2024 AICPA & CIMA Conference on Banks & Savings Institutions

Highlights

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A Note From the Financial Services Industry Leader at Forvis Mazars

The financial services industry continues to experience disruption and change, from regulatory updates and accounting standards to technological advancement and digital transformation. In a landscape where the pace of change is driving forward at a continuously increasing speed, it is important to stay aware of what is happening in the present and what's expected to come.
Leaders from the Financial Services team at Forvis Mazars recently attended the AICPA & CIMA Conference on Banks & Savings Institutions and heard several key industry hot topics and themes summarized within this document. We are committed to staying at the forefront of industry issues and our team remains informed and poised to address the evolving regulations and changes affecting financial institutions.

Forvis Mazars, LLP is a leading global professional services network. Ranked among the largest public accounting firms in the United States, the firm's 7,000 dedicated team members provide an **Unmatched Client Experience**® through the delivery of assurance, tax, and consulting services for clients in all 50 states and internationally through the global network. Our team is proud to work with more than 1,000 financial institutions, including seven of the top 10 banks in the United States. Forvis Mazars is a leader when it comes to audit work for financial institutions, holding the number two position as auditors of public banks in the U.S. according to data from S&P Global.

We encourage you to connect with a local team member for questions regarding any of the topics discussed in this document, or if you would like to learn more about our firm and how we can help your institution.

Ashley Ensley
Partner, Forvis Mazars

Introduction

The American Institute of CPAs (AICPA) and the Chartered Institute of Management Accountants (CIMA) held its annual Conference on Banks & Savings Institutions on September 9–11, 2024. Forvis Mazars was honored to be an event sponsor again for 2024.

Senior officials from the Federal Banking Agencies, SEC, FASB and banking insitutions discussed today's most pressing issues and key focus areas for community banks, midsize banks, and large banks. In panel sessions, chief financial officers (CFOs) and accounting policy officers from each banking sector provided invaluable insights and real-life examples on challenges and opportunities. Current expected credit losses (CECL) discussions evolved from implementation to model improvements, proposed ASUs related to purchased financial assets, the SEC's disclosure expectations for registrants, and continued concerns about commercial real estate (CRE) valuations. The benefits and potential risks of the use of artificial intelligence (AI) was discussed in several sessions. Two engaging keynote sessions addressed the overall ecomony and the real estate sector.

We have included selected summaries from various conference speakers and have not captured all discussions presented during the three-day period. The discussion is intended to highlight trending accounting and financial statement reporting topics and recurring themes. The selections below are our interpretation of the speakers' comments and do not necessarily represent the opinions of Forvis Mazars. Links to our **FORsights**™ are included for a deeper dive into these topics.

Federal Banking Agencies (the Agencies) – Federal Reserve Bank (Fed), Office of the Comptroller of the Currency (OCC), Federal Depository Insurance Corporation (FDIC)

Chief accountants Lara Lylozian from the Fed, Amanda Freedle with OCC, and Shannon Beattie with the FDIC participated in a fireside chat with shared observations followed by an audience Q&A. The agencies have seen an uptick in sale-leaseback agreements, bank-owned life insurance (BOLI) arrangements, and structured finance deals. The agencies will be closely monitoring any recognized day-one gains.

Given the complexity of the transactions and related accounting guidance, each agency encouraged early engagement and consultations with the agencies to address accounting issues before deals are finalized.

> "Do your due diligence upfront."
>
> **– Lara Lylozian**

Debt Securities Classification

Banking agencies will be closely reviewing transfers from Available-for-Sale (AFS) and Held-to-Maturity (HTM) categories. Banks should consider guidance under ASC 320 and evaluate the accounting for the unrealized and realized gain or loss on securities transferred, as well as the impact on any related deferred tax positions. Complexity is noted in determining the bifurcation of losses to other operating income versus accumulated other comprehensive income (AOCI).

For HTM securities transferred to AFS, appropriate support and rationale should be well documented to avoid tainting a pool of remaining HTM assets by selling or transferring a security from HTM classification.

CECL

The agencies noted that this is the first examination year for the majority of banks that adopted CECL in 2023. Examiners will be looking for how management gets comfortable that the allowance for credit losses is reflective of current market conditions:

- Does the model do what it should be doing?
- Do changes to the model flow through as expected?
- Are all components of the CECL model documented and supported?
- Are qualitative factors (Q factors) reasonable and supported?
- Are Q factors appropriately applied to adjust for current economic conditions? (Agencies would expect a Q factor to compensate for a lack of historical loss data on CRE, such as vacancy rates or return to office policies.)

