# TMT insights:

## Financial reporting and accounting quarterly — Q4 2024

A PwC report on emerging trends affecting technology, media and telecommunications companies.

### In this edition:

- Generative AI and Internet of Things continue to drive business model overhauls as the majority of TMT executives plan new strategies while keeping a watchful eye on post-election impacts.
- Despite heightened regulatory scrutiny affecting deal structures, the sector's M&A landscape has rebounded, propelled by easing inflation and AI investments.
- The FASB issued two significant standards, including guidance on income statement expense disaggregation and convertible debt conversions, reshaping reporting requirements for the upcoming fiscal years.
- Preparations for the Pillar Two global minimum tax framework and new income tax disclosure requirements are critical, with companies encouraged to address data and compliance gaps proactively.
- California climate amendments streamline compliance but maintain rigorous reporting timelines, while international jurisdictions continue adopting ISSB standards to align sustainability practices globally.
- Updates to the EU's Corporate Sustainability Reporting Directive (CSRD) and related FAQs highlight evolving expectations for sustainability disclosures in 2025 — and beyond.

## Issue spotlight

Stay ahead of the curve as we look to the year ahead with updates on AI, sector M&A activity, Pillar Two preparation, sustainability reporting and more.


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## Business update

What's top of mind for TMT business leaders as we close out the fourth quarter of 2024 and head into 2025? Generative AI (GenAI), the Internet of Things (IoT), and groundbreaking semiconductor advances are driving reinvention across the industry, while a recovering M&A market introduces fresh opportunities amid a complex regulatory landscape. Data is solidifying its role as a critical driver of competitive advantage, with companies navigating modernization efforts to unlock growth.

# Reinventing business models to stay ahead

TMT companies are finding new ways to operate, deliver value and engage customers. GenAI's ability to create content and automate complex processes offers substantial productivity gains — especially when it comes to AI agents — and IoT is powering real-time insights in smart homes, factories and other applications. These advancements, combined with semiconductor innovations, are reshaping operational frameworks and unlocking competitive advantages. The sector is confident, with 85% of TMT executives believing they can execute new business models and 76% planning to deploy GenAI to carry out those efforts.

However, this reinvention isn't without challenges. Integrating leading-edge technologies requires a balance between innovation and trust-building, particularly as regulators and stakeholders demand responsible AI practices and transparent data governance. Additionally, the broader shift toward creating high-value customer experiences is reshaping traditional business models. For example, the sports industry is increasingly using technology to provide fans with unique, memorable interactions at live events — a trend that exemplifies how reinvention can both engage audiences and drive new revenue.

The ability to adapt to evolving consumer demands and leverage emerging technologies will likely separate leaders from laggards. Companies should act decisively to navigate this dynamic environment and secure their competitive edge.

# Strategic deals propel innovation despite regulatory complexity

The M&A landscape for TMT in 2024 reflected cautious optimism. Technology deal value and volume rebounded from 2023 levels, buoyed by easing inflation, investments in AI infrastructure and a resurgence of early-year megadeals. In telco, notable transactions, such as Verizon's $21 billion acquisition of Frontier Communications to expand fiber networks, underscore how deal activity is reshaping connectivity and media landscapes. And in media, companies are capitalizing on shifting consumer preferences through strategic deals. The Paramount-Skydance merger, for example, underscores how media giants are repositioning themselves to capture the streaming audience while rationalizing costs in traditional pay-TV. Furthermore, deregulation under a new US administration is expected to accelerate consolidation, allowing companies to pursue scale and operational efficiency.

However, across the subsectors regulatory scrutiny is a top concern. Updates to the Hart-Scott-Rodino Act have heightened reporting requirements for deals, pushing many companies to explore alternative transaction structures, such as joint ventures and licensing arrangements. This is particularly evident in AI-focused transactions, where competition for intellectual property and infrastructure is intensifying. Political factors are also influencing overall dealmaking decisions, as ahead of the election 75% of sector leaders told us they believe election outcomes will shape their decisions regarding acquisitions and divestitures.

As companies refine their portfolios, business partnerships in advanced technology areas — such as extended reality, machine learning, and the Internet of Things—are unlocking additional growth opportunities. PwC's analysis shows ecosystem-driven companies achieve margins up to 60%, far surpassing those of traditional product-based firms.

The road ahead offers opportunities but demands agility. Companies aiming to navigate this evolving landscape successfully should prioritize scenario planning and risk assessments to help maintain regulatory compliance while pursuing growth.

