



Banks & Savings Institutions

Issues & Trends

Regulators and standard-setters participating in the 2025 AICPA & CIMA Conference on Banks & Savings Institutions explained their shifting priorities and how they are responding to evolving issues and opportunities in the banking industry.

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Conference highlights

As the banking industry gathered for the 2025 AICPA & CIMA Conference on Banks & Savings Institutions, the atmosphere was one of transition and innovation. Conference participants heard from the major federal agencies and standard-setters that are significant to the banking sector. Representatives from these organizations candidly discussed the evolving priorities of their organizations and the regulatory changes on the horizon.

The key takeaways from these discussions were quite clear: industry voices matter and changes in both leadership and regulatory priorities are prevalent. Regulators and standard-setters rely heavily on the industry to understand evolving issues and the challenges those issues pose to preparers. For example, banking industry respondents to the FASB's recent Agenda Consultation Invitation to Comment clearly communicated the type of accounting guidance the industry would find most useful. Another example is working through difficult accounting and reporting issues with the SEC's Office of the Chief Accountant on a case-by-case basis. On the topic of change, all regulatory bodies have experienced changes in leadership given the change in administration. These leadership changes have also led to shifts in regulatory priorities.

The discussions gave Conference participants an inside look at each agency and stand-setter, which are described in this publication in further detail. Here are the highlights of what is happening at each organization.

Federal Reserve Board of Governors (the Fed)

The Fed's Chief Accountant structured her remarks around a recent speech by Governor Bowman that outlined four pillars guiding the Fed's regulatory focus: enhancing supervision, reforming the capital framework, reviewing regulatory and information collection practices, and making bank applications more transparent. These objectives are not only shaping the Fed's agenda but are also fostering alignment across the regulatory landscape, as remarks by other regulators showed.

Federal Deposit Insurance Corporation (FDIC)

The FDIC's Chief Accountant discussed the FDIC's proposal to modernize regulatory thresholds, with the aim of reducing burdens on smaller institutions and better reflecting industry growth. The proposal includes raising audit and ICFR thresholds, adjusting audit committee requirements and introducing inflation-based indexing.

Office of the Comptroller of the Currency (OCC)

The OCC Comptroller and Chief Accountant spoke on different panels during the Conference. The Comptroller fashioned his remarks in terms of creating regulatory frameworks based on tailored supervision rather than strict constraints. He specifically promoted the concept of recalibrating risk tolerance, especially for community banks. Further, he commented on debanking and fair access, steps to prohibit reputational risk in evaluations and reforms to compliance practices.

Innovation was the main theme in the OCC Chief Accountant's presentation. In particular, she spoke about how the OCC is embracing digital assets and stablecoins. The passage of the GENIUS Act has expanded the OCC's authority in this area, and the agency is actively processing licensing applications for digital asset activities, emphasizing the importance of interagency collaboration.

Securities and Exchange Commission (SEC)

The SEC Chief Accountant, staff from the Office of the Chief Accountant (OCA) and staff from the Division of Corporation Finance (Corp Fin) all participated in the Conference. Primary among the SEC's regulatory priorities, according to the SEC Chief Accountant, is simplifying disclosures. He challenged the banking industry to consider whether current financial statements and reports truly serve users, advocating for more readable and understandable disclosures. Other regulatory priorities he spoke of included issuing guidance on crypto assets, revisiting filer status definitions and streamlining shelf registration.

OCA is actively addressing regulatory and accounting issues around crypto and other digital assets by working closely with the FASB to ensure standards keep pace with market innovation, tracking legislative developments and consulting with companies on novel transactions. The classification of stablecoins as cash equivalents is one example of the accounting issues OCA is tracking.

The prevailing theme during the Corp Fin panel was the need for more robust disclosures in several areas – loan disclosures and credit quality, FinTech arrangements, nonaccrual and charge-off policies, and collateral dependent assets.

