Banks & Savings Institutions

Issues & Trends

At the 2026 AICPA and CIMA Conference on Banks & Savings Institutions, regulators, standard-setters and industry leaders explored the trends reshaping the banking industry – including innovation, economic uncertainty and evolving supervisory priorities.

September 2026

kpmg.com/us/en/frv.html

Contents

Conference highlights 1

Inside the Federal Banking Regulators' Evolving Agenda 3

Modernizing supervision 3
Accounting and reporting matters 4

Key takeaways from the SEC's OCA and Corp Fin 5

Simplifying financial reporting 5
Accounting and Reporting Matters 5
Preparing for what comes next 6

FASB developments shaping banking 7

Stakeholder feedback and research agenda 7
CECL post-implementation review 7
Major projects on the technical agenda 7

PCAOB standard-setting and inspection activities 10

Standard-setting: Modernizing audit standards 10
Inspections: Trends and priorities 11

Economic developments 13

Growth is real but narrowly sourced 13
Inflation, rates and the balancing act 13
Downside risk is concentrated in two places 14
A frozen housing market 14
Looking ahead 14

Digital assets move into the mainstream 15

From speculation to infrastructure 15
Regulators move forward as legislation stalls 15
Strategy should begin with customer needs 16
Looking ahead 16

Making AI work at scale 17

From experimentation to enterprise adoption 17
Governance, data and talent drive success 17
Cyber threats evolve alongside AI 18

Mergers and acquisitions: A competitive advantage 19

Consolidation continues, but the drivers are changing 19
Faster approvals create new demands on readiness 19
Strategy and culture matter before signing 19
Value creation depends on execution after close 20

KPMG Financial Reporting View 21

Acknowledgments 22

1 Conference highlights

The 2026 AICPA & CIMA Conference on Banks & Savings Institutions reflected an industry in transition. Regulators described agendas shaped by modernization, technological change and evolving risks. Across the sessions, one message was consistent: stakeholder input matters and institutions should engage early as policy, accounting and audit requirements develop.

The sections that follow examine these developments in detail. The highlights summarize the principal themes for issuers, audit committees and other financial reporting stakeholders.

Federal Banking Regulators

The Federal Reserve (FRB), Federal Deposit Insurance Corporation (FDIC) and Office of the Comptroller of the Currency (OCC) emphasized more tailored supervision centered on material financial risks, clearer expectations and greater transparency. Their agendas include modernizing supervisory frameworks, expanding eligibility for longer examination cycles, revising appeals and examination processes, and reducing unnecessary documentation.

Securities and Exchange Commission (SEC)

SEC leaders and staff from the Office of the Chief Accountant (OCA) and the Division of Corporation Finance (Corp Fin) described an agenda focused on simplifying public company reporting while preserving decision-useful information and investor protection. Initiatives under consideration include optional semiannual reporting, changes to filer status and revisions to Regulations S-K and S-X. Staff also highlighted disclosure expectations related to credit quality, liquidity, funding sources, complex transactions and fintech arrangements, and encouraged registrants to focus interim reporting on material changes. OCA staff discussed consultations involving a variety of emerging accounting topics, reinforcing the importance of evaluating the substance of transactions, understanding the specific facts and circumstances of each arrangement, and engaging early on novel accounting matters.

Financial Accounting Standards Board (FASB)

The FASB's agenda reflects extensive stakeholder input, including significant feedback from financial institutions. The FASB's banking-related agenda includes activities on CECL, hedge accounting, stablecoins, private credit, mortgage servicing rights, commodities, goodwill and the equity method of accounting. Research efforts also continue for emerging topics, including a potential single hedge accounting model, alternatives to the statement of cash flows, data center investments and semiannual reporting.

Public Company Accounting Oversight Board (PCAOB)

The PCAOB outlined the projects on its standard-setting agenda as well as inspection observations. Inspection observations for banks remain concentrated in the allowance for credit losses, internal control over financial reporting (ICFR), issuer-prepared information, service organization data and deposit liabilities. The PCAOB's 2026 priorities include more inspections of audits of regional banks, commercial real estate, private credit, fraud, cybersecurity, cryptocurrency and the use of AI in audits.

Economic outlook

Conference speakers described an economy that continues to grow, but with momentum concentrated in a narrow set of areas and increasing downside risks. Real GDP growth is expected to remain near 2% through 2027, supported by AI-related capital investment – particularly data center construction – along with equity market wealth effects that benefit higher-income consumers. At the same time, slower job creation, weaker labor force participation, de-globalization and the uneven effects of inflation are weighing on the outlook. Consumer spending has become increasingly concentrated among higher-income households.

Digital assets

Digital assets are moving toward mainstream financial infrastructure as institutions evaluate stablecoins, tokenized deposits, custody, payments and capital markets use cases. The speakers addressed regulatory developments, the Guiding and Establishing National Innovation for US Stablecoins (GENIUS) Act implementation, proposed market structure legislation, accounting considerations and the governance and risk management needed to support responsible adoption.

