assets (Topic 326)

The FASB's Proposed Accounting Standards Update (ASU) on Financial Instruments—Credit Losses (Topic 326): Purchased Financial Assets would expand the existing “gross-up” model currently applied to PCD assets to a broader set of acquired financial assets, with limited exceptions. The following summarizes the key provisions as proposed.

Initial measurement Using the Gross-Up Approach for Acquired Financial Assets:

- The proposal would eliminate the distinction between PCD and non-PCD assets and require application of the current PCD gross-up approach to acquired financial assets, except for specified exclusions (notably, available-for-sale [AFS] debt securities).

At acquisition, for PCF loans, an entity would record:

- An allowance for credit losses (ACL) recognized in accordance with Topic 326.
- The initial amortized cost basis, which equals the purchase price plus the initial ACL.
- Any noncredit discount or premium is subsequently accreted/amortized to interest income using the effective interest method; credit-related discount is excluded from yield.

Seasoning Criteria for Non-Business Acquisitions

- For financial assets recognized through an asset acquisition or consolidation of a VIE that is not a business, the gross-up approach applies when the asset is deemed "seasoned." An acquired financial asset is deemed seasoned if (1) it is acquired more than 90 days after its origination; and (2) the acquirer was not involved in origination, assessed qualitatively (e.g., exposure to risks/rewards prior to control; influence over underwriting; forward commitments, call/put or make-whole arrangements; funding or loss-sharing with the originator).
- For groups of assets acquired via asset acquisitions or VIE consolidations, "seasoned" status requires that substantially all individual assets meet the >90-day threshold and that the acquirer lacked origination involvement. Line-of-credit and other revolving arrangements are assessed consistent with the entity's existing CECL policies for similar assets.

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 (such as loss rate and PD/LGD) by pooling loans and existing financial assets with similar risk characteristics. This optionality can reduce complexity and cost.

Exclusion of recovery guidance:

- The proposal clarifies that the recovery provisions in paragraph 326-20-30-13A do not apply when estimating expected recoveries to measure expected credit losses on certain acquired loans that are accounted for using the gross-up approach outside of the discounted cash flow method.

In their April 30, 2025, meeting, the Board directed the staff to draft a final ASU for vote by written ballot.

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:

1. Similar Risk Assessment for Cash Flow Hedges – The Board reaffirmed amendments that provide guidance on the 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 access to hedge accounting and eliminate disruptions caused by technical limitations.

FASB expects to issue a final ASU on this topic by the end of Q4 2025.

Accounting for Debt Exchanges

On April 30, 2025, the FASB issued a [proposed ASU](#) on debt exchanges, which changes the accounting for debt exchanges involving cash between the same debtor and creditor when a new debt obligation with multiple creditors replaces existing debt. Instead of performing the current complex cash flow test, the exchange would be accounted for as an issuance of a new debt obligation and an extinguishment of the existing debt obligation if two key conditions are met:

