Banks & Savings Institutions

Issues & Trends

Speakers at the 2024 AICPA National Banking Conference underscored the need to adapt to a dynamic and uncertain economic landscape with a focus on modernizing the industry and its professionals, navigating regulatory compliance, and harnessing the transformative power of GenAI.

September 2024

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1 Meeting highlights

Future success in the banking industry may largely be driven by the ability to embrace change, leverage technology, and expand one's role in a complex, multi-stakeholder environment.

Speakers at the AICPA National Conference on Banks and Savings Institutions, which took place September 9-11 in Greater Washington, DC, covered an array of topics. Technology transformations and Artificial Intelligence (AI) rang through the conference as central themes. Also prominent were discussions on the economy, the regulatory environment, and standard-setting activities.

Overall, the conference underscored the need for the industry to embrace technological advancements, balance opportunities with risks, and maintain high standards of financial reporting to navigate the rapidly changing landscape.

Entering a new economic era

Marci Rossell, former CNBC Chief Economist, shared her belief that the global economy is poised for significant changes by 2025, driven by rapid technological advancements, shifting demographics and evolving geopolitical landscapes. In this new era, she expressed that effective monetary and fiscal policies will be crucial in ensuring economic stability and growth.

Doug Duncan, Chief Economist at Fannie Mae, highlighted takeaways as we look forward to the coming years. He cautioned that there will be continued upward pressure on inflation that the Federal Reserve will need to address. He also mentioned the need for fiscal policy discipline, particularly with the upcoming expiration of the reforms from the Tax Cuts and Jobs Act of 2017. Lastly, to combat the housing market woes, a supply-side policy reset is needed.

A regulatory focus on the new and old

While there are expectations that the Basel III Endgame will be re-proposed with broad and material changes,[1] diminishing some of the regulatory angst from the 2023 conference, there continues to be regulatory uncertainty in the industry. Jonathan Gould, Partner at Jones Day, believes that the risk tolerance of the banking regulators is at "zero or near zero."

Federal banking regulators highlighted a focus on the allowance for credit losses and accounting for investment securities because they view those topics as essential elements of managing the 'blocking and tackling' of traditional banking risks. They also encouraged caution when entering into some new and emerging transactions in the search for yield, noting the importance of effective risk management and a bank's own due diligence of the accounting.

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[1] Speech by Vice Chair for Supervision Michael S. Barr, at the Brookings Institution, September 10, 2024.

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Transformative technology

The past 12 months have seen an unprecedented pace of change in Generative AI (GenAI). Lamont Black, Ph.D., from DePaul University, emphasized the transformative potential of technologies like ChatGPT and blockchain. Conference speakers highlighted the need for companies to modernize or risk obsolescence, and suggested some practical AI applications for growth opportunities, increased productivity, and regulatory compliance. Despite opportunities, they advised the industry to emphasize cybersecurity and governance. The consensus: the modernization of the banking industry through transformative technology is upon us.

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2 Slowdown, strength, and uncertainties

A slowing, yet strong economy

Throughout the conference, speakers focused on where the economy currently stands, where it is headed, and how banks and the industry play a pivotal role in shaping it. All seemed to agree that while the economy is experiencing an overall slowdown, there are still areas showing signs of strength. Additionally, the speakers offered perspective on the risks and uncertainties they believe will exist throughout 2025 that could alter the economic outlook.

Keynote speaker Marci Rossell, former CNBC Chief Economist, shared her perspective on the Federal Reserve's progress on lowering inflation to be in-line with their two percent target. In doing so, she compared the current environment to that of March 2022, when the first interest rate increase occurred, noting key inflation indicators (e.g. consumer price index, unemployment, labor and financial markets, and gross domestic product) are currently moving in the right direction. Rossell believed this progress has been sufficient for the Federal Reserve to cut interest rates.