AI and cybersecurity

Artificial intelligence is moving beyond experimentation and becoming embedded in banking operations, financial reporting, software development and other business processes. Speakers emphasized that successful adoption depends less on the technology itself and more on strong governance, high-quality data, effective controls and a workforce capable of exercising professional judgment when evaluating AI-generated outputs. At the same time, speakers noted that cyber threats are evolving alongside advances in AI. The discussions reinforced that responsible AI adoption and cybersecurity readiness will remain closely linked as institutions expand their use of emerging technologies.

Business combinations and strategic readiness

M&A activity is entering a new phase as regulatory approval timelines shorten, buyer profiles expand and institutions pursue transactions to achieve scale, address succession planning needs and reposition balance sheets. Speakers emphasized that faster approvals do not reduce regulatory expectations and instead increase the importance of preparation. Strategic readiness, strong governance, effective diligence and early planning for integration, data conversion and accounting considerations remain critical differentiators. Throughout the discussion, speakers consistently highlighted that institutions that prepare continuously are often better positioned to act quickly and create value when opportunities arise.

2 Inside the Federal Banking Regulators' Evolving Agenda

Federal banking regulators provided an inside look at their evolving priorities, including supervisory modernization and innovation shaping their agendas. Although fewer traditional accounting matters dominated this year's discussion, the panel highlighted regulatory developments that could affect banks' supervisory, reporting and accounting responsibilities.

Modernizing supervision

A consistent theme across the FRB, FDIC and OCC was a more tailored approach to supervision that focuses on material financial risks. The FRB highlighted efforts to make supervisory expectations clearer, concentrate supervisory findings on material financial risk and tailor regulation to the risks presented by individual institutions.

> "We need to make the Federal Reserve System's expectations for our regulated and supervised institutions more transparent and more clearly understood."
>
> – David Cook, Head of Regulation and Policy at the FRB

The FDIC and OCC described similar efforts to make supervision more risk-focused and less process-driven. Recent actions include expanding eligibility for 18-month examination cycles, revising supervisory appeals processes and reducing unnecessary examination and documentation requirements. The agencies also discussed revised standards intended to connect supervisory findings and matters requiring attention more directly to material financial harm.

> "Supervisors have to connect a concern to a real and supportable risk of material financial harm."
>
> – Amanda Freedle, OCC Chief Accountant and Deputy Comptroller

The agencies are also evaluating call report requirements through the call report streamlining initiative, the Economic Growth and Regulatory Paperwork Reduction Act review and the statutorily mandated five-year review of call report requirements. Regulators indicated they are coordinating these efforts to identify opportunities for more comprehensive changes rather than making a series of incremental updates.

Other developments include revised FDIC audit and internal control thresholds, changes to the Community Bank Leverage Ratio (CBLR) framework and expanded reporting on bank exposures to nondepository financial institutions (NDFIs).

Accounting and reporting matters

Digital assets

Digital assets and stablecoins were prominent topics during the discussion. The FDIC and OCC discussed their work to implement the GENIUS Act, establish reporting requirements for permitted payment stablecoin issuers and address accounting questions involving stablecoin reserves and other digital assets. The OCC also reported increased chartering activity involving stablecoin-related business models.

CECL

The FASB's post-implementation review of the current expected credit losses standard was the panel's primary accounting topic. Panelists acknowledged differing views about CECL's costs and benefits, particularly for community banks, while emphasizing that CECL remains US GAAP and the basis for regulatory reporting. They also reiterated that an appropriate CECL methodology may vary based on an institution's size, complexity, portfolio composition, risk profile and available data.

> "There is no single CECL method appropriate for every institution."
>
> – Bryan Jonasson, FDIC Chief Accountant

The road ahead

Looking ahead, the panel identified GENIUS Act implementation, capital framework initiatives, call report modernization and the outcome of the CECL post-implementation review as key areas of continued focus.

3 Key takeaways from the SEC's OCA and Corp Fin

SEC Chief Accountant Kurt Hohl, Deputy Chief Accountant Sheri York, along with representatives from the Office of the Chief Accountant (OCA) and the Division of Corporation Finance (Corp Fin), discussed emerging accounting matters as well as efforts to modernize financial reporting by simplifying public company reporting requirements while maintaining investor protections.

Simplifying financial reporting

The SEC is evaluating whether longstanding reporting requirements remain fit for purpose. Stephanie Sullivan, Associate Chief Accountant, outlined an agenda that includes proposals to permit companies to elect semiannual reporting, modernize the registered offering framework and simplify filer status. The SEC is also pursuing an initiative to modernize Regulation S-K and Regulation S-X. Companies were also encouraged to focus interim disclosures on material changes rather than repeat information that has not changed, consistent with existing SEC requirements.

OCA continues to monitor FASB standard-setting – including emerging developments involving digital assets, private credit and data infrastructure investments. SEC staff emphasized the need for stakeholder input on implementation costs and investor benefits. The staff also discussed FASB's CECL post-implementation review, highlighting the importance of feedback from investors, different types of preparers and banking regulators.