The agencies emphasized the importance of documentation and substantiation of the model assumptions given the flexibility provided under CECL.

New Required Disclosures on Deposits?

No. While the level of uninsured deposits was a focus area following the 2023 bank failures, there are no immediate plans by any of the supervisory agencies to require additional deposit disclosures. On July 30, 2024, the FDIC issued a request for information with 10 questions designed to determine if users believe additional disclosures related to characteristics that affect the stability and franchise value of deposits would provide analysts with more accurate and transparent data. Comments are requested on or before October 7, 2024.

Bank-Owned Life Insurance (BOLI)

For this cycle, examiners will be closely looking at day-one gains recorded for BOLI policies. The recording of an initial gain is experienced when the day-one fair value exceeds the initial cash outlay. Banking regulators continue to monitor product innovations and have observed some surrender enhancements within BOLI contracts so onerous the cash surrender value is unlikely to be exercised. The likelihood a bank would surrender the policy should be considered a component of day-one recognition and may preclude recognition of the gain. Although the agencies frequently identify potential concerns with BOLI products, there are no new BOLI regulations planned in the near future.

Business Combinations/ Pushdown Accounting

The FDIC indicated certain complex matters related to business combinations will be closely scrutinized. Valuation of financial assets, which result in a bargain purchase gain, as well as the identification of the accounting acquirer when the legal acquirer is not the accounting acquirer, are examples of recent consultations within the office.

Prior to 2014, SAB Topic 5j provided accounting guidance to SEC registrants on the use of pushdown accounting. In 2014, FASB issued ASU 2014-17, which codified into GAAP (under ASC 805-50-25) an accounting election to apply pushdown accounting in separate financial statements of an acquiree. This ASU provided guidance for all financial statement preparers. Deputy Associate Director Lylozian noted that while pushdown accounting is an election, the Fed has the authority to require pushdown accounting for call reporting if it is more reflective of the transaction's underlying economics.

SEC

Division of Corporate Finance (Corp Fin)

Panelists included Stephanie Sullivan and Rachel Mincin, both associate chief accountants, and Amit Pande, branch chief. The group is closely monitoring developments in CRE and other material risk concentrations, changes in credit and asset quality, and related risk management disclosures. They are looking for more detailed and disaggregated disclosures and additional insights on a financial institution's risk management strategy and procedures and actions taken in response to economic changes.

> "I encourage every bank to take a fresh look at their allowance for loan loss disclosures in their 10-K."
>
> **– Stephanie Sullivan**

CRE Exposures

If there are material concentrations in a loan portfolio, Corp Fin is looking for expanded disclosures via:

- Disaggregation by portfolio category, borrower class/subtype (owner occupied/nonowner occupied), geography, etc.
- Discussion of whether deterioration stems from many small borrowers or a small number of large borrowers.
- More specific details on risk strategies (procedures and policies) in Management Discussion & Analysis (MD&A).
- Any unique circumstances about preparer-identified material exposures.

Appraisals for Collateral Dependent Loans

- How and when appraisals are used.
- Timing of appraisal and management evaluation of how changes in market conditions have impacted valuations.
- How and when the appraisal values impact charge-offs.
- Nature of appraisal used in collateral-dependent evaluation either "completed value" "as stabilized" or "as-is" value.
- Cases where properties are not subject to appraisal and applicable policies that allow a lack of appraisal.
- Alternate methods of evaluation (how valuation is determined in the absence of an appraisal).

Many financial institutions have a policy of not requiring an appraisal until there are indicators of credit deterioration; therefore, the SEC is also looking for greater details on loan-to-value (LTV) ratios:

- Is a bank using LTV at origination or a more recent update?
- Banks should consider disclosures that provide quantitative data related to the portion of the CRE loan portfolio value, using the LTV at origination and using LTV based on updated/ current appraisal values.