Lastly, Rossell identified some long-term stressors for the economy – the office commercial real estate sector, declining global demographics, and the Chinese economy. However, she highlighted that history has proven it is often unexpected and unforeseen issues that contribute to recessions, as opposed to issues that can be planned for.

> "It is never the train wreck that I can see coming that I worry about … because if you can see it coming, people will have an incentive to take steps to mitigate the worst-case scenario."
>
> — Marci Rossell,
> Former CNBC Chief Economist

Doug Duncan, Chief Economist at Fannie Mae, expressed a similar view on the future of the economy. Duncan shared his observations on slowing economic activity by pointing to nine of the 12 Federal Reserve Banks reporting flat or slowing growth, declining job openings, and declining construction spending. He did, however, note areas of strength in the economy, such as strong productivity numbers, strength in the service sector, and a steady trend of final sales to domestic purchasers.

Like Rossell, Duncan forecasts interest rate cuts this year; however, he cautioned that rate cuts may occur slowly and over a longer period of time than prior rate cuts. This is in part due to the persistence of core services inflation (e.g. shelter inflation). Despite his view on a slowing economy and interest rate cuts, Duncan suggested there will be continued upward pressure on inflation that the Federal Reserve will need to address. Lastly, he noted that we

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should not expect to see interest rates reach the previously historical low levels, as the era of negative or zero percent interest rates is over.

After the conference, the Federal Reserve cut rates by 50 basis points on September 18, 2024[2].

Outlook on US housing market

Duncan further discussed his perspectives on the US housing and mortgage markets within the current macroeconomic environment, advocating for a supply-side policy reset to combat both low levels of supply and affordability, which he anticipates extending into the foreseeable future.

The recent rising interest rates have left many borrowers with fixed-rate mortgages that are well below market rates. Duncan explained that the majority of existing mortgages are below four percent, which means borrowers are ‘locked in’ at these historically low rates with no incentive to give them up. This phenomenon has continued to cause low supply in the housing market, which in turn has added to affordability issues for buyers, even though home prices have started to decline.

While Duncan did indicate the new housing market is growing, only nine percent of new homes are considered starter homes. As a result, Duncan anticipates that the supply and affordability issues within the housing market will take time to resolve.

Performance trends for banks

Chris Mihok, Managing Director at Keefe, Bruyette & Woods, Inc. (KBW) explained what we can expect for bank performance, which includes low, single digit loan and deposit growth as well as increased pressure on net interest income as a result of competition and regulation. While Mihok believes the 2023 banking crisis is behind us, he expects the industry will continue to reshape itself with the upcoming changes in regulation and elections.

Mihok remarked that the slowdown of merger and acquisition (M&A) activity in the banking industry over the last couple of years is subsiding and believes M&A will be one avenue banks will look to for growth in the coming years. As banks continue to compete among themselves as well as with non-banks, he noted it will be crucial for them to find ways to drive earnings. Consolidation could be the solution to unlock earnings potential, drive cost savings and improve profitability. With expected increased M&A activity, he observed a common theme for recent M&A transactions has been to raise capital as a means to bolster regulatory approval. Mihok expects that most M&A activity will come from mid-size and large banks. He further forecasted that as banks continue to look for additional ways to improve margins, bank branch numbers will continue to decline as these banks shift to lower square footage models and more digital service offerings.

[2] For further economic insights and analysis, visit our KPMG Economics site.

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3 Guarding against complacency

For federal banking regulators, it is imperative that banks not only successfully manage traditional risks, such as credit, liquidity and interest rate risks, but also monitor and prepare for emerging risks. They are guarding against complacency. During the banking regulators' Chief Accountants panel, traditional risks came across in topics like the allowance for credit losses and accounting for investment securities, including transfers of securities. While the Chief Accountants didn't highlight any particular emerging risks, they did highlight new and emerging transactions, some with unique accounting, that have resulted in heightened supervisory focus.