Amit Pande, Accounting Branch Chief in the Office of Finance in the SEC's Division of Corporation Finance, further emphasized that transparent and decision-useful disclosures remain a priority. He discussed comment letters in which registrants did not adequately explain material changes in credit quality, liquidity, funding sources or the accounting effects of complex transactions and fintech arrangements.

Accounting and Reporting Matters

OCA highlighted several emerging areas requiring heightened judgment and attention from registrants and auditors:

- *Structured transactions and accounting outcomes:* OCA noted an increase in highly structured transactions designed to achieve a particular accounting outcome. Staff emphasized the importance of considering the substance of these arrangements rather than relying solely on their legal form and encouraged registrants to consult with OCA early when evaluating complex or novel accounting matters.
- *Private equity ownership of accounting firms:* OCA discussed quality control and auditor independence considerations arising from private equity investment in accounting firms, including complex financial relationships and the risk that an investor's profit motive could impact audit quality.

- *AI agents and auditor independence:* OCA highlighted emerging independence considerations when an audit firm creates an AI agent that a client uses to make decisions or perform activities affecting financial reporting. In these instances, the firm may need to evaluate whether the agent is effectively functioning in a manner similar to firm personnel and whether the resulting arrangement creates a risk that the auditor is auditing its own work.
- *Accounting consultations:* Rachel Mincin, Associate Chief Accountant, discussed several recent consultations involving the classification of CLOs as loans or securities, cash flow statement presentation for the collection of principal on loans in specific circumstances, how to consider certain credit enhancements under CECL and transfers of digital assets.

A common theme across these topics was the importance of understanding the specific facts and circumstances of each arrangement and applying judgment when existing guidance is not explicit.

OCA also reinforced its willingness to engage with registrants on novel accounting matters. As financial products, lending structures and digital asset activities continue to evolve, consultations remain an important resource for addressing accounting uncertainty before transactions are executed or reported.

Preparing for what comes next

The central message was clear: preparers, auditors and audit committees should monitor developments, participate before requirements are finalized and consult early on complex matters.

4 FASB developments shaping banking

FASB leaders provided a comprehensive overview of the current technical and research agenda projects, the status of the CECL post-implementation review and selected projects most relevant to the banking industry. The panelists were Fred Cannon, FASB Board Member; Rosemarie Sangiuolo, FASB Deputy Technical Director; and Erin Cahill, Supervising Project Manager.

Stakeholder feedback and research agenda

In 2025, the FASB staff issued an agenda consultation invitation to comment to solicit stakeholder views on the Board's future standard-setting priorities. Projects added as a result of that feedback include hedge accounting, commodities, targeted improvements to the equity method of accounting, and targeted improvements to transfers and servicing. Several relevant banking topics remain to be considered, including digital assets and the classification of tokenized real-world assets.

The FASB staff is working on several research projects relevant to banks, which include developing a single hedge accounting model and replacing the statement of cash flows for certain entities with new disclosure requirements. The Board is also monitoring recent developments in non-traditional lending, data center investments and semiannual reporting through the Current Trends and Emerging Issues research project.

CECL post-implementation review

The FASB uses a post-implementation review (PIR) as a quality control mechanism to assess whether a standard met its original objectives and delivers relevant information at a cost that is justified. Outreach on the CECL PIR has included a cost survey, a roundtable with banks, practitioners, investors and regulators, and a letter to the principals of the federal regulators of banks and credit unions. Federal Reserve Vice Chair for Supervision Michelle Bowman raised concerns about the benefits and costs of CECL, particularly as they relate to community banks. The FASB hopes to issue a final report by year end, though issuance would not necessarily conclude the FASB's work on the standard. Cannon observed that returning to a prior standard would be incredibly difficult and, in his view, probably not needed or necessarily appropriate.

Major projects on the technical agenda

The FASB's current technical agenda includes 22 projects, with 11 exposure drafts issued or expected around the fourth quarter. Projects highlighted by the speakers focused on CECL, hedge accounting, stablecoins, private credit, mortgage servicing rights, commodities, contractual sale restrictions, goodwill and the equity method.

Hedge accounting projects

The staff has two hedge accounting projects on the technical agenda. The first, targeted improvements, would eliminate the prohibition on applying hedge accounting to held-to-maturity debt securities, particularly for interest rate risk hedges. It would also expand the rates that may be designated in fair value hedges and in forecasted debt transactions to include Secured Overnight Financing Rate (SOFR) term rates. The proposal would also permit cross-currency swaps with legs that reset within six months to qualify as hedging instruments in net investment hedges. A final ASU is expected in 2027 pending redeliberation.

The second project would extend the portfolio layer method – which is currently available to pools of fixed-rate assets such as mortgages and MBS – to fixed-rate liabilities. Cannon indicated that the FASB favors a broad scope on which liabilities qualify, but that the project would retain the closed pool concept.