Financial Accounting Standards Board (FASB)

FASB leaders noted the positive impact that stakeholder feedback has had in shaping the FASB's technical agenda, which has become very responsive to evolving market trends. They specifically discussed the projects on the FASB's technical agenda of most interest to banks and savings institutions – purchased financial assets, derivative scope refinements, hedge accounting improvements, government grants, environmental credit programs and targeted improvements to the statement of cash flows. They also shared some of the topics on the FASB's research agenda pertinent to the audience – hedge accounting, digital assets and commodities.

Public Company Accounting Oversight Board (PCAOB)

The PCAOB's panel highlighted ongoing efforts to modernize audit standards, with the revised confirmation standard and technology amendments clarifying the use of data analytics. The PCAOB's Chief Auditor also noted how the delay of QC 1000 gives audit firms more time to align quality control systems with new requirements. Panelists also gave an overview of inspection findings from 2024, revealing common deficiencies in areas such as revenue, inventory, long-lived assets, ICFR testing and the use of specialists. For 2025, inspection priorities remain focused on economic risks, fraud, complex estimates, real estate exposure and the use of technology and AI in audits.

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Federal banking regulators look toward the future

The Conference's federal banking regulators panel featured the Chief Accountants from the Fed, FDIC and OCC. Each offered a candid look into their evolving priorities and proposed regulatory changes affecting the banking sector in 2025 and beyond. This year's session was marked by proposed regulatory reforms and a renewed focus on innovation.

Four pillars of regulatory focus at the Fed

Laura Lylozian, Chief Accountant at the Fed, highlighted a recent [speech](#) that Governor Bowman gave this summer where she outlined four key objectives that are shaping the Fed's regulatory agenda.

- *Enhancing supervision:* The Fed aims to make supervision more effective and efficient by focusing on material financial risks and encouraging prompt action to mitigate threats to safety and soundness.
- *Capital framework reform:* A holistic review of the regulatory capital framework is underway, including Basel III endgame, stress testing and leverage requirements. The Fed's recent capital conference signaled a commitment to transparency and expert engagement.
- *Regulatory and information collection review:* Efforts are ongoing to ensure that regulations and information collections remain viable and relevant, with a strong interagency component.
- *Transparent bank applications:* The Fed is evaluating how to make the bank applications process more predictable and fair, recognizing the intersection of accounting and regulatory priorities.

FDIC's regulatory thresholds proposal

A major topic of discussion was the FDIC's [proposal](#) to update regulatory thresholds in Part 363.3 of the FDIC regulations, which governs annual independent audit and reporting requirements. Among other things, the proposal would:

- raise the audit requirement threshold from \$500 million to \$1 billion in consolidated assets;
- increase the internal control over financial reporting (ICFR) threshold from \$1 billion to \$5 billion;
- adjust audit committee asset thresholds; and
- introduce an indexing methodology to update thresholds biennially based on inflation.

Federal banking regulators look toward the future

The FDIC's Bryan Jonasson, Acting Chief Accountant, noted these changes aim to modernize regulations, reduce burdens on smaller institutions, and better reflect industry growth since the original thresholds were established.

Renewed focus on innovation at the OCC

The OCC is embracing innovation, with digital assets and stablecoins at the forefront. The passage of the [GENIUS Act](#) expanded the OCC's authority to regulate, license and supervise certain non-bank payment stablecoin issuers. The OCC's Amanda Freedle, Deputy Comptroller and Chief Accountant, noted ongoing efforts to process licensing applications for digital asset activities and the importance of interagency collaboration.

Accounting topics

The panel addressed several accounting issues frequently encountered by examiners and bank management.

Pushdown accounting: As merger and acquisition activity increases, questions about applying pushdown accounting remain common. The panel stressed the importance of involving accountants early in deal processes to ensure strategic alignment.

Fair value of mortgage servicing rights: Examiners are focusing on assumptions, market inputs and documentation transparency in fair value calculations.

Nonaccrual status: The panel clarified requirements for placing assets on nonaccrual status and returning them to accrual status, emphasizing the rules and guidance that are outlined within the call report instructions. The panel also highlighted the numerous examples available in the OCC's [Bank Accounting Advisory Series](#), encouraging entities to consult these resources for practical guidance on nonaccrual status and related scenarios.