Back to basics, a focus on traditional risks

Lara Lylozian, Chief Accountant of the Board of Governors of the Federal Reserve System (FRB), stated "we are back to talking about the allowance." The main topic of discussion within and among the banking regulators has been the appropriateness of the allowance estimate. While regulators appreciate the challenge in evaluating the appropriateness, questions persist both at banks and with examiners on how to get comfortable with the estimate.

Amanda Freedle, Chief Accountant of the Office of the Comptroller of the Currency (OCC), clarified that banks should not be relying on directional consistency when concluding on the appropriateness of the allowance estimate. Given all the inputs, assumptions and models that go into estimating current expected credit losses (CECL), it is difficult to pinpoint a particular change in the estimate to one particular item. Freedle encourages banks to continue coordination among credit and accounting functions and make sure that effective management review and challenge is taking place.

Shannon Beattie, Chief Accountant at the Federal Deposit Insurance Corporation (FDIC), discussed the deterioration observed in the credit metrics for commercial real estate (CRE) portfolios, particularly in office space. CRE is a focus area for the banking regulators, because as Lylozian highlighted, the credit risk "feels heightened in this space." OCC examiners are focusing on controls and processes over the CRE portfolio, including the credit risk review, risk rating assessments and allowance models.

Freedle shared observations from recent CECL exams and noted (1) that documentation around the CECL methodology could "be more robust" and (2) that there are concerns with the extent of documentation for qualitative factors. She is not surprised by these observations but does expect improvement. The Chief Accountants referenced the Interagency Policy Statement on Allowance for Credit Losses (Revised April 2023) as a good resource for the potential type of qualitative adjustments to consider, documentation reminders, and examples of examiner procedures that may be performed. In response to questions raised, Freedle clarified that the OCC has no central mandate to increase qualitative adjustments for institutions. Additionally, she mentioned that institutions with no qualitative reserves must properly document and support that determination.

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Pivoting away from the allowance for credit losses, the Chief Accountants also discussed observations on investment securities. Beattie highlighted questions on transfers between investment security categories, particularly from available-for-sale to held-to-maturity. She also mentioned the risk of tainting when transferring a security out of a held-to-maturity portfolio. While Beattie acknowledged that tainting of portfolios is not a pervasive matter, there is a regulatory focus on the appropriate use of the held-to-maturity classification and on the extent of documentation and support over transfers. She also raised observations on impairment of available-for-sale securities, in particular the judgments that go into management's intent to sell or requirement to sell before recovery. See KPMG Handbook, Investments, for further detail on the accounting for investment securities. Lylozian mentioned that management's intent to sell or requirement to sell was a "point of tension" when the FRB was looking at going concern analyses for institutions experiencing liquidity concerns.

Regulatory views on new and emerging transactions

As Freedle highlighted, economic uncertainty and market pressures have resulted in banks looking for different transactions to reduce balance sheet risk and increase earnings. Transactions such as securitizations, credit risk transfers, sale-leaseback transactions, and restructuring of bank owned life insurance (BOLI) are just some of the areas highlighted by the Chief Accountants. There is heightened regulatory focus on these types of transactions with Lylozian warning that in certain circumstances "if it sounds too good to be true, it most likely is."

Freedle further echoed the sentiment by highlighting that any particular transaction with Day-1 gains or that results in an immediate improvement in a bank's capital position is going to get a lot of scrutiny in its accounting treatment and from a safety and soundness perspective. It is critical that banks do their own due diligence with these transactions to ensure that the appropriate guardrails are in place from a risk management perspective and that the accounting is technically sound. Beattie also encouraged banks to have upfront discussions with their auditors and examiners before entering into these transactions.

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4 Observations from the SEC on consultations and disclosure

SEC staff from the Office of the Chief Accountant (OCA) and the Division of Corporation Finance (Corp Fin) discussed high quality financial reporting with a focus on accounting consultation trends and certain disclosures that are being closely monitored.