Stablecoins and cash equivalents

An exposure draft issued in August provided illustrative examples of when certain digital assets such as stablecoins may qualify as cash equivalents and identified the attributes those assets would need to possess. The proposal would also require entities that account for non-cash assets as cash equivalents to disclose the significant components and related amounts, regardless of whether they hold stablecoins. The 90-day comment period closes in mid-November.

Private credit disclosures

Prompted by the rapid growth of private credit and investor demand for transparency, this project focuses on funds and business development companies (BDCs) within the scope of Topic 946 that carry their loans and investments at fair value. Existing disclosure requirements were developed primarily for loans measured at amortized cost, leaving no comparable framework for entities that carry loans and investments at fair value. Investors sought transparency in three areas: non-performing loans, paid-in-kind loans and concentrations by industry, sponsor or loan size. The FASB may also consider extending any new disclosure requirements to other entities carrying loans at fair value.

Mortgage servicing rights recapture

Mortgage servicing rights (MSR) recapture refers to a servicer's ability to refinance the loan with a borrower whose existing mortgage is being prepaid and still retain the servicing rights on the new loan. Market participants generally assign a value to that ability because it replaces some of the economic benefits that would otherwise be lost when the original loan is prepaid, and it is often reflected in the prices paid for MSRs in the marketplace.

This project addresses whether the value attributable to recapture should be included in measuring residential MSRs. A lack of guidance has produced diversity in practice and reduced comparability across entities. The FASB determined that entities should be required to include the value attributable to recapture and consider all rights and obligations associated with the residential mortgage servicing contract in determining fair value, unless those rights or obligations are otherwise required to be recognized separately under GAAP. An exposure draft is expected early in the fourth quarter.

Commodities measurement

This project addresses the mismatch between commodity inventory measured at cost and related derivatives measured at fair value. Banks indicated that this could create income statement volatility and they did not believe it reflected their underlying economic exposure. The proposal would permit depository and lending institutions and their subsidiaries to elect an accounting policy to measure tangible commodity inventory at fair value, with the election made by type of tangible commodity. An exposure draft is expected by the end of the year.

Contractual sale restrictions on equity securities

ASU 2026-03 requires investment companies within the scope of Topic 946 to incorporate contractual sale restrictions in the fair value of equity securities by applying a discount, regardless of whether the restriction is a characteristic of the holder or the security, and to disclose the amount of the discount. A broader project added in August will consider whether the guidance should extend to all entities or beyond equity securities.

Goodwill impairment testing

In July, the FASB added a project addressing the level at which goodwill is tested for impairment and the frequency of testing. The staff will research requiring impairment testing only upon a triggering event – removing the optional qualitative screen if goodwill is tested only upon a triggering event – and whether goodwill should be tested at the operating segment level rather than the reporting unit level.

Equity method assessment

The equity method project would apply a single significant influence threshold for determining whether the equity method applies (regardless of the investee's legal form), relocate certain non-industry-specific guidance from the real estate literature into the overall equity method subtopic, and add examples addressing complex allocation structures such as waterfalls and preferential returns. An exposure draft is expected in the fourth quarter.

5 PCAOB standard-setting and inspection activities

Issuers and audit committees have a direct stake in the PCAOB's agenda: changes in what the Board expects of auditors often translate into new information, documentation and process demands for preparers. Kurt Hohl of the SEC's Office of the Chief Accountant underscored this practical connection, encouraging issuers and audit committees to pay close attention to, and engage with, the PCAOB's work. During the Conference's PCAOB panel, Lisa Busedu, Associate Chief Auditor, Office of the Chief Auditor, and Brian Boisvert, Regional Associate Director, Division of Registration and Inspections, shared their insights into the latest PCAOB developments. Busedu discussed standard-setting and strategic priorities, while Boisvert addressed inspection observations, modernization and evolving areas of focus.

Inside the PCAOB’s evolving agenda

Busedu provided a brief overview of the PCAOB's standard-setting, research and rulemaking agendas, including projects addressing quality control, data and technology research, updates to interim standards and a permanent broker-dealer inspection program. She also discussed the PCAOB's continued evaluation of how emerging technologies, including AI, may affect audit quality and future standard-setting activities.

QC 1000: Targeted amendments and implementation

Busedu focused a significant portion of her remarks on QC 1000, *A Firm's System of Quality Control*. She explained that, after extensive stakeholder feedback, the PCAOB recently adopted final targeted amendments intended to simplify implementation, reduce unnecessary compliance costs and better align certain requirements with other quality management frameworks. The amendments included the removal of the external quality control function, changes to the assignment of quality control responsibilities, revisions to the requirements for monitoring, remediation and evaluation, and changes to the retention period.

Busedu also described a new firm consultation process through which registered firms may obtain informal staff views on the interpretation and application of PCAOB standards, rules and forms. She indicated that the process is intended to promote more timely guidance and strengthen communication with firms.