## Data strategies: The key to competitive advantage

Data is no longer a support function — it is the foundation of TMT companies aiming to enhance customer experiences, streamline operations and drive revenue. Yet, data monetization remains a significant hurdle. Leaders are prioritizing investments in cloud infrastructure and advanced analytics to address this gap, with 84% of TMT firms planning increased cloud budgets in the next fiscal cycle.

GenAI is central to these modernization efforts, enabling companies to harness structured and unstructured data for predictive analytics, personalized recommendations, and operational efficiencies. Cloud adoption, a critical enabler, is increasingly integrated into strategies for AI-driven transformation. For example, TMT companies are adopting cloud-based collaboration tools to reduce time-to-market and improve scalability. Despite only 27% of companies fully adopting cloud, this number is expected to grow as businesses recognize its role in reducing costs and accelerating AI adoption.

Strategic alliances are playing a pivotal role in data innovation. Business partnerships between TMT firms and technology providers are unlocking synergies in managed services, including Engineering-as-a-Service models, which reduce overhead while enhancing operational flexibility. Moreover, the integration of enterprise resource planning (ERP) systems with cloud platforms is helping companies achieve scalable data solutions to optimize resources and improve decision-making.

In the post-election environment, TMT is set for interesting shifts. A significant 84% of TMT executives indicate that election results will influence their strategic business partnerships — the highest percentage across all industries we surveyed. These findings highlight the sector's sensitivity to political changes and the potential for strategic realignment.

The future of data is clear: companies that invest in modernization and collaboration while maintaining rigorous data governance will likely position themselves as leaders in a data-centric era.

## Accounting update

In this issue, we include reminders for accounting for income taxes and new guidance applicable for 2024 reporting. We also provide updates for two final standards issued by the FASB in Q4, two countries considered to be highly inflationary and the software costs project.

## FASB issues two final standards

As expected, during the fourth quarter, the FASB issued final standards on the disaggregation of income statement expenses (DISE) and induced conversions of convertible debt instruments.

### Disaggregation of income statement expenses

At the beginning of November, the FASB issued ASU 2024-03, *Disaggregation of Income Statement Expenses*, in response to longstanding requests from investors for more information about an entity's expenses. The new guidance requires disclosures about specific types of expenses included in the expense captions presented on the face of the income statement as well as disclosures about selling expenses. The guidance is first effective for calendar year-end public business entities in their 2027 annual financial statements and 2028 interim financial statements. Companies can adopt the guidance on either a prospective or retrospective basis. Early adoption is permitted.

Read our publication for a thorough analysis of the new standard and responses to frequently asked questions related to application of the guidance.

After the issuance of ASU 2024-03, the FASB received feedback that the guidance on the initial effective date could lead a non-calendar year-end entity to conclude that it would be required to initially adopt the requirements of the ASU in an interim reporting period rather than in an annual reporting period. In response, the FASB issued a proposed update with a comment period that closed on December 10, 2024. If finalized as drafted, the ASU will clarify that public business entities are required to adopt the new standard in annual reporting periods beginning after December 15, 2026 and interim reporting periods within annual reporting periods beginning after December 15, 2027. The final standard is expected in early 2025.

## Induced conversions of convertible debt instruments

Later in November, the FASB issued ASU 2024-04, *Induced Conversions of Convertible Debt Instruments*. The new guidance clarifies the assessment of whether a transaction should be accounted for as an induced conversion or extinguishment of convertible debt when changes are made to conversion features as part of an offer to settle the instrument.

The guidance is effective for fiscal years beginning after December 15, 2025, with early adoption permitted, and can be adopted either on a prospective or retrospective basis.

## SAB 74 reminders

When a new accounting standard has been issued but is not yet effective, public companies are required by SAB 74 to make disclosures about the expected impact of the new standard. As both new standards were issued in November 2024, companies may not have had sufficient time to complete an assessment of the impact of the new standards. Companies may initially disclose that an ongoing assessment of the impact is still in process and provide more detailed disclosures in future financial statements. Companies should also disclose if a new standard is not expected to materially impact the financial statements. Read chapter 30 of our *Financial statement presentation guide* for more information.

For a complete list of recently issued accounting standards and their effective dates, including links to PwC resources, refer to the Guidance effective for calendar year-end public companies and Guidance effective for calendar year-end nonpublic companies pages on Viewpoint.

# Income taxes: Current and near-term considerations

Given recent international legislation implementing Pillar Two global minimum taxes, and imminent changes to income tax disclosures, tax is once again a top area of focus for most TMT companies heading into year end. While this year has already been eventful, companies should be alert for other legislative developments and additional Pillar Two administrative guidance that could impact 2024 financial reporting.

## Pillar Two global minimum tax

The enactment of tax legislation implementing the Pillar Two global minimum tax continues around the world, with jurisdictional differences adding to the complexity. The objective of Pillar Two is for large multinational enterprises to pay a minimum level of tax (a threshold effective tax rate of 15%) on the income arising in each jurisdiction in which they operate. The foundation of the Pillar Two framework comprises three separate, but interlocking rules known as the Qualified Domestic Minimum Top-up Tax (QDMTT), Income Inclusion Rule (IIR), and Undertaxed Profits Rule (UTPR), collectively referred to as the GloBE rules.

Even if the current year tax impacts are not expected to be material, the computational rules are complex, and the related assumptions will require careful consideration. Further, to the extent the tax is not material because of the transitional (i.e., temporary) safe harbor rules, companies should have processes, systems and controls in place to collect the necessary data and support their analyses, including the assessment of any uncertain tax positions inherent in the safe harbor outcomes and/or the top-up tax calculations along with any tax planning strategies that were executed to reduce the tax impact. Finally, companies should consider the near-term impacts of UTPR which operates as a backstop to the IIR, allowing any jurisdiction within the multi-national group the ability to collect top-up tax. The UTPR goes into effect in 2025 for many jurisdictions.

Refer to our publication, *Accounting for Pillar Two FAQs*, to help companies navigate the new requirements.

### Getting ready for the new income tax disclosure requirements

As released by the FASB at the end of 2023, public companies are required to provide the new income tax disclosures detailed in ASU 2023-09 for years beginning after December 15, 2024. The new standard requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. Although reporting is not required until next year end, early preparation is crucial because complying with the new requirements may require additional processes and controls to collect data that may not be captured within existing systems. By preparing early in the year of adoption, companies can identify and address data or process gaps well in advance of the reporting deadline.

A company choosing to apply the new guidance retrospectively may want to consider performing a "dry run" in parallel with the 2024 financial reporting process, bridging its existing rate reconciliation to the new rate reconciliation categories. Doing so can help ensure all relevant 2024 data is available to be presented with the 2025 information when the standard is adopted. Refer to our publication, FASB issues guidance on income tax disclosures, for details about the new requirements.

## US GAAP highly inflationary economies: Nigeria and Egypt

As inflation rates in both Nigeria and Egypt have exceeded 100% on a three-year cumulative basis, both economies are considered highly inflationary under US GAAP. Companies should remeasure the financial statements for entities in both countries using the company-specific reporting currency. Read our US GAAP summary for more details.

IFRS guidance allows for qualitative considerations, which may result in a different conclusion in the determination of a highly inflationary economy. Read a summary under IFRS for more details.

## New guidance applicable for the first time in 2024 annual reporting

We are here to help with some final reminders as you prepare to adopt the new segment reporting standard and the remaining requirements for supplier finance program obligations.

### Segment reporting

ASU 2023-07 does not change the definition of a segment, the method for determining segments, or the criteria for aggregating operating segments into reportable segments. It does, however, expand the required disclosures, specifically requiring companies to disclose significant segment expenses. A significant segment expense is an expense that is:

- Significant to the segment,
- Regularly provided to or easily computed from information regularly provided to the chief operating decision maker (CODM), and
- Included in the reported measure of segment profit or loss.

All information provided to the CODM should be assessed when determining what information is "regularly provided." The unit of account to determine whether that information is significant is the individual data point and not an aggregation thereof.

There is no change to the requirement to disclose, at a minimum, the measure of profit or loss used by the CODM that is most consistent with the amounts included in the consolidated financial statements. Additional measures, however, can now also be disclosed to the extent the CODM uses multiple measures, subject to certain conditions.

To learn more about the new requirements, read our publications, *FASB updates segments guidance*, *SEC provides greater clarity on new segments guidance* and chapter 25 of our *Financial statement presentation guide*.

### Supplier finance program obligations rollforward

In accordance with ASU 2022-04, calendar year-end companies were required to provide new disclosures about supplier finance program obligations starting in the first quarter of 2023. The required rollforward of those obligations, however, are required for the first time for those companies in their 2024 annual financial statements. The rollforward must include:

- Amount outstanding at the beginning of the reporting period
- Amounts added to the program during the reporting period
- Amounts settled during the reporting period
- Amount outstanding at the end of the reporting period.

To learn more, see chapter 11 of our *Financial statement presentation guide* and listen to our podcast.

Since June, the Financial Accounting Standards Board (FASB) has released two proposals and is targeting the issuance of six additional proposals before the end of 2024, making significant progress on their current technical agenda. Take advantage of the opportunity to weigh in on these proposed amendments and participate in this important step in the FASB's due process.

## Proposed amendments to internal-use software guidance

In October, the FASB proposed an update to the existing internal-use software costs guidance that aims to modernize the accounting standard to (1) better reflect current software development practices, such as the shift from sequential to incremental and iterative methods, and (2) enhance the transparency of cash flows related to internal-use software costs. Feedback on the proposal is due by January 27, 2025. For more information, read our publication.

# Regulatory update

On the regulatory front, we provide updates on sustainability reporting across multiple frameworks.

## Developments in sustainability reporting

In the US, it remains to be seen what impact the presidential election will likely have on the climate disclosure rules issued by the SEC, which have been stayed to facilitate judicial resolution of pending legal challenges. Meanwhile at the state level, initial reporting under the California climate disclosure laws is fast approaching. On September 27, 2024, recent amendments impacting two of these laws were signed into law by Governor Newsom. The proposed amendments are largely administrative in nature, and although the governor of California had proposed a two-year extension of the timing for certain disclosures, no extension of the implementation dates was included in the final amendments. For more on what is included in these amendments, see our publication, *California advances amendments to sustainability reporting laws*. For more information on these laws, see our publication, *California's not waiting for the SEC's climate disclosure rules*.

Outside of the US, numerous international jurisdictions have adopted or plan to adopt sustainability disclosure standards. Beyond the EU Member States adopting the CSRD, a progress report issued by the IFRS Foundation in November notes that over 30 jurisdictions are in the process of adopting the ISSB standards. For an overview of adoption status by jurisdiction, refer to our *Sustainability reporting adoption tracker*. For information on the primary sustainability reporting frameworks with extraterritorial provisions, see our global *Sustainability reporting guide*. For key actions that TMT companies can take, refer to our publication, *How tech companies can turn sustainability compliance into a strategic advantage*.

## Corporate Sustainability Reporting Directive (CSRD)

As discussed in prior editions of *The quarter close*, EU Member States were to complete the transposition of the CSRD into local law by early July. In September, the European Commission started infringement procedures by sending formal notices to 17 EU Member States that have not completed the transposition process. These 17 EU Member States had until the end of November to respond to the formal notice. For EU Member States that have still not completed transposition, the next step is for the European Commission to issue a “reasoned opinion” explaining why compliance was required. EU Member States will have another two months to detail the actions taken. The implications of not completing the transposition on the current timeline of adoption is unclear.

In addition, in October and November, EFRAG Sustainability Reporting Board and EFRAG Technical Expert Group held meetings to discuss the non-European Sustainability Reporting Standards (NESRS) that would be applied by certain non-EU entities in 2029 (on 2028 information). As contemplated by the CSRD, the NESRS will not require disclosures about sustainability-related risks, opportunities, or resilience. Current drafts of the standards include an option to exclude information about the impacts of sales or the provisions of services to natural or legal persons outside of the European Union for topical standards other than climate change. As with the ESRS, EFRAG will prepare a draft for discussion at a public meeting, with a goal of issuing a public consultation for feedback in January 2025.

In November, the European Commission finalized the FAQs issued in draft in August 2024 on the interpretation of certain provisions in CSRD and ESRS. And on December 6, EFRAG released 64 new FAQs sourced from its ESRS Q&A Platform. The FAQs are non-authoritative but are intended to facilitate the implementation of the ESRS.

## About PwC's TMT industry practice

Our TMT practice is dedicated to helping business leaders in the technology, media and telecommunications industries manage their complex businesses while delivering sustained outcomes. In doing so, we offer a range of capabilities, including risk, transformation, cloud and digital, deals, sustainability, cybersecurity and privacy, governance and boards, tax services, and much more. We are committed to advancing quality in everything we do.

## Let's talk

For deeper insights regarding the topics addressed in this latest edition of our TMT insights: Financial reporting and accounting quarterly, please contact:

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