Consultation observations

Jonathan Wiggins, OCA Deputy Chief Accountant, and Gaurav Hiranandani, OCA Senior Associate Chief Accountant, indicated that one way they focus on high-quality financial reporting is to encourage stakeholder engagement through the SEC's consultations process. Wiggins noted that the collaborative nature of pre-filing consultations helps companies to find an answer upfront that accurately reflects economics and is consistent with US GAAP.

SAB 121

Paul Munter, OCA Chief Accountant, spoke about crypto-asset safeguarding arrangements and Staff Accounting Bulletin (SAB) No. 121,[3] which requires entities with safeguarding obligations to present a liability on their balance sheets along with a corresponding safeguarding asset. While Munter commented that the SEC staff views on SAB 121 remain unchanged, he outlined examples of consultations with bank holding companies, introducing brokers and dealers, and registrants with other uses of distributed ledger technology in which the SEC did not object to entities' conclusions that their arrangements to safeguard crypto assets were not within the scope of SAB 121.

Munter emphasized the importance of evaluating the specific facts and circumstances in each case and advised that these conclusions may not be the same for different fact patterns. His remarks, along with the facts and circumstances of his referenced examples, were published on the SEC's website and can be viewed here. He further noted OCA remains available for consultations with any entity who requests the staff's views on accounting conclusions.

Business combinations

OCA continues to see consultations on business combinations and divestitures under both US GAAP and IFRS® Accounting Standards, with a particular focus on identifying the accounting acquirer. The panelists set the stage by referencing guidance in Topic 805 (business combinations) that requires one of the entities in a business combination to be identified as the acquiring entity for accounting purposes, even though that entity might not be the legal acquirer. Identifying the accounting acquirer requires applying certain principles

[3] KPMG Hot Topic – SAB 121: Questions & Answers

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in Topic 810 (consolidations). Once identified, the accounting acquirer must (under Topic 805) apply the acquisition method of accounting, resulting in a fair value measurement of the acquiree's balance sheet.

Hiranandani noted that recent consultations from the banking sector have involved fact patterns in which applying Topic 810 does not clearly indicate the accounting acquirer. In such cases, entities must then consider factors outlined in Topic 805, which requires judgment because there is no hierarchy or specified weightings for these factors. The panelists underscored the complexities and importance of the accounting acquirer analysis and encouraged consultation with their office.

Areas of focus and best practices

Amit Pande, Corp Fin Branch Chief, and Stephanie Sullivan, Corp Fin Associate Chief Accountant, provided their views on areas of focus and best practices for certain disclosures.

Commercial real estate

Material concentration in CRE is an area of continued monitoring. Due to the economic uncertainty in this sector, there is investor attention around the aggregated levels of concentration, credit risk, and exposure. Pande noted how differences in the nature and quality of the collateral values of outstanding loans and differences in occupancy rates, among other factors, make for important differences between CRE properties and their riskiness. As noted, “CRE is not a monolith.” As a result, Corp Fin has requested expanded disclosures on the disaggregation of the CRE loan portfolio.

Pande shared views that the disaggregation of the CRE loan portfolio can include the composition of the loan portfolio by industry or borrower type, such as office, multifamily, owner occupied or non-owner occupied, geographic concentrations, and characteristics such as loan-to-value ratios and occupancy rates. He further stated that Corp Fin has asked for additional information and clarification of specific risk management policies, procedures and other actions taken by management in response to the current credit environment.

Bank appraisals

Sullivan highlighted that the staff is closely monitoring disclosures relating to appraisals made by banks with significant portfolios of CRE. There is particular focus on these types of disclosures for banks with increasing levels of substandard, non-accrual or criticized loans. Sullivan stated the staff may request detailed disclosures on the following items, in accordance with Corp Fin’s Disclosure Guidance: Topic No. 5 for banks with a significant portion of its portfolio in CRE loans:

- how and when third-party appraisals are obtained;
- the impact of appraisals on the amount and timing of charge-offs;
- the types of appraisals obtained;
- the procedures performed for the time between one appraisal and receiving updated appraisals to ensure appropriate measurement of loan impairments; and
- the reasons for not obtaining appraisals in a timely manner, if applicable.

Although not explicitly stated in Disclosure Guidance Topic No. 5, the staff may also inquire about the use of broker price opinions to estimate collateral values. Sullivan stated that she

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understood broker price opinions to not be as robust as regular appraisals because they do not require an in-person inspection.

Loan-to-value ratios

Corp Fin staff have observed disclosures of CRE loan-to-value (LTV) ratios are often based on appraisals at origination or on more current appraisals, but sometimes there is no description as to how the amounts are calculated. Given the current environment and potential for differences in valuations in different markets, Sullivan encouraged banks to clearly disclose how they are calculating LTV ratios by noting whether the LTV is at origination to avoid implications that the current market has been incorporated. Sullivan further stated one way for CRE portfolio disclosures to be clearer would be to provide separate LTV data indicating which LTVs are based on origination data and which ones are based on updated appraisal information.

Allowance for credit losses

Corp Fin has observed banks often provide an extensive list of qualitative factors relevant to their estimates. While many banks note that their qualitative component may be based on factors beyond those listed, they often do not quantify these factors. Consequently, disclosures typically do not provide a sense of the magnitude of the qualitative factors or how they change from period to period. Sullivan encouraged the audience to take a fresh look at the disclosures of the qualitative component and ask the following questions:

- Does the disclosure discuss the qualitative factors separately for each portfolio segment?
- Does the disclosure accurately reflect the qualitative factors that are being considered in the allowance for credit losses that period?
- Does the disclosure only outline the material factors considered by management during the period rather than include a number of factors that do not have an impact on the allowance during the period?
- Does the disclosure quantify or at least give a sense directionally of how the qualitative component has changed from period to period?
- If one of the qualitative factors drives a material change in allowance during the period, has that factor been disclosed?

During this session, Rachel Mincin, OCA Associate Chief Accountant, emphasized the importance of management's procedural discipline in evaluating credit losses, including qualitative components, in order to provide transparency to investors for changes in expected credit losses that are consistent with US GAAP. She also referenced the framework provided by Staff Accounting Bulletin 119 in developing, maintaining, and documenting a systematic methodology and results of that systematic methodology.

Earnings presentations vs periodic filings

Sullivan outlined detailed information included in earnings presentations and challenged the audience to consider whether the information in earnings presentations should also be included in Form 10-Q or 10-K filings. The level of detail in the presentations does not need to be replicated exactly, but the informational content should be considered for inclusion. She further noted that if a Form explicitly requires a particular disclosure, then an entity must make that disclosure even if the information was already included in the earnings release.

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Weighted-average yield of securities portfolios

Sullivan commented that Corp Fin staff have observed variations in the calculation of weighted average yield among banks. Factors contributing to this variation may include whether the yield is calculated:

- based on the amortized cost or fair value of the security;
- based on yield to maturity or current yield;
- using a pre-tax basis;
- including or excluding hedging effects; or
- including or excluding amortization of premiums or accretion of discounts.

She noted this variation is driven by some banks providing very little detail in the disclosures. In these instances, she encouraged including a detailed explanation of how the weighted average yield is calculated.

Market risk disclosures

Sullivan shared views that the best practices for market risk disclosures are to include detailed information about the inputs and assumptions. She noted banks are highlighting what inputs and assumptions are used but they are not stating the exact details of those inputs or assumptions. She gave the example of a bank disclosing deposit beta as an assumption, but not disclosing the actual deposit beta even though it would be helpful for purposes of the analysis.

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5 FASB standard-setting: 2024 and beyond

The FASB panel covered a range of topics related to the FASB's technical and research agenda projects impacting the banking industry, including future priorities and upcoming changes in accounting standards. The panelists were Fred Cannon, FASB Board Member, Jackson Day, FASB Technical Director, and Rosemarie Sangiuolo, FASB Senior Advisor.