CECL – A matured process: Nearly a decade since its introduction, the Current Expected Credit Loss (CECL) standard has become well-integrated into industry practice. The panelists noted a decline in accounting questions related to CECL, attributing this to increased familiarity and robust methodologies developed during periods of economic uncertainty, such as the pandemic and banking sector stresses. Documentation of allowance methodologies remains critical, especially during uncertain times. The panel encouraged thorough documentation of inputs, assumptions, governance processes and changes over time to facilitate understanding by external auditors and regulators.

Looking ahead: Regulatory reviews and industry engagement

The agencies are actively seeking feedback from industry stakeholders through surveys, outreach events and comment letters. Key initiatives include:

- the quinquennial review of call report data to identify outdated or burdensome requirements; and
- the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) process, which mandates a decennial review of regulations to identify and eliminate outdated, unnecessary or overly burdensome requirements for insured depository institutions and their holding companies.

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OCC Comptroller Gould's vision for a dynamic and resilient banking system

The regulatory update session led by Jonathan Gould, the Comptroller of the Currency, delivered a candid and forward-looking assessment of the US banking system's regulatory landscape. Drawing on decades of experience in both the private and public sectors, Comptroller Gould outlined his priorities for the Office of the Comptroller of the Currency (OCC), emphasizing the need for recalibrated risk tolerance and regulatory innovation.

Recalibrating risk tolerance

A central theme of the speech was the assertion that risk tolerance in the banking system has been set "way too low for far too long." Gould argued that banks are fundamentally in the business of taking and managing risks but supervision and regulation has been overly cautious since the 2008 financial crisis. This, he contends, has rendered banks less relevant as financial intermediaries, with talent and business lines migrating to the broader financial services sector. Gould called for a reexamination of regulatory frameworks to ensure banks can fulfill their purpose without undue constraints.

Notably, Gould advocated for a lower risk tolerance at the largest banks, given their systemic footprint, while allowing more flexibility for community banks.

Regulatory and supervisory priorities

On the regulatory front, Gould emphasized ongoing work on capital and liquidity requirements, including collaboration with other federal agencies on reforms such as Basel III and the Community Bank Leverage Ratio (CBLR). He advocated for a holistic reassessment of post-2008 requirements, such as recovery planning and heightened standards, to ensure they support banks' business-as-usual activities rather than simply preparing for failure.

Supervision, Gould asserted, should be tailored to the risk profiles and asset sizes of banks. He announced relief measures for community banks, questioning the necessity of subjecting them to extensive examinations on issues like fair lending and the Community Reinvestment Act. Gould's approach is risk-based, aiming to eliminate supervisory burdens that do not materially affect financial stability.

Debanking and fair access

Gould discussed the contentious issue of debanking, particularly as it relates to crypto customers and other legal businesses. He announced steps to prohibit the consideration of reputational risk in OCC evaluations and to reform BSA/AML compliance practices. The

agency is also enhancing transparency and accountability through amendments to its licensing framework and consumer complaint mechanisms.

Embracing innovation

Turning to innovation, Gould acknowledged that regulatory uncertainty can be a barrier for banks and FinTech companies. His vision is to provide multiple paths forward, enabling banks to choose models that best ensure their viability and relevance. Rather than focusing solely on the risks of new technologies like AI, digital assets and stablecoins, Gould urged regulators to work with banks to develop safe and sound approaches to innovation. The OCC, under his leadership, will emphasize optionality and guidance, helping banks navigate emerging opportunities without prescribing a single path.

A “blast from the past”: OCC's return to currency stability

In closing his remarks, Gould delivered a powerful analogy describing the OCC's current regulatory moment as a “blast from the past.” He reflected on the agency's origins in the 1860s, when its primary mission was to ensure that the various notes issued by banks had consistent value – a foundational role in stabilizing the nation's currency. Today, with the emergence of stablecoins and new forms of digital assets, Gould sees the OCC returning to its roots as a gatekeeper of currency stability. The agency's new authority over certain stablecoin issuers puts it “back in the currency game,” echoing the OCC's original purpose and underscoring the enduring importance of regulatory oversight in maintaining trust and consistency in the financial system.

