

Anchoring Financial Reporting as Standards Shift and AI Accelerates

Patrick Garrett, Valerie Flanigan, Kristen Jaworski, Arjan Dhillon

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For accounting leaders and financial reporting teams, Riveron [accounting advisory](#) professionals round up the latest insights, examine evolving accounting standards, and explore relevant business trends.

Key Points to Know this Quarter

01

- **The FASB issued its first two standards of the year during Q2:** One addressing paid-in-kind dividends on equity classified preferred stock in April and another on environmental credits and environmental credit obligations in May. The FASB also added a number of topics to its technical agenda, including the accounting for liabilities under fair value hedging, investment companies' disclosures regarding private credit and accounting for contractual sale restrictions, accounting for nonrefundable transferable tax credits, and the consideration of recapture when accounting for mortgage servicing rights.

02

- **SEC proposes rule to eliminate quarterly reporting requirements:** The SEC proposed a rule in May that would allow registrants to file semi-annual reports on a new Form 10-S, with quarterly reporting becoming optional for public companies. If the option is elected, quarterly financial information for Q1 and Q3 may still be issued through earnings releases on Form 8-K. The SEC is looking for feedback on the potential impact of the proposed rule, including comparability among issuers and the timeliness of information provided to investors.

03

- **Changes proposed in the climate disclosure landscape:** The SEC proposed a rule to rescind the 2024 climate-risk disclosure rule and revert to the SEC's 2010 climate guidance. This ruling would provide relief for SEC filings, while some companies will have to remain in compliance with international, state, local, and private investor reporting requirements.

04

- **The capital markets are heating up in Q2:** While the capital markets saw a slow start to the year, Q2 brought the largest IPO in history with SpaceX. AI and AI infrastructure industry are leading the race to access the markets, with investors expecting these companies to be able to illustrate a clear path to profitability.

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AI-related disclosures have risen sharply as a comment area, with staff pushing for substance on how AI affects a company's **risk profile, operations, and competitive position** rather than boilerplate risk factor language. Cybersecurity and digital asset disclosures have also drawn increased attention around **risk management program** specifics and **valuation transparency**.

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01 | Accounting Standards Update

As of the date of this publication, the FASB has issued two of the three standards that were expected in Q2, with the standard governing the accounting for debt exchanges still being finalized. The Board also added agenda topics to address feedback from investors who want more transparency in financial reporting:

1. Initial Measurement of Paid-in-Kind Dividends on Equity-Classified Preferred Stock

On April 23, 2026, the FASB issued ASU 2026-01, which amends the guidance in ASC 505 (Equity) to add guidance on how issuers measure paid-in-kind (PIK) dividends on equity-classified preferred stock, including preferred stock presented in mezzanine equity. The new standard requires that PIK dividends are initially measured by multiplying the PIK dividend rate within the agreement by the liquidation preference.

ASU 2026-01 will create consistency in practice in this area and will result in more comparability in results across issuers with these types of instruments. As PIK dividends affect income available to shareholders in the EPS calculation, the new standard is expected to have some impact on the consistency of EPS calculations as well.

This ASU is effective for all entities for annual reporting periods beginning after December 15, 2026, including interim reporting periods within those annual reporting periods, with early adoption permitted in interim and annual periods in which financial statements have not yet been issued.

2. Accounting for Environmental Credit Programs

ASU 2026-02 was issued on May 19, 2026, establishing

the first accounting model that specifically addresses environmental credits and environmental credit obligations (Topic 818), providing guidance governing the recognition, measurement, presentation, and disclosure of environmental credits and related obligations.

The new standard provides a definition for environmental credits and introduces a comprehensive model that distinguishes between compliance and noncompliance credits, which is dictated by the intended use of the credit. Compliance credits are those that are expected to be used to settle an outstanding environmental credit obligation. Both types of credits will be recognized at cost, with noncompliance credits requiring impairment testing.

Under ASU 2026-02, environmental credit obligations are measured using a linked model, with a funded portion and an unfunded portion. The funded portion is the portion for which there are compliance credits specifically identified that will be used to settle the obligation. The assessment of funded versus unfunded is required to be performed each reporting period.

This ASU is effective for public business entities for annual reporting periods beginning after December 15, 2027, including interim reporting periods within those annual reporting periods, and one year later for all other entities, with early adoption permitted.