Rethinking interim reporting and comfort letters

One standard-setting project highlighted by Busedu relates to the SEC’s proposal that would permit public companies to elect semiannual reporting in place of quarterly reporting requirements. If adopted, the proposal could have implications not only for issuers' reporting obligations, but also for the auditor procedures that support interim reporting and capital markets transactions.

The PCAOB is evaluating whether conforming amendments to its interim auditing standards may be necessary to align with any changes ultimately adopted by the SEC. Busedu specifically noted that the PCAOB is considering targeted amendments to AS 6101, *Letters for Underwriters and Certain Other Requesting Parties*, which governs auditor comfort letters provided in connection with securities offerings.

Inspections: Trends and priorities

During his presentation, Boisvert looked back at 2025 inspection findings and highlighted the PCAOB's inspection priorities in 2026.

2025 inspection activities and findings

In recapping the PCAOB's 2025 inspection activities, Boisvert shared that inspection observations in the banking sector remain concentrated in the allowance for credit losses (ACL), other accounting estimates and internal control over financial reporting (ICFR). He discussed recurring deficiencies in areas where auditors did not sufficiently test significant assumptions and inputs, evaluate contradictory evidence or assess the sensitivity of key estimates.

Common observations included:

- *ACL assumptions and significant estimates:* Inspection observations included insufficient testing of key assumptions, inputs and other significant estimates.
- *Information from service organizations:* In some instances, audit procedures did not sufficiently address information received from service organizations.
- *Deposit liabilities:* Some audit approaches relied on basic general ledger to subledger reconciliations without performing additional substantive testing of deposit balances.
- *Management review controls and issuer-prepared information:* Deficiencies involved testing the precision of management review controls and the completeness and accuracy of reports and data used in those controls.
- *Evaluation of control deficiencies:* Inspection observations included instances in which identified deficiencies and their effect on the audit response were not appropriately evaluated.

Boisvert emphasized the importance of documentation during both the formal presentation and audience discussion. He noted that robust management documentation of data sources, assumptions, governance processes and controls provides auditors with a clearer understanding of management's judgments and supports higher-quality audits.

2026 inspection priorities

Boisvert shared that the PCAOB's 2026 inspection priorities continue to focus on economic uncertainty, fraud risks, complex estimates and rapidly changing technology. He identified increased inspections of audits of regional banks and highlighted several areas of heightened attention –including commercial real estate exposure, private credit, the use of AI, cybersecurity incidents, cryptocurrency activities, mergers and acquisitions, IPOs and other emerging risks.

Boisvert also discussed how the PCAOB's draft strategic plan contemplates modernization of the inspections program through greater focus on firm quality control systems, improved report timeliness and increased use of technology and data. He highlighted ongoing investments in the Audit Intelligence Group and efforts to enhance inspector capabilities as the profession continues to evolve.

Boisvert described several potential changes to the inspection process, including:

- *Sampling for compliance-based procedures.* The contemplated approach would reintroduce sampling for certain procedures focused on compliance with applicable requirements.
- *Inspection comment forms.* More timely issuance would give firms earlier visibility into potential findings and additional time to respond.
- *Two-way feedback.* Enhanced dialogue throughout the inspection lifecycle would provide more opportunities for firms and inspection teams to exchange perspectives.
- *Audit committee dialogue.* Increased engagement would focus on areas such as fraud, cybersecurity and AI-related risks.

6 Economic developments

Economic discussions returned to a common theme: the US economy is still growing, but growth is increasingly concentrated in a handful of areas while risks have become more pronounced. Dr. Mark Zandi, Chief Economist of Moody's Analytics, examined the broader macroeconomic outlook, highlighting the economy's growing dependence on artificial intelligence, persistent inflation pressures and emerging risks in financial markets. Complementing that perspective, Doug Duncan, founder of BizOutlook and former Chief Economist at Fannie Mae, focused on housing and mortgage market dynamics, including affordability challenges, constrained inventory and the effects of higher interest rates on housing activity. Together, their sessions painted a picture of an economy that remains resilient but faces an increasingly narrow set of growth drivers and a widening range of downside risks.

Growth is real but narrowly sourced

Zandi's remarks described an economy that remains resilient and is expected to continue growing at a moderate pace in the years ahead. At the same time, he noted that the sources of that growth have become increasingly concentrated. Zandi noted monthly job creation has slowed to approximately 50,000, with about two-thirds of those gains in healthcare. He also noted that unemployment remains low, around 4.1%, but the labor market reflects employers holding steady and cutting hours rather than expanding payrolls. Additionally, labor force participation has slipped to roughly 61.4%, evidencing softness in the jobs market masked by headline unemployment.

Artificial intelligence remains a key driver of economic growth. Zandi explained that its impact is being felt through both increased capital investment, especially in data center construction, and stock wealth effects that continue to support spending among higher-income consumers. His remarks indicate that nearly 3,700 data centers now operate in the United States, more than the rest of the world combined.

Offsetting some of these growth benefits is de-globalization. Zandi identified tariffs, restrictive immigration policies and geopolitical conflicts as negative supply shocks that simultaneously slow output and raise prices.