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SEC Chief Accountant plans to reshape regulatory priorities

SEC Chief Accountant Kurt Hohl discussed the SEC's vision of fostering innovation and simplifying disclosures, regulatory priorities (including efforts regarding crypto), technology, AI and the changing role of accountants, views on climate and international standards, and involvement with standard-setters and preparers.

SEC's vision: Fostering innovation and simplifying disclosures

Hohl opened the session by emphasizing the SEC's commitment to fostering innovation in the capital markets. He noted the increase of private equity displacing public market participation and highlighted the need to reverse this trend by making public markets more attractive.

A major SEC focus will be on simplifying the vast amount of information available to investors. Hohl candidly asked whether financial statement users really read the 10-K, proxy materials, and quarterly reports each period. The SEC aims to make disclosures more readable and understandable, balancing the need for transparency with the cost and complexity of compliance. Hohl called these efforts "rationalization of disclosure practices."

Regulatory priorities

Hohl previewed several other areas of regulatory focus, all aimed at growing and strengthening the US capital markets.

- *Crypto assets*: Guidance is forthcoming on crypto assets and related issues.
- *Filer status*: The SEC will revisit the definitions and requirements for large-accelerated filers, accelerated filers, and non-accelerated filers (inclusive of smaller reporting companies).
- *Shelf registration*: Efforts are underway to make capital more accessible, streamlining the process for companies to enter the market.

Digital assets and crypto – Regulatory clarity and accounting standards

Guarav Hiranandani, Senior Associate Chief Accountant, addressed the Office of the Chief Accountant's (OCA's) approach to digital assets and cryptocurrency, a topic of growing importance. OCA's mission is to ensure that accounting standards keep pace with market innovation, particularly in the rapidly evolving crypto space. To this end, OCA is focusing on three pillars.

Observations from the SEC on consultations and disclosure

- *FASB oversight*: OCA works closely with the FASB to ensure standards are fit for purpose and provide sufficient guidance for crypto activities.
- *Tracking legislative developments*: OCA monitors both state and federal legislation, such as the [GENIUS Act](#), which affects the accounting treatment of stablecoins and other digital assets.
- *Consultation process*: OCA regularly consults with companies on specific fact patterns, helping interpret GAAP and providing clarity on novel transactions. OCA supports the FASB's research into accounting for stablecoins and crypto asset lending and is considering whether crypto-focused auditing standards are needed.

Technology, AI and the changing role of accountants

Hohl and Hiranandani discussed the rapid evolution of the accounting profession due to AI, offshoring and advanced technology. AI is affecting financial reporting, audit committee oversight and audit evidence gathering. The SEC is also exploring how AI can improve its regulatory processes.

Climate and international standards

The SEC is closely monitoring developments in climate-related disclosures and international standards (IASB and ISSB) and evaluating considerations around foreign private issuers' use of IFRS® Accounting Standards without reconciliation to US GAAP.

OCA's involvement with standard-setters and preparers

PCAOB oversight and audit quality

Hohl underscored the SEC's oversight of the PCAOB. Because audit quality is a cornerstone of capital markets, the SEC is encouraging the PCAOB to review and update standards to ensure they remain relevant and effective, with a particular focus on quality control and stakeholder engagement. Hohl also highlighted the importance of international convergence in standards to reduce complexity and risk for global audits.

FASB engagement and standard-setting

OCA is actively engaged with the FASB, emphasizing the need for balanced stakeholder input from preparers, auditors and investors. Timeliness and transparency in standard-setting are a key focus. Stakeholder feedback should be specific about costs – whether one-time, ongoing or systems-related – to help the FASB evaluate costs versus benefits effectively.