FASB Agenda Updates

In addition to issuing the new standards, the FASB prioritized several technical agenda items in Q2 spanning hedging methodologies, investment company disclosures, tax credit accounting, and mortgage servicing measurement—with two already advancing toward the proposal phase in response to emerging market pressures and standards gaps. Below are the details:

- **Fair value hedging — Portfolio Layer Method (PLM) for liabilities:** The PLM method established under ASU 2022-1 permits entities to designate a portion of a closed portfolio of financial assets as the hedged item under a fair value hedge, eliminating the need to track individual assets. The hedged item represents the portion of the portfolio that is expected to remain outstanding throughout the designated hedge period. This agenda topic, added in April, is looking into applying the PLM method to large portfolios of liabilities as well, to better align financial reporting with risk management activities.
- **Private credit disclosures:** The FASB added a project to its agenda in May to address the disclosure requirements for private credit. The scope of the project is limited to investment companies within the scope of Topic 946, Financial Services — Investment Companies. With the increase in nontraditional lending, including private credit, and the SEC investigating allegations of fraud in private credit firms, this agenda topic is focused on improving the transparency of disclosures for private credit holdings.
- **Investment companies - contractual sale restrictions:** The FASB added another project to its agenda in May, also limited in scope to investment companies within Topic 946, looking to address the accounting for contractual sale restrictions associated with equity securities. The Board tentatively issued a decision regarding this topic in June and has directed the staff to begin drafting a proposed ASU. The following terms were outlined under the tentative decision:
 - a. The Board will not provide a definition for a contractual sale restriction
 - b. The requirements would only apply to equity securities
 - c. The guidance will be adopted prospectively
 - d. The discount associated with the contractual sale restriction will be required to be disclosed in the notes to the financials
 - e. The unit of account for a contractual sale restriction would be the same as that for the related equity security

- **Nonrefundable transferable tax credits:** At the May meeting, the Board discussed the feedback received on nonrefundable transferable tax credits as a part of its 2025 Invitation to Comment. The feedback showed that GAAP does not currently address how to account for nonrefundable transferable tax credits that an entity generates that can be either used to reduce an income tax payment or sold to another taxpayer. A project was added to the technical agenda to specify that these credits should be accounted for in accordance with Topic 740, Income Taxes. This agenda topic is meant to address the new types of tax credits being issued, including those for clean energy investments and create consistency in practice when accounting for these types of credits.
- **Mortgage servicing rights — recapture:** In Q1, the Emerging Issues Task Force (EITF) recommended that the Board address the diversity in practice when measuring a Mortgage Servicing Right (MSR) because ASC 860-50 doesn't specifically address whether the value attributable to recapture should be included when measuring the MSR. The Board added this topic to its technical agenda in May to address the issue raised by the EITF. The EITF recommended a number of solutions agreed upon by the Board, including that recaptures shouldn't be defined by the Board and that an MSR and recapture are a single unit of account, meaning that the measurement of an MSR should include the effects or recapture. The Board has directed the staff to begin drafting a proposed ASU for vote by written ballot, which will have a 45-day comment period.



02 | Regulatory Updates

Semiannual Reporting and Changes to Filer Classification

The SEC's recent proposals reflect a broader effort to reduce compliance burdens for public companies, particularly smaller issuers, while providing greater flexibility in the reporting process. On May 5, 2026, the SEC proposed a rule that would allow registrants to elect semiannual reporting, creating a new Form 10-S, and making quarterly reporting optional. If companies make this election, it's expected that they will continue to file earnings releases in a Form 8-K to disclose their first and third quarter results. Advocates of the proposed rule believe this option will save companies some of the time and effort that is spent on filing their quarterly results, while others oppose the ruling because it increases the risk of incomparability across issuers and a lack of timeliness of information.

On May 19, 2026, the SEC proposed amendments that would raise the large accelerated filer threshold from \$700 million to \$2 billion in public float and prohibit newly public companies from being classified as large accelerated filers for at least 60 months following their IPO. Under the proposal, approximately 81% of current public companies would be classified as non-accelerated filers and gain access to the disclosure scaling and accommodations currently reserved for smaller reporting companies and emerging growth

companies. All non-accelerated filers would be exempt from the auditor attestation requirement on internal controls over financial reporting under Section 404(b). A new subcategory of small non-accelerated filers would receive an additional 30 days to file Form 10-K and 5 additional days for Form 10-Q. A companion rulemaking would expand shelf offering eligibility, broaden access to well-known seasoned issuer communication provisions, and preempt state-level securities registration requirements across all registered offerings.

The proposals are in their 60-day comment period as of the date of this publication. Finance leaders should assess their current filer status under the revised thresholds and evaluate the implications of a potential Section 404(b) exemption, keeping in mind that investor and lender expectations may continue to set a higher bar than the regulatory minimum.

Climate Disclosure Landscape

Changing guidelines are reshaping how finance leaders need to consider climate-related disclosures, including balancing the SEC's latest position with other regulatory and stakeholder considerations. On May 29, 2026, the SEC formally proposed to rescind its 2024 climate-related disclosure rule in its entirety, with a public comment period running through August 3, 2026. Rather than replacing the rule with an alternative framework, the proposal would revert companies to the principles-based materiality standard under the SEC's 2010 climate guidance and general Regulation S-K, both of which remain in effect. The Commission cited statutory authority concerns and disproportionate compliance costs as its basis for the rollback.

The federal proposal does not clear the broader compliance picture. [State-level requirements](#), international frameworks, and investor expectations continue to create demand for climate-related disclosures independent of the SEC's direction. The ISSB, for example, issued targeted amendments to IFRS S2 in December 2025 to ease implementation, but the standard itself remains in effect across an expanding set of adopting jurisdictions. Companies with international operations, institutional investors, or state-level exposure should not treat the proposed rescission as a signal to stand down.

Reporting infrastructure built for the 2024 rule retains value across state, international, and voluntary frameworks. Companies should monitor the comment deadline before making structural changes to climate or



ESG reporting programs.

SEC Comment Letter Hot Spots

In its most recent annual review period, total SEC staff comment letter volume declined meaningfully from the elevated volumes seen in the prior two years. Despite the lower overall volume, the staff continued to remain focused on key disclosure areas and, in several cases, the focus has intensified. The following topics emerged as the SEC staff's highest-priority comment areas, with particular emphasis on financial performance disclosures, segment reporting, valuation judgments, and emerging risks:

- **Non-GAAP measures and MD&A:** These two areas have consistently led comment letter activity and continue to do so. On non-GAAP measures, staff focus centered on undue prominence relative to GAAP equivalents, inappropriate reconciliations, misleading adjustments that exclude normal recurring expenses, and inconsistent labeling. On MD&A, staff pushed for specific and quantified analysis of period-over-period changes rather than generic narratives, with particular attention to liquidity discussions, known trends, and the drivers behind results. Staff review extended beyond SEC filings to earnings releases, investor presentations, and company websites.
- **Segment reporting:** Segment reporting has seen

one of the sharpest increases in staff attention of any topic, driven by ASU 2023-07, which was effective in 2024 annual filings for calendar-year-end companies. Staff comments have centered on proper identification and disclosure of the CODM's profit or loss measure, completeness of significant segment expense category disclosures, and reconciliations to consolidated pretax income.

- **Goodwill and intangible assets:** Staff has requested greater specificity on impairment methodology, key assumptions, sensitivity analysis, and critical accounting estimate disclosure in MD&A, particularly for reporting units operating near their carrying values.
- **Emerging risk disclosures:** AI-related disclosures have risen sharply as a comment area, with staff pushing for substance on how AI affects a company's risk profile, operations, and competitive position rather than boilerplate risk factor language. Cybersecurity and digital asset disclosures have also drawn increased attention around risk management program specifics and valuation transparency.

As staff scrutiny continues to concentrate in these areas, early engagement with auditors and advisors across each topic remains the most effective way to reduce comment letter risk.

03 | Other Current Topics and Trends

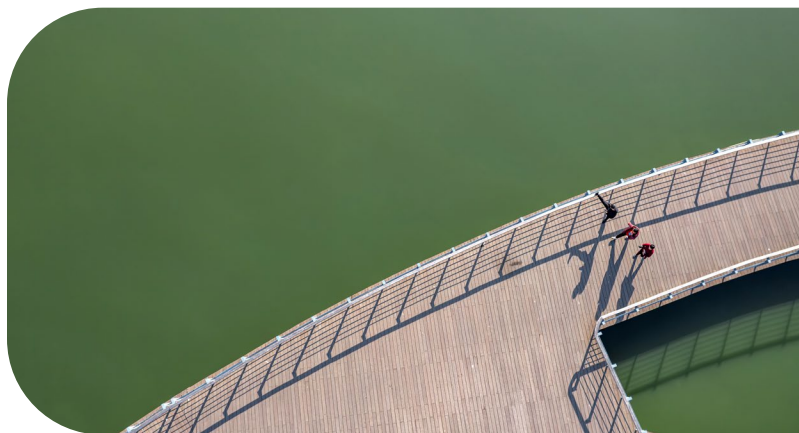
Q2 2026 IPO activity and IPO trends

In June 2026, capital markets saw the largest IPO in history, with SpaceX debuting at \$135 a share. SpaceX underscores a shift among companies to stay private for longer periods, with more significant private-market capital. As a result, 2026 is expected to be a strong year for IPOs with significant concentration in a handful of extremely large offerings.

OpenAI and Anthropic are racing to go public in the second half of this year, with the initial stock performance of SpaceX accelerating the race. The performance of these AI and space companies will be heavily discussed and focused on, with bankers and investors increasingly expecting to see the following:

- Robust cash flow forecasting and revenue projections that show a clear path to profitability
- Effective corporate governance and audit committee processes
- Scalable ERP systems
- Internal controls readiness

These factors are especially important for AI and AI infrastructure companies that are spending significant amounts on compute and data center costs. Investors will expect to see a credible path to profitability against their accumulating capital expenditures. Finance leaders must also focus on developing processes and policies to address internal controls and governance ahead of becoming a public company.



Building an Agile Finance Function

The available workforce in finance and accounting is shrinking as the number of accounting graduates continues to decline and a large portion of the CPA workforce is moving closer to retirement age. With AI being a major focus across industries, this trend is generating even more urgency for companies to integrate AI into their accounting and finance functions.

In response to this shift in focus, finance and accounting leadership must consider how to redesign their current work environments to recruit and retain top-tier talent. This may include upskilling the current workforce through providing AI training or targeting workers with a background in data analysis and technology integration. Finance leaders will need to determine how best to retain strong technical finance and accounting acumen on their teams while incorporating AI into their processes.



This update provides general information and insights - consult with your advisors for specific guidance.

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