Standard setting update

The panel began its discussion this year similar to 2023 by reviewing the status and activities resulting from the post-implementation review (PIR) process for CECL. As part of the feedback from the CECL PIR, investors noted the current model for purchased credit deteriorated assets was unnecessarily complex and that a single accounting model would result in more decision useful information. As a result, the FASB added a project to its technical agenda and released the Proposed ASU on Purchased Financial Assets[4] (PFA) in June 2023.

The Board noted that the 'more-than-insignificant deterioration of credit' threshold that they initially had in mind under the original ASU was leading to inconsistencies being observed in practice as "some stakeholders were finding it difficult to understand the criteria for delineating between PCD [purchase credit deteriorated] and non-PCD assets" at the time of acquisition.

As a result, the proposed ASU would change the accounting for PFA, eliminating the distinction between PCD assets and non-PCD assets by implementing the following updates:

- expanding the scope of acquired financial assets that would be subject to the PFA model (i.e. the gross-up method), which would largely eliminate the need for an acquirer to make the judgmental assessment of whether a purchased asset has experienced such credit deterioration;
- eliminating the Day-1 credit loss expense for an acquired financial asset that would be subject to the PFA model (a Day-1 allowance for credit losses would still be estimated in order to establish the cost basis in the gross-up method);
- reducing interest income recognized in subsequent accounting periods because non-PCD accounting results in the entire purchase discount or premium being accreted into interest income – which is being viewed as combining yield and credit expense; and
- eliminating the use of the gross-up method for AFS debt securities.

The proposed update would apply to 'seasoned' financial assets – i.e., those that are either (1) acquired as part of a business combination under Topic 805 or (2) acquired more than 90 days after origination if the acquirer was not involved in the origination. If these seasoning

[4] KPMG Defining Issues – FASB issues proposal for purchased financial assets

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criteria are not met, the financial asset would be considered an originated financial asset and recognized upon acquisition in a manner consistent with originated financial assets in accordance with Topic 326-20-30-1 through 30-10 and 326-20-30-12.

The proposal continues to receive varying levels of support throughout the industry. Preparers are focused on possible scope exceptions or practical expedients to address the operational complexities of applying the PFA gross-up approach to credit cards and other revolving credit arrangements. In contrast, banking regulators continue to believe it is too soon for material changes to the CECL standard.

In his remarks, Cannon highlighted that the "proposed retrospective transition was universally panned" and that the Board would need to look at potential adjustments to the transition guidance in future iterations of the proposal. The FASB staff is drafting a scoping memo to take to the Board, as the FASB continues to redeliberate the proposed ASU.

The FASB speakers highlighted other projects pertinent to financial institutions that will be finalized in both the near-term and future:

Arriving in 2024

Topic	Highlights
Derivative Scope Refinements[5]	• The purpose of the project is to refine the scope of Topic 815 through the expansion of derivative scope exceptions. • The proposed ASU would exclude from derivative accounting certain contracts that are not exchange traded with underlyings that are based on operations or activities of one of the parties to the contract (e.g. greenhouse gas emission reduction targets, litigation, or research and development funding arrangements, etc.). • The update also considers the interaction between Topic 815 and Topic 606 related to certain revenue arrangements involving noncash consideration. • The comment period on the proposed ASU ends on October 21, 2024.
Topic 815 – Hedge Accounting Improvements	• The purpose of the project is to make targeted improvements to the hedge accounting guidance based on issues raised by stakeholders. • The fixes focus on four issues identified with ASU 2017-12 and two additional issues identified as a result of cessation of the London Interbank Offered Rate. • The six discrete issues include: changes in hedged risk, shared risk assessment in cash flow hedges, net written options as hedging instruments, cash flow hedges of nonfinancial forecasted transactions, dual hedges, and use of the term prepayable under the shortcut method. • While these narrow improvements to hedge accounting are focused on reducing unintuitive accounting outcomes,