OCA consultation process: A resource for the market

OCA's pre-filing consultation process is a valuable resource for registrants, auditors and industry groups. Consultations help clarify accounting for novel transactions, such as FinTech arrangements. Each consultation is fact-specific, and guidance is not one-size-fits-all.



SEC Corp Fin and OCA round-up

The SEC continues to evolve in response to market changes, regulatory challenges and emerging risks. During the Conference, senior staff from the SEC's Division of Corporation Finance (Corp Fin) and the Office of the Chief Accountant (OCA) shared valuable insights on disclosure trends, FinTech complexities and crypto asset accounting.

Disclosure trends and Corp Fin focus areas

Loan disclosures and credit quality

Robert Klein, Branch Chief – Division of Corporation Finance, Office of Finance, highlighted that loan portfolio disclosures remain a focal point for SEC staff. Companies are expected to provide detailed, disaggregated information about material concentrations, collateral quality, underwriting standards and ongoing credit risk assessments. Both quantitative and qualitative disclosures are emphasized, particularly regarding loan maturities and repricing risks.

Credit quality trends, including movements in the allowance for credit losses, are scrutinized under Reg S-K Item 1405. While not a frequent source of comment, Klein noted that the SEC has sought expanded explanations for changes in key ratios and components, especially when material shifts occur from period to period.

FinTech arrangements: Complexity and restatements

Stephanie Sullivan, Associate Chief Accountant, discussed FinTech lending arrangements, which have emerged as the leading cause of restatements among banks. The diversity and complexity of these arrangements – spanning lending, deposit-taking, and credit card programs – pose significant accounting challenges. Sullivan observed that many banks initially provided limited disclosure about key terms, credit enhancements and loan volumes associated with FinTech programs. Restatements have prompted more robust disclosures, including enhanced accounting policies, critical estimates and identification of material weaknesses.

Sullivan urged banks to maintain effective internal controls and regularly review their accounting policies, especially as they explore new opportunities in digital assets and stablecoins. Detailed disclosures about the nature of FinTech arrangements, risk factors and credit quality indicators are essential for transparency and investor understanding.

Nonaccrual and charge-off policies

Sullivan also addressed the importance of clear, prescriptive disclosures regarding nonaccrual policies, particularly for commercial loans. Best practices include specifying the factors and ratios used to determine nonaccrual status and disclosing the percentage of nonaccrual loans that remain current on interest or principal. Similarly, charge-off policies

should go beyond generic statements, providing insight into how and when loans are deemed uncollectible and the relationship between nonaccrual status and charge-offs.

Collateral dependent financial assets

Sullivan discussed ASC 326-20-35-5, which allows collateral dependent financial assets to be measured at fair value when the borrower is experiencing financial difficulty. She encouraged banks to disclose the specific indicators and factors used in this assessment, moving beyond boilerplate language to provide meaningful insight into management's judgments.

Corp Fin guidance and resources

Klein and Sullivan reminded attendees that the SEC has updated its Financial Reporting Manual to reflect recent rulemakings, making it a valuable resource for practitioners. Compliance and Disclosure Interpretations (C&DIs) have also been consolidated and are now searchable by keyword. For those navigating the rapidly evolving crypto asset landscape, Corp Fin's website features a dedicated section with statements and guidance, particularly on stablecoins.

OCA updates

Crypto assets and stablecoins: Accounting challenges

Rachel Mincin, Associate Chief Accountant, addressed several emerging issues in crypto accounting, including the classification of stablecoins as cash or cash equivalents. The determination hinges on contractual rights, regulatory status of the issuer, and liquidity (including considerations as to whether the stablecoin is readily convertible to cash). While the SEC has not objected to stablecoins being excluded from cash classification, it has allowed cash equivalent treatment if certain criteria are met. Mincin indicated that this was an example of an area that would be helpful to be addressed through standard-setting.

Other topics included the accounting for lending stablecoins, the treatment of intangible crypto assets and the recognition of issuer reserve assets. Mincin stressed the importance of clear disclosure and encouraged banks to consult with OCA staff on these evolving issues.