Q Factors

The SEC noted that many filings include a list of Q factors that may be relevant and applied in calculating the allowance for credit losses (ACL); however, no disclosure is made as to the weighting or magnitude of each Q factor, or which factors are significant in calculating the ACL. Disclosures should:

- Accurately reflect the magnitude of the Q factors relative to the ACL as a whole.
- Outline the Q factors that have an impact for the period vs. a list of all the Q factors that were "considered."
- Discuss which Q factors have higher weight in the ACL.
- Note if one of the Q factors drives the change in the ACL from period to period.

Earning Presentations Versus 10Q/10K Disclosures

The SEC observed that filers provide users with additional details and disaggregated data related to loan portfolios and credit quality through earnings calls and investor presentations. Corp Fin believes additional information considered relevant to understanding financial position, earnings, and credit quality should be included in 10K and 10Q filings. While not specifically mandated, management discussion and analysis (MD&A) guidance in Section 303 requires information that would "enhance the use and understanding of the results of operations." Financial institutions should consider including additional relevant information from earnings presentations, to provide investors transparency and precision in understanding the results of operations. Some items noted:

- CRE loan data, further disaggregated by maturity/duration, borrower class/subtype, e.g., owner occupied/nonowner occupied, geography, etc.
- Asset repricing frequency and other data relevant to understand rate sensitivity.
- Deposit statistics and uninsured deposit levels.
- Liquidty and borrowing capacity.
- Duration and maturity of AFS debt securities.
- Efficiency and liquidity ratios.

The SEC will be reviewing for any inconsistencies or different trends in earnings presentations and 10k and 10Q filings.

Sensitivity Analysis

Corp Fin has observed that many filers include rate sensitivity disclosures within the MD&A using generic rate shock, which may not be reflective of the current rate/economic environment or the potential rate shift over a 12-month time horizon. Registrants should consider disclosure of rate shocks that are reasonable in the near-term economic environment.

Weighted Average Yield Disclosures for Investment Securities

In 2020, the SEC codified previous GAAP guidance (previously addressed in Guide 3) into Subpart 1400 of Regulation S-K, requiring the disclosure of the weighted average yield by maturity bucket for investment securities. No specific methodology is required, but disclosure is required for the calculation used. Corp Fin staff is looking for additional granularity in these calculation descriptions:

- Is the basis for the presentation amortized cost or fair value?
- Is the amortization of premiums or discounts included in the weighted average yield?
- Is yield to maturity or current yield presented?
- Is yield provided pre-tax or post-tax?
- Are the effects of hedging included in the weighted average yield?

The overall tone of the Corp Fin panel reflected above indicated additional information is desired from Corp Fin in the current environment.

SEC's Office of Chief Accountant (OCA)

Jonathan Wiggins, deputy chief accountant, and Gaurav Hiranandani, senior associate chief accountant, kicked off the discussion by confirming the SEC's mission. The representatives reiterated expectations for high-quality financial reporting from preparers and audit quality. The SEC's oversight authority for the public company accounting oversight board (PCAOB) was also reiterated.

Identifying the Accounting Acquirer in Business Combinations

The SEC has seen an increase in consultations related to identifying the accounting acquirer in business combinations. The accounting acquirer may not always be the legal acquirer. The first step in identifying the accounting acquirer is the determination of which party obtained control under ASC 810, ***Consolidation***. If the accounting acquirer is not apparent, then the second step is to move to guidance in ASC 805, *Business Combinations*, which includes several additional factors to be considered. There is no hierarchy or weighting to the factors listed, so judgment is required. A transaction where the accounting acquirer is not the legal acquirer may also be called a reverse acquisition.

> The OCA encourages an upfront consultation on the application of accounting rules for complex transactions, rather than risk a subsequent comment letter or enforcement action.

Crypto Asset Safeguarding Obligations

Staff Accounting Bulletin (SAB) No. 121 was published in March 2022 and expressed the SEC's views on the accounting for the safeguarding of cryptocurrency assets that an entity holds for platform users. SAB 121 requires reporting entities that perform crypto asset safeguarding or custody activities to record a safeguarding liability with a corresponding crypto asset.

Paul Munter, chief accountant for the SEC, highlighted the conclusions from two recent consultations where SEC staff stated that an arrangement did not fall within the scope of SAB 121 based on extremely specific fact patterns. The first consultation involved a bank holding company subsidiary holding cryptocurrency assets for institutional customers only.

The bank holding company took steps to sufficiently mitigate the risks and uncertainties present in its arrangements to safeguard crypto assets.