[5] KPMG Defining Issues – FASB proposes changes to scope of derivative accounting

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Topic	Highlights
	Cannon acknowledged the difficulties that mid-size and smaller banks have in achieving hedge accounting. • Cannon also mentioned that a potential question for the FASB Board on a go forward basis is whether they "should begin to think about broader solutions" around the hedge accounting framework. He encouraged institutions to provide feedback through the agenda consultation process. • The proposed ASU is expected to be issued in Q3 2024.
Accounting for and Disclosure of Software Costs[6]	• The purpose of this project is to modernize the accounting for software costs and enhance transparency about an entity's software costs. • The outdated stage-based development model would be eliminated to better align with modern agile practices and would be replaced with a model in which entities evaluate the 'probable to complete' recognition threshold and consider significant development uncertainties and performance requirements in their evaluation. • Cash paid for capitalized internal-use software will be presented as a separate investing cash flow to enhance transparency. • The proposed ASU is expected to be issued in Q3 2024.
Accounting for Government Grants[7]	• The purpose of this project is to create recognition, measurement and presentation requirements for business entities that receive government grants. • The Board decided to leverage the accounting framework in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, with targeted improvements to the existing guidance. • The proposed ASU is expected to be issued in Q3 2024.

On the horizon – Statement of Cash Flows

While the statement of cash flows is a fundamental component of financial reporting and provides insights into a company, the FASB highlights in their project summary that "[m]any preparers and investors have stated that the differences between classification requirements and the underlying purpose result in a statement that is not decision useful."

This issue dates back to the drafting of the original standard when banks and other financial institutions voiced concerns that the standard would not work well for them. However, for the sake of consistency across all industries, the standard was implemented uniformly.

[6] KPMG Defining Issues – FASB to issue proposed ASU on software cost accounting

[7] KPMG Defining Issues – FASB project on government grants

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> "…[I]s there a way to reorganize the statement of cash flows, particularly for depository institutions, that would make it useful? You know, it's certainly ironic that a statement of cash flows isn't meaningful for the businesses whose business is cash."
>
> – Fred Cannon, FASB Board Member

The FASB's project looks to consider targeted updates to the statement of cash flows with potential improvements including (1) reorganizing and disaggregating the statement of cash flows for financial institutions with possible revised definitions of *investing* and *financing* activities and (2) developing a disclosure model that better aligns the cash flow statement with the income statement for financial institutions.

The potential benefits are focused on a clearer view of cash flows and earnings quality, improved liquidity analysis, and the disclosure of cash interest received that would provide a clearer picture of how much of a company's income is derived from financing activities.

The Board is still in the exploratory phase, examining various options and seeking input from stakeholders. Institutions and their representatives are encouraged to provide feedback on how to make the statement of cash flows more useful. The goal is not to eliminate the statement but to enhance it, ensuring it meets the needs of both preparers and users of financial statements.

2024 Agenda Consultation

The FASB uses its research agenda to gather preliminary information and conduct outreach on various topics before presenting them to the Board. This process helps the staff to better inform the Board about specific issues and define the scope of potential future projects.

The FASB notes that stakeholders play a crucial role in shaping its research and agenda-setting process. By engaging with the Board and submitting well-documented requests, stakeholders can help address pertinent accounting issues and contribute to the development of meaningful standards.

The 2024 agenda consultation is approaching this winter, with an Invitation to Comment expected to be issued for public comment. Through this process, stakeholders will have the opportunity to influence the FASB's priorities for 2025 and beyond.

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6 The modernization of the banking industry

The rapid advancement of technology was the underlying theme in this year's conference, with discussions on tech woven throughout almost every session. Starting with the opening session, Barry Melancon, AICPA & CIMA President and CEO, emphasized that accelerated digital transformation and AI are the top concerns for finance and accounting firms – moving up the list from 2023. Some on the Community Bank CFOs panel shared that technology modernization is what keeps them up at night. Michael Harper, Managing Director at KPMG LLP, said "it feels like GenAI has changed more in the last 12 months than in the last 12 years." While many perspectives were shared among speakers at the conference, one thing is clear – the pace of change is only accelerating, and the modernization of the banking industry is upon us.

Lamont Black, Ph.D. and Associate Professor of Finance at DePaul University, discussed the transformative impact and vast potential of emerging technologies in the financial sector. He explained that the release of ChatGPT in November 2022 was "a tipping point", and now "large language models and GenAI are household words."

> "The world is changing. The financial market is changing, and it can start to get scary from a disruption perspective…I'm not telling you you have to change your mission or your vision, but if you don't take a hard look at your business model, and how you execute on that mission and vision, you could become the Blockbuster of tomorrow."
>
> — Lamont Black, Ph.D.
> Associate Professor of Finance | DePaul University

Black cautioned companies that they cannot get stuck on the question of whether AI is a good thing or a bad thing; instead, they need to talk about adoption to avoid becoming yesterday's news. He recommended that instead of focusing on how to apply AI generally, start narrowly with specific use cases, such as a 'knowledge base assistant' for employees.

Additional potential AI use cases

Harper and Himanshu Arora, Chief Operating Officer at Rhino.ai, shared other practical use cases for GenAI, such as leveraging it in application modernization to reduce time and human effort as well as to analyze large data sets and keep up to date with changing regulatory compliance requirements (or other research type activities) as less invasive and risky use cases.

Ultimately, Black believes that AI has the ability to "empower employees to work smarter" and "empower customers to live better" by working toward use cases that can result in improved productivity by employees and personalized customer experiences.

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Smaller and mid-size banks can benefit too

Black warned smaller companies about hesitating to jump in, thinking they do not have the budget or the technical knowledge. AI “levels the playing field” because these tools can be picked up and used across the organization cost effectively. Banks need to think about “how do we become more productive with less resources.”

Speakers on the mid-size bank Chief Accounting Officer panel shared that emerging technologies are being used, or starting to be used, in the front office, but not necessarily yet in the accounting or finance functions, as those functions want to ensure their data is complete, accurate and consumable by AI.

Some cautionary words

While there is great opportunity with emerging technologies, multiple speakers warned that companies need to balance the opportunities with the risks, such as cybersecurity threats, privacy and security, biased results and hallucinations (or wrong answers), and to ensure they have the right governance structures in place.

AI’s potential macroeconomic effect

Marci Rossell remarked that AI and machine learning have the potential to solve a major glaring headwind for many economies around the world – demographic changes, or the shrinking workforce due to an aging population. She expressed that AI has the potential to reshape traditional industries and the labor markets. Rossell showed an overall optimism about the potential for AI to address the risk within certain industries that are historically very labor intensive (e.g. legal, accounting and consulting professions). Rossell continued to explain that she believes the use of AI could raise wages and improve job quality, especially for lower-skilled workers, rather than replace the current workforce.

Final thoughts

Harper said about a recent survey on GenAI (KPMG LLP, GenAI Pulse Survey (March 2024)), “97% of business leaders are investing in GenAI over the next year.” See additional details on AI in financial reporting and audit, in a recent KPMG survey. While the possibilities on the AI journey are endless, the modernization of the banking era is here to stay.

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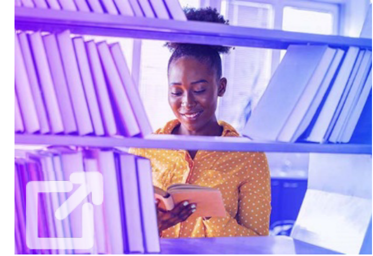

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Acknowledgments

This Issues & Trends is a publication of the Department of Professional Practice of KPMG LLP in the United States.

We would like to acknowledge the efforts of the main contributors to this publication.

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