Qualitative components and earnings release disclosures

Sullivan reminded banks to provide detailed disclosures about the qualitative components of the allowance for credit losses, avoiding generic boilerplate language. She also clarified that not all information presented in earnings releases must be included in 10-K or 10-Q filings unless required by form or deemed material.

OCA staffing and consultation process

Mincin noted significant staff turnover in OCA, but reaffirmed the office's commitment to its mission. She also said the Professional Accounting Fellows program remains a vital pipeline for diverse perspectives.

Lastly, she emphasized OCA's openness to consultations, particularly in areas where accounting uncertainty could hinder business decisions. She encouraged practitioners to reach out with questions and fact patterns, especially as new issues arise in FinTech and crypto.

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FASB technical agenda and forward-looking projects

The FASB continues to play a pivotal role in shaping the future of financial reporting, with a robust technical agenda and a commitment to stakeholder engagement. FASB leaders provided a comprehensive overview of the feedback received from the industry for their next technical agenda, the current technical agenda projects, and the strategic direction for upcoming standards. The panelists were Fred Cannon, FASB Board Member, Rosemarie Sangiuolo, FASB Deputy Technical Director, and Erin Cahill, Supervising Project Manager.

Stakeholder feedback and agenda consultation

FASB leaders highlighted that the Board's technical agenda is dynamic, informed by ongoing consultation and feedback from stakeholders. The 2025 Invitation to Comment (ITC) on agenda items has been instrumental in shaping future priorities, with input from investors, practitioners, preparers, academics and trade groups.

For the banking industry, three top priorities emerged.

- *Risk management and hedging:* Respondents cited challenges in applying current guidance, with calls for improvements to better reflect actual risk management activities.
- *Transfers and servicing of financial assets:* Respondents noted a lack of clarity in Topic 860, leading to operational difficulties and diversity in practice, especially regarding participating interests and securities lending with noncash collateral.
- *Accounting for commodities:* There was strong support for expanding the fair value option for financial institutions holding physical commodities for trading purposes.

A recurring theme in the discussion was the need for improved – not necessarily increased – disclosure. The FASB recognized that financial institutions already provide extensive disclosures, and future changes should focus on enhancing relevance and reducing unnecessary complexity.

Major projects on the technical agenda

The FASB's current technical agenda comprises six active projects relevant to the banking industry. These projects span a range of topics, from purchased financial assets to hedge accounting improvements, with most expected to culminate in final standards by the end of the year.

Purchased financial assets

The Board recently completed deliberations on the purchased financial assets project. Initial proposals to apply a single model to all purchased financial assets received mixed feedback, leading the Board to narrow the project's scope. The final standard will focus on purchased non-PCD loans (excluding credit cards), retaining current PCD accounting and introducing

FASB technical agenda and forward-looking projects

seasoning criteria on non-PCD loans for the gross-up approach. The amendments will be applied prospectively for annual periods beginning after December 15, 2026. Early adoption will be permitted in any reporting period for which financial statements have not yet been issued. Further, there will be two options for adopting in an interim period: (1) adopt as of the beginning of the interim period, or (2) adopt as of the beginning of the annual period that includes the interim period.

Derivative scope refinements

This project addresses the broad definition of derivatives in Topic 815, which sometimes leads to non-intuitive outcomes. The Board decided to add a scope exception for non-exchange traded contracts based on operations or activities of one of the parties to the contract, such as ESG-related features in loans and bonds. The transition will be prospective, with an option for modified retrospective application, and the effective date is set for annual periods beginning after December 15, 2026. Early adoption will be permitted; if adopted in an interim period, the entity must apply the standard as of the beginning of the annual period that includes the interim period. [Note, since the Conference, the FASB has released ASU 2025-07, finalizing this project.]

Hedge accounting improvements

FASB leaders addressed several discrete issues in hedge accounting, including portfolio cash flow hedges and the net written option test. Amendments will allow pooling of similar risks in portfolio hedges but require full de-designation if a risk becomes dissimilar. The net written option test will be relaxed for certain hedging instruments to address mechanical issues post-rate reform. The transition will be prospective, with effective dates similar to the other projects referenced above.