The second fact pattern covered a registered introducing broker-dealer (BD), wherein the BD established an arrangement with a third party providing crypto asset trade execution and safeguarding for customers of the introducing BD. Further, the BD did not maintain possession of cryptographic keys, required the third party to be the contractual agent of the customer, and a legal opinion was obtained that supported the BD's conclusion.

Munter also addressed the use of distributed ledger of blockchain technology to facilitate certain transactions where traditional financial assets have been tokenized to represent a fractional share on a distributed ledger. In extremely limited situations, the arrangement would not be within the scope of SAB 121.

Those engaging in activities within the scope of SAB 121 may find it useful to read the SEC chief accountant full remarks.

> "…the staff's conclusion was based on the specific facts, circumstances, representations, and warranties by the entity and its outside advisers, including in legal opinions, with respect to the entity's arrangement. Those conclusions would not necessarily be the same for different fact patterns."
>
> **– Paul Munter**

> The cost and effort to comply with these SEC expectations is unlikely to result in the widespread expansion of crypto asset services provided by financial institutions.

Treasury Clearing

In December 13, 2023, the SEC issued a final rule expanding the use of central clearing for U.S. Treasury securities for secondary market transactions. These substantial changes will have an impact on all treasury and repo market participants. While reducing counterparty and systemic risks, the changes may impact pricing and liquidity in the U.S. treasury market.

Risk Management, Customer Protection, & Access
March 31, 2025

Cash Transactions
December 31, 2025

Repo Transactions
June 30, 2026

Staff at both the OCA and Corp Fin are closely monitoring implementation efforts, coordinating with SIFMA and other regulators, and standing ready to provide additional guidance as needed for any downstream impacts. For example, during LIBOR reference rate reform, SEC staff provided additional guidance on the downstream impacts of repapering derivative contracts.

Regulatory Landscape

Jonathan Gould, a partner at Jones Day, and Sydney Menefee of Flagstar Bank, N.A., presented views on the legislative and regulatory activities impacting the financial industry. Since the 2007 mortgage crisis, banking agencies have demonstrated a zero or near-zero tolerance for systemic risk. Before 2023, the historically low levels of bank failure could be indicative of this too-tight risk tolerance.

Interventions in 2023 were swift and dramatic. Increased capital requirements are pushing more activities out of the banking system, as evidenced by the spike in credit risk transfers by the largest banks and securitizations. This reduced risk appetite has extended to state bank regulators, eroding the value of a dual banking system. Jonathan highlighted two recent Supreme Court cases that may impact future challenges to banking regulations.

SEC v. Jarkesy

The Supreme Court held that the Seventh Amendment requires the SEC to sue in federal court when seeking civil penalties for fraud. This will end the SEC's use of in-house tribunals led by administrative law judges (ALJs). This precedent is likely to be cited in future litigation on other agency's use of ALJs.

Chevron

Since 1984, courts have followed the "Chevron Doctrine," giving deference to regulating agencies to interpret gaps and ambiguities in laws written by Congress. On June 28, 2024, the Supreme Court overturned this ruling, so that administrating agencies, including the SEC, will no longer receive deference, giving the courts a greater role in interpreting the law.

FASB Accounting Updates

The FASB panel covered its agenda prioritization process and project updates on soon to be released exposure drafts. FASB regularly solicits feedback from stakeholders on its agenda prioritization. The last outreach was in 2021, and most of the top priority items have been wrapped up or will be finalized shortly. Upcoming exposure drafts include software costs, environmental credits, and government grants likely to impact community development financial institutions (CDFIs). The items of most interest to financial institutions include the accounting for purchased financial assets (PFA), hedging improvements, and making the statement of cash flows for financial institutions meaningful for investors.

Forvis Mazars encourages your institution to respond to the forthcoming agenda consultation to help shape future standard setting.

Purchased Financial Assets (PFA)

ASU 2016-13 updated the definition and accounting treatment for purchased credit impaired assets and rechristened them as purchased credit deteriorated (PCD) assets. The difference between PCD and non-PCD accounting is the recognition of the day-one provision expense for non-PCD assets versus the "gross-up" and no provision expense day-one for PCD financial assets. ASU 2016-13 also updated sections of ASC 805, *Business Combinations*, to require the recognition of an allowance for credit losses in the period of acquisition for both PCD and non-PCD assets. For PCD assