

Snapshot

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SNAPSHOT 2025-05

Highlights of CAQ's SEC Regulations Committee meeting

The Center for Audit Quality (CAQ) recently issued highlights of the [March 2025](#) meeting between its SEC Regulations Committee and SEC staff. The SEC Regulations Committee meets periodically with SEC staff to discuss emerging financial reporting issues relating to SEC rules and regulations. Key topics discussed at the meeting are summarized here.

Clawback rule checkboxes

SEC staff reiterated guidance provided at the AICPA & CIMA Conference on Current SEC and PCAOB Developments in December 2024 on the two checkboxes included on the cover page of annual reports filed on Forms 10-K, 20-F, and 40-F related to financial statement errors and clawbacks, as follows:¹

- The first checkbox is checked if the correction of an error results in a change to previously issued annual financial statements, including a required restatement (defined as either a “Big R” or “little r” restatement) and a voluntary error correction (for instance, an

immaterial error correction that does not meet the definition of “Big R” or “little r”). The following changes would not trigger the requirement to check the first box:

- An out-of-period adjustments that did not result in a change to amounts in previously issued financial statements
 - A change made as a result of implementing a new accounting standard
 - Disaggregation of a financial statement line item
 - A change in accounting principle
 - A change in accounting method if the previous application was not a misapplication of U.S. GAAP
- The second checkbox is checked for any of the error corrections related to the first checkbox, except for voluntary corrections. The second box should be checked even if (1) no incentive-based compensation was

¹ Refer to the Appendix for the fact patterns that were discussed by the SEC staff at the 2024 AICPA and CIMA conference on Current SEC and PCAOB Developments.

received by executive officers during the recovery period, or (2) incentive-based compensation was received by executive officers during the recovery period that was not based on financial measures impacted by the restatement. When no recovery is required, such determination must be disclosed.

Application of the investment test for acquisitions that include repurchase of own shares

SEC staff provided guidance on the application of the investment test under Rule 1-02(w)(1)(i)(A)(1) of Regulation S-X when determining the significance of an acquired business that holds the

registrant's common equity, which is used for the purposes of determining the aggregate worldwide market value of the registrant's voting and non-voting common equity. With respect to the denominator, the staff indicated that S-X Rule 1-02(w) does not include any adjustments for intercompany transactions in the investment test, so there does not appear to be a basis to exclude the repurchase of a registrant's own shares. Further, the staff noted that the term "consideration transferred" in S-X Rule 1-02(w) for determining the numerator is a concept in both ASC 805 and IFRS. Therefore, if the registrant includes the value of the shares repurchased in determining the "consideration transferred" under either U.S. GAAP or IFRS, the full amount of the "consideration transferred" should be reflected in the numerator.

Appendix

Clawback checkbox decision matrix

Fact pattern	Checkbox 1 (restatement)	Checkbox 2 (recovery analysis)
“Big R” restatement – previously issued annual financial statements are corrected for a material misstatement	Yes	Yes*
“Little r” restatement – previously issued annual financial statements are corrected for an immaterial misstatement. Correcting the error by way of an out-of-period adjustment will materially misstate the subsequent year’s financial statements	Yes	Yes*
Voluntary restatement – previously issued annual financial statements are corrected for an immaterial misstatement. However, the registrant may have corrected the error as an out-of-period adjustment in the subsequent year’s financial statements.	Yes	No
Restatement of interim periods only	No	No
Correction of error as an out-of-period adjustment – no change to the previously issued financial statements	No	No
Retrospective change that does not constitute an error correction, such as the adoption of an accounting principle with retrospective effect or reclassification of prior-period comparative financial information to conform to the current-year presentation	No	No

**This box should be checked even if incentive-based compensation was not received by executive officers during the relevant period or if no recovery was required based on the analysis.*

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