Inflation, rates and the balancing act

Inflation figures are running above the Federal Reserve's 2% target, and the effects are uneven. Zandi observed that wage growth is no longer keeping pace with inflation, particularly for lower-income households, leaving purchasing power stagnant and consumer sentiment historically weak. At the same time, consumer spending has become increasingly concentrated among higher-income households, with the top 20% of earners accounting for roughly 60% of personal consumption expenditures. The result is an increasingly K-shaped economy, with higher-income households supported by equity gains while lower-income households absorb the cost of elevated prices.

This leaves monetary policy in a difficult position. As Zandi explained, with inflation above target and the labor market softening, the Fed's dual mandates pull in opposite directions. On September 16, 2026, the Fed raised its benchmark rate a quarter point to a range of

3.75% to 4%, its first increase since 2023, with another increase possible by the end of the year. Long-term rates have moved sharply as well: the 10-year Treasury yield has climbed from below 4% to near 5%. Zandi attributed roughly half of that increase to shifting expectations about Fed policy and much of the remainder to a widening term premium. Zandi and Duncan both noted that federal borrowing needs and mounting credit demand from hyperscalers financing AI infrastructure increasingly through debt could continue to place upward pressure on long-term rates.

Downside risk is concentrated in two places

Zandi identified two related areas of concentrated downside risk. The first is equity valuations. Economy-wide price-to-earnings multiples sit roughly two standard deviations above their long-run average, a level previously reached only during the dot-com period. Because consumer spending now depends materially on equity wealth, a correction triggered by slower AI adoption, regulatory constraints or disappointing returns would transmit directly into consumption.

The second risk sits in the Treasury market. Federal debt held by the public has reached roughly 100% of GDP and is projected to approach 125% within a decade absent policy change. Zandi noted that traditional buyers have stepped back, with hedge funds running leveraged basis trades now the marginal participant, a structure that works normally but can unwind rapidly. Relatedly, non-AI capital-intensive industries are being crowded out as hyperscalers compete for funding.

A frozen housing market

Mortgage spreads remain wide reflecting a market pricing in refinancing risk. The dominant constraint, though, is what Duncan described as the lock-in effect. He explained that roughly two-thirds of outstanding mortgages carry rates below 5%, leaving homeowners little incentive to transact. He further noted that existing-home turnover has held near 3.6% for a fourth consecutive year, with sales around 4 million, comparable to 1995 despite a population 90 million larger.

These headwinds are compounded by supply constraints. Duncan pointed to development costs, zoning restrictions and builder consolidation as factors that have made entry-level construction unattractive.

Looking ahead

For banks, the items to watch over the next 12 to 18 months are the interest rate trajectory, the durability of AI-driven growth, emerging risks in equity and Treasury markets and whether housing turnover begins to normalize.

7 Digital assets move into the mainstream

Digital assets are increasingly moving from the edge of financial services into the core infrastructure supporting payments, settlement, custody and capital markets. While speakers highlighted growing institutional adoption and regulatory momentum, the Senate's decision not to advance the CLARITY Act following the conference underscored that the policy framework for digital assets remains a work in progress.

From speculation to infrastructure

Ron Quaranta, Founder and Chairman of the Wall Street Blockchain Alliance, described the market's evolution from retail-driven crypto activity to institutional investment products and now toward financial infrastructure alongside increasing regulatory normalization.

Speakers noted that the conversation has shifted from cryptocurrency as an asset class to digital assets as infrastructure supporting payments, treasury operations, custody, collateral management and capital markets activities. Stablecoins are becoming increasingly relevant in payment and treasury workflows, creating both opportunities and competitive pressures for traditional financial institutions. At the same time, tokenization initiatives are expanding beyond pilot programs as institutions explore the use of tokenized securities, deposits, collateral and other financial assets to improve efficiency and create new service offerings.

Panelists also emphasized that not all digital assets are the same. Distinctions among stablecoins, cryptocurrencies, tokenized deposits and tokenized securities remain important because each carry different legal, regulatory and balance sheet implications. As adoption expands, institutions will need to evaluate opportunities and risks based on the specific characteristics of each product rather than treating digital assets as a single category.

Regulators move forward as legislation stalls

Digital asset policy was a central focus of the conference. Speakers highlighted three major developments: market structure legislation, implementation of the GENIUS Act and ongoing SEC and CFTC rulemaking.

- *The* CLARITY *Act remains unresolved:* The legislation subject to the Senate's procedural vote was designed to establish statutory categories for digital assets, clarify SEC and CFTC oversight, and establish additional market structure, consumer protection and AML requirements. On September 15, 2026, however, the Senate did not advance the legislation.
- *Regulators continue moving forward:* Federal agencies are continuing to advance digital asset policy through guidance, rulemaking and supervisory frameworks, despite the lack of comprehensive legislation.
- *The SEC is providing additional structure:* Recent guidance distinguishes among digital commodities, payment stablecoins, tokenized securities and other digital asset

categories, while additional proposals addressing custody, transfer agents and market structure remain under development.