Accounting for government grants

COVID-19 highlighted the lack of US GAAP guidance on government grants, leading to diversity in practice. The FASB's new standard will leverage the IAS 20 model, with targeted changes to scope and recognition. Grants will be defined as transfers of monetary or tangible nonmonetary assets from governments to business entities, including forgivable loans. The implementation period will be lengthy, with adoption dates in 2029 for public business entities and 2030 for others, with early adoption being permitted.

Environmental credit programs

Currently US GAAP does not address accounting for environmental credit program transactions, resulting in diversity in practice. The forthcoming update will create a new Topic (ASC 818) on accounting for environmental credit obligations and the purchase and sale of environmental credits. Entities will be allowed to measure noncompliance environmental credits at fair value as an accounting policy election, with changes recognized through earnings. The fair value option must be elected at the class level and will be irrevocable. Recognition of environmental credit obligations will be determined by treating the balance sheet date as the end of the compliance period, and measurement will depend on whether the obligation is funded (i.e. with existing environmental credits held by the entity) or unfunded. The amendment is expected to be effective for annual periods beginning after December 15, 2026, with early adoption permitted.

Statement of cash flows: Targeted improvements

The statement of cash flows remains a challenging area, especially for banks. The FASB recognizes that the current format does not provide meaningful information for users or preparers and therefore is exploring solutions, including the possibility of eliminating the statement for certain institutions if appropriate disclosures can be provided elsewhere. The project also considers requiring all institutions to report cash interest received, which could offer valuable insights for analysts and other financial statement users. FASB leaders noted that this project is still going through deliberations.

Research agenda: Preparing for the future

The FASB's research agenda accelerates the standard-setting process and ensures clear objectives for future projects. Current key research projects include the following.

- *Hedge accounting:* A preliminary views document is planned to outline a new model, moving beyond targeted amendments to address core principles. The FASB aims to balance broad risk management approaches with practical solutions for all preparers, not just large institutions.
- *Digital assets:* The FASB is exploring targeted improvements for accounting and disclosure of digital assets, including crypto lending, stablecoins and tokenized assets. The research is in early stages, with a focus on technical issues and evolving industry practices.
- *Commodities and derivatives:* The FASB is considering a broader fair value option for commodity inventories and, to address gaps in current standards, additional guidance on derivative modifications and embedded derivatives.
- *Statement of cash flows:* A broader research project is underway, informed by feedback on key performance indicators and the need for more disaggregated information.

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PCAOB standard-setting and inspection activities

During the Conference's PCAOB panel Barbara Vanich, Chief Auditor, Office of the Chief Auditor, and Scott Dennis, Associate Director of Registration and Inspections, shared their insights into the latest PCAOB developments. Vanich discussed standard-setting, while Dennis addressed inspection trends, deficiencies and priorities.

Standard-setting: Modernizing audit standards

The PCAOB's standard-setting process is focused on the future, particularly on the changes that evolving technology is having on the audit profession. To illustrate this focus, Vanich discussed three standard-setting topics that significantly affect the audit process.

Confirmation standard: New requirements for auditor control

Vanich emphasized that the revised confirmation standard (effective for audits of years ending on or after June 15, 2025) has been revised to address the increasing use of intermediaries and electronic communications. The following are the key changes.

- *Intermediary evaluation:* Auditors must assess the reliability of intermediaries, including understanding controls over risks like interception and alteration of confirmations.
- *Negative confirmations:* The new standard explicitly prohibits the use of negative confirmations alone as audit evidence, reflecting concerns about low response rates and the effect of spam filters.
- *Feasibility:* The standard creates a presumption that the auditor performs confirmation procedures or otherwise obtains relevant and reliable audit evidence by directly accessing information maintained by a knowledgeable external source, if deemed feasible. 'Not feasible' does not mean 'impossible' – it's a judgment based on factors like historical response rates and the availability of better audit evidence.

Vanich encouraged firms to consult PCAOB implementation resources and reach out with questions, especially as new intermediaries and technologies emerge.

Technology amendments: Embracing data analytics

Vanich addressed the PCAOB's technology amendments, which affect Auditing Standards 1105 (Audit Evidence) and 2301 (Auditor's Response to Risks of Material Misstatement). These amendments (effective for audits beginning on or after December 15, 2025) clarify how auditors can leverage data analytics and other technology tools. The following are the amendment highlights.

- *Multi-purpose procedures:* Auditors can design procedures to serve more than one objective, provided each objective is achieved.

PCAOB standard-setting and inspection activities

- *Clarifying procedures:* The amendments help distinguish between risk assessment and substantive procedures.
- *External information:* The amendments address evaluating external information when it is provided in electronic form by companies.

While these amendments do not directly address AI, Vanich acknowledged the rapid evolution of technology and anticipated further outreach and guidance in this area.

QC 1000 delayed

Vanich noted that the effective date for QC 1000, A Firm's System of Quality Control, has been postponed to December 15, 2026. This delay provides firms – especially smaller ones – additional time to align their quality control systems with the new requirements, which are broadly consistent with international standards like SQMS 1 and ISQM 1.

The following are the key elements of QC 1000.

- *Risk-based approach:* Requires firms to establish quality objectives, perform risk assessments and design responses tailored to their unique risks.
- *Annual risk assessment:* Requires an explicit annual risk assessment.
- *Definitions:* Uses broad definitions of 'firm personnel' and 'other participants' to accommodate various practice structures.
- *Documentation:* Requires firms to retain documentation supporting the design, implementation and operation of their QC system for seven years.

Vanich highlighted the PCAOB's extensive resources, including videos and other guidance, to support firms in implementing QC 1000.

Inspections: Trends, deficiencies and priorities

During his presentation, Dennis looked back at 2024 inspection findings and highlighted the PCAOB's inspection priorities in 2025.

2024 inspection activities and findings

In recapping the PCAOB's 2024 inspection activities, Dennis explained that inspection plans were responsive to risks such as market volatility, inflation, interest rates, mergers and acquisitions, and staffing challenges.

Common deficiencies included:

- *Financial statement areas:* Deficiencies were most commonly identified in auditing revenues, inventories, long-lived assets (including goodwill and intangibles), allowance for credit losses, business combinations and investments.
- *ICFR testing:* Auditors often failed to adequately test the design and operating effectiveness of controls, select appropriate controls for testing and evaluate deficiencies.
- *Estimates and assumptions:* Deficiencies included insufficient testing of significant assumptions and inputs, and inadequate evaluation of evidence supporting changes to those assumptions.

PCAOB standard-setting and inspection activities

- *Use of specialists:* Auditors did not always sufficiently evaluate the work of specialists or assess their qualifications and relationships to issuers.

2025 inspection priorities

Dennis also outlined the PCAOB's inspection priorities for 2025, which remain focused on areas of heightened risk.

- *Economic risks:* Persistent high interest rates, tightening credit and inflation.
- *Fraud and complex estimates:* Financial statement areas with fraud risk and complex models.
- *Commercial real estate exposure:* Increased scrutiny of regional banks and real estate portfolios, given ongoing market uncertainty.
- *Technology:* Continued interest in how firms use technology and AI in audits, with an emphasis on maintaining professional skepticism and human oversight.

Dennis urged auditors to exercise professional skepticism, especially when evaluating significant assumptions in allowance for credit losses and real estate valuations, and to assess liquidity and classification of investment securities.

KPMG Financial Reporting View

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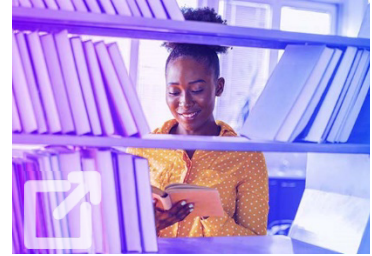
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