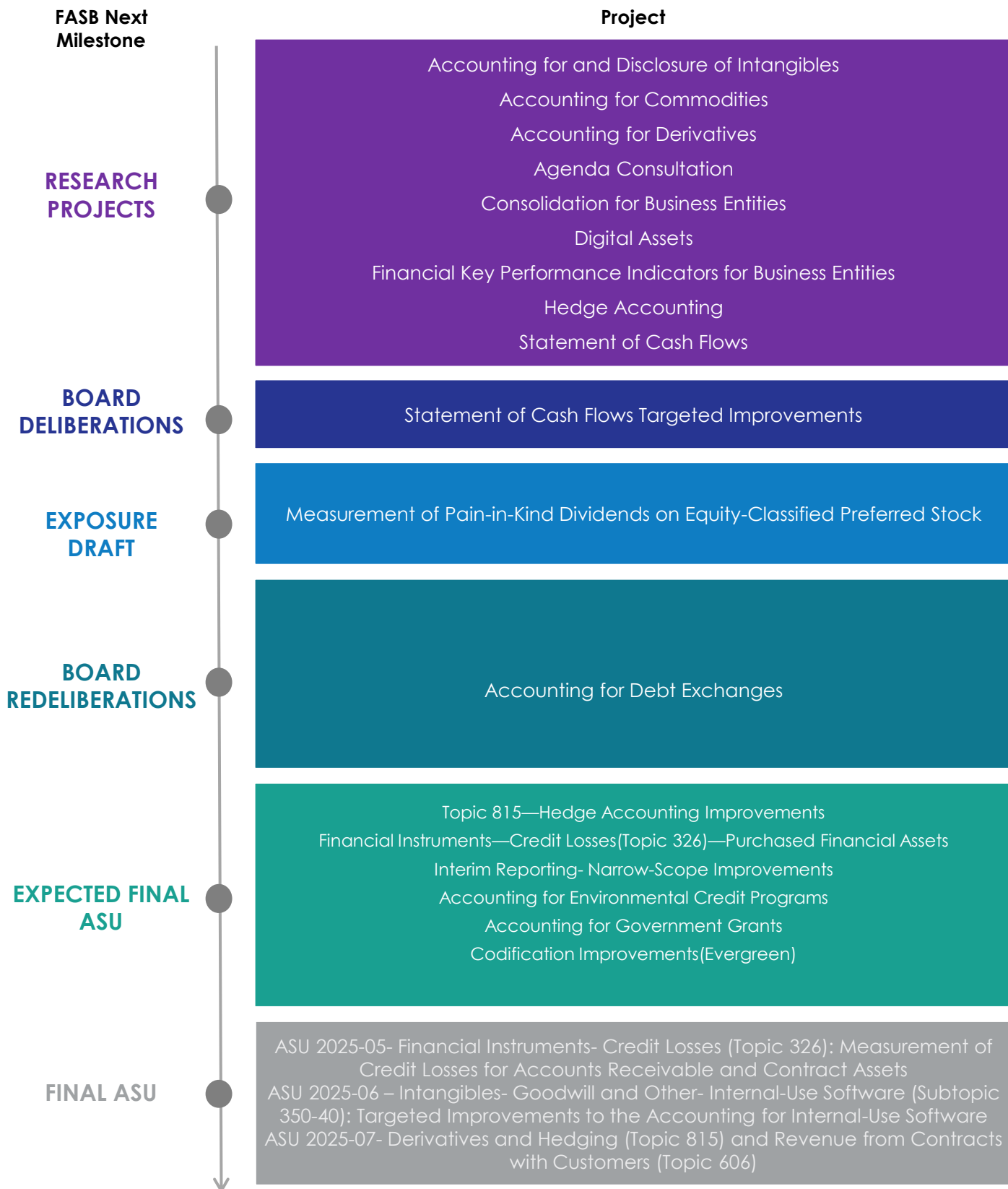
1. The existing debt is repaid according to its contractual terms or repurchased at market terms.
2. The new debt is issued at market terms following the issuer's customary marketing process.

The proposed update would be applied prospectively to exchanges of debt instruments that occur on or after the initial application date, early adoption would be permitted. At their meeting on September 3, 2025, the Board directed the staff to draft a final ASU for vote by written ballot. The Board expects to issue the final ASU by Q1 2026.

Upcoming FASB Standard Effective Dates

ASU	Topic	Effective Date
2025-05	Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets	Effective for annual periods beginning after December 15, 2025, and interim periods within those annual reporting periods. Early adoption is permitted. Non-PBEs electing the practical expedient post-effective date are not required to perform a preferability assessment.
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, 2025. Early adoption is permitted.

FASB Technical Agenda* as of September 29, 2025



Q3, 2025

California Climate Disclosure Laws Effective Date Approaching

On October 7, 2023, California Government passed into law two new climate disclosure bills that are expected to impact thousands of public and private entities.

SB-253, the Climate Corporate Data Accountability Act, requires entities with annual revenues in excess of \$1 billion to report annually on their direct emission of Greenhouse Gas (Scope 1 and Scope 2) starting in **2026**, and indirect emissions (Scope 3) starting in 2027. A phased in assurance will be required to be performed by independent assurance providers.

SB-261, The Climate-Related Financial Risk Act, requires entities with total revenues in excess of \$500 million to disclose 1) climate-related financial risks and 2) measures adopted to reduce and adapt to climate-related financial risk, in accordance with the recommended framework and disclosures of the Task Force on Climate-related Financial Disclosures (TCFD), biennially. Entities are required to make this report publicly available on their website on or before **January 1, 2026**.

In addition to the two new laws that will have the most impact on companies that “do business in California”, there is also another climate related California law, **AB-1305**. This law, requires entities to disclose on any net zero emissions claims, carbon-neutral claims or any GHG emissions reduction claims that are significant as well as any voluntary carbon offsets they have committed to purchase.



Regulatory & Compliance

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.cnmlp.com.



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