- *The next chapter is implementation:* The GENUIS Act established a federal regulatory framework for payment stablecoins. Speakers emphasized that the key question is no longer whether stablecoins will be regulated but how the new prudential framework will work in practice. Areas still being defined include reserve standards, redemption, capital and risk management.

Strategy should begin with customer needs

While speakers expressed optimism about adoption trends, they consistently emphasized that institutions should begin with business objectives and customer needs rather than with a specific digital asset technology. Several practical considerations emerged from the discussion:

- *Focus on business problems first:* Institutions should evaluate whether tokenization or stablecoins address settlement friction, payment inefficiencies, custody needs or other operational challenges.
- *Assess customer and balance-sheet exposure:* Institutions should understand how digital assets may affect customer relationships, deposits, liquidity and payments revenue.
- *Governance remains essential:* Speakers emphasized board education, clear risk appetite statements and strong governance by institutions before launching new products or services.
- *Risk management has not changed:* Governance, cybersecurity, AML compliance, legal rights, vendor oversight and liquidity management remain the core disciplines for evaluating digital asset activities.

Looking ahead

The conference's overarching message was that digital assets are increasingly becoming part of the mainstream financial infrastructure. Although the CLARITY Act did not advance in the Senate, momentum around stablecoins, tokenization, regulatory guidance and infrastructure development continues.

8 Making AI work at scale

As AI adoption accelerates, financial institutions are discovering that technology alone is not enough. Success increasingly depends on strong data, effective governance and people who can use AI responsibly.

From experimentation to enterprise adoption

Financial institutions have moved beyond proof of concept and are increasingly deploying AI across customer service, software development, financial reporting and other operational processes. As organizations gain experience with the technology, the focus is shifting from experimentation to scaling solutions that deliver measurable business value. Speakers emphasized that successful AI programs typically begin with clearly defined business problems rather than a desire to adopt the latest technology. Mike Kelly, Head of Strategic AI Governance and Enablement at JPMorgan Chase, described how the firm's AI journey centered on identifying opportunities where AI could address specific business needs and then building the technology, governance and operating model required to support broader adoption.

The discussion also highlighted the importance of testing assumptions early and designing programs with long-term scalability in mind. One speaker shared lessons learned from a voice-authentication initiative that was paused after testing identified weaknesses in supporting controls, reinforcing the value of validating assumptions before significant resources are committed. Speakers noted that scaling AI effectively requires balancing innovation with consistency. At JPMorgan Chase, this includes a centralized AI platform and shared-responsibility model that allows business units to retain ownership of their use cases while leveraging common technology, governance standards and reusable capabilities across the enterprise.

Governance, data and talent drive success

While AI technology continues to advance rapidly, speakers emphasized that responsible adoption depends just as much on governance, data quality and human capability as it does on the underlying models themselves. Organizations continue to face a familiar challenge: AI systems can only produce reliable outputs when they are supported by high-quality data. Jason Schenker, Chairman of The Futurist Institute, observed that AI does not eliminate data-quality concerns and that organizations must continue investing in data collection, cleansing, validation and testing. The discussion reinforced that strong governance and reliable data foundations remain prerequisites for generating trustworthy insights and achieving sustainable business value from AI initiatives.

Speakers also highlighted the growing importance of human judgment in an AI-enabled environment. As AI becomes embedded in everyday business processes, employees must understand not only how to use these tools effectively, but also when to challenge their outputs. Critical thinking, professional skepticism and responsible use are increasingly becoming core business skills. Looking ahead, some panelists suggested that organizations may place greater emphasis on AI-free testing environments, practical demonstrations and other methods of validating competency. As AI makes it easier to complete assignments and generate work products, employers may need new approaches to assess whether individuals possess the underlying knowledge and skills independent of technological assistance.

Cyber threats evolve alongside AI

The same technologies driving productivity gains are also increasing the sophistication and scale of cyber threats. Financial institutions face a rapidly evolving threat landscape that demands both technological and human-centered defenses.

- *Cyber risk is increasingly a people problem:* As FBI Cyber Assistant Special Agent in Charge Emily Odom observed, many of the largest losses still originate from unauthorized transfers and social engineering attacks rather than technology failures alone.
- *Relationships are part of readiness:* Paul Perry, leader of Warren Averett's Risk Assurance and Advisory Group, emphasized that cyber preparedness extends beyond technology. Organizations should establish key law-enforcement and response relationships before an incident occurs and view information security as a business enabler rather than a cost center.
- *Move with urgency:* Odom stressed that early reporting and complete information, including logs and transaction details, can significantly improve response efforts and increase the likelihood of successful intervention.

9 Mergers and acquisitions: A competitive advantage

M&A activity is entering a new phase. Approval timelines have shortened, average deal sizes have increased, and the buyer universe continues to expand beyond traditional bank acquirers. While regulatory processes have become more predictable, faster approvals have not reduced the work required to complete a successful transaction. Instead, banks face a compressed timeline to prepare, execute and integrate. Banks with strategic, operational and governance readiness can move faster when opportunities arise.

Consolidation continues, but the drivers are changing

A recurring theme across the sessions was that consolidation remains a defining force in the banking industry, with the number of FDIC-insured banks and savings institutions having declined from roughly 6,100 a decade ago to approximately 4,200 as of June 30, 2026. Institutions are pursuing transactions for a variety of reasons, including scale, succession planning, liquidity and balance sheet repositioning. At the same time, deal activity is increasingly concentrated in larger transactions, and the buyer landscape has expanded beyond traditional bank acquirers to include credit unions, mutual institutions and other nontraditional participants. Despite these changes, speakers consistently emphasized that successful transactions are driven less by size and volume than by strategic fit – including alignment of cultures, geographies, business models and long-term objectives. Succession planning also remains an important catalyst, particularly for smaller institutions facing leadership transitions without a clear internal successor.

Faster approvals create new demands on readiness

The regulatory environment was widely viewed as more favorable than in recent years, particularly with respect to transaction review timelines. Speakers noted that transactions that previously required more than a year to obtain approval are now progressing substantially faster, supported by modernization efforts intended to create more predictable and streamlined review processes. However, they cautioned that shorter timelines should not be mistaken for lower regulatory expectations. As a result, institutions have less time to identify and remediate potential challenges once a transaction is underway, increasing the importance of readiness and early engagement with regulators before an application is submitted. Capital adequacy, asset quality, commercial real estate exposure, fair lending considerations and product mapping continue to receive significant scrutiny during the approval process.

Strategy and culture matter before signing

While transaction announcements often receive the most attention, speakers repeatedly emphasized that many of the decisions determining success occur long before a letter of intent is signed:

- *Strategic readiness creates flexibility:* Boards should regularly evaluate strategy, governance, succession planning, capital flexibility and franchise value before a transaction opportunity emerges.
- *Governance documents deserve attention:* Compensation arrangements, vendor contracts, voting requirements and change-in-control provisions should be reviewed and understood before a transaction is contemplated.
- *Diligence extends beyond financial metrics:* Technology platforms, contractual obligations, data processors and employee retention considerations can have a significant impact on transaction outcomes.
- *Culture remains a critical factor:* Several speakers described cultural alignment as a leading screening criterion when evaluating potential partners, noting that fit is one of the strongest indicators of long-term integration success and value creation.

The discussion highlighted how institutions that prepare continuously are often better positioned than those that begin preparation after a transaction opportunity has already emerged.

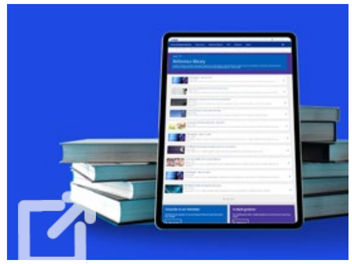
Value creation depends on execution after close

Speakers cautioned against viewing closing day as the finish line, emphasizing that many of the most significant risks and opportunities emerge during integration. Accounting considerations such as fair value measurements, purchased loan accounting and CECL estimates are interconnected and benefit from consistent data, assumptions and methodologies. Data conversion also remains a recurring challenge, as system mapping, historical data consistency and vendor coordination can create operational and reporting risks long after a transaction closes. The message was clear: successful integrations require clear governance, disciplined operational planning and early involvement of key stakeholders.

KPMG Financial Reporting View

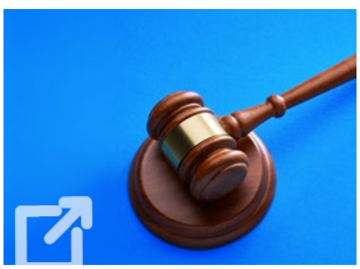
Delivering guidance and insights, KPMG Financial Reporting View is ready to inform your decision-making. Stay up to date with us.

Defining Issues
Our collection of newsletters – with insights and news on financial reporting and regulatory developments, including Quarterly Outlook and FRV Weekly.



Handbooks
Our comprehensive, in-depth guides include discussion and analysis of significant issues for accounting and financial reporting professionals.

Hot Topics
Our detailed discussion and analysis on topical issues of significant importance to accounting and financial reporting professionals.



ASU effective dates
Our ASU effective dates page provides real time access as new ASUs are issued.

Financial Reporting Podcasts
Tune in to hear KPMG professionals discuss major accounting and financial reporting developments.

CPE opportunities
Register for live discussions on topical accounting and financial reporting issues. CPE-eligible replays also available.

Visit **frv.kpmg.us**
and sign up for news and insights

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.

Carol Ang Lee

Mary Jo Bailey

Dennis Dougherty

Stephanie McConnell

Mark Northan

Stephen Kennedy

Benjamin Phillips

Adam C. Schubatis

Karen Silverman

KPMG Financial Reporting View

frv.kpmg.us

Learn about us: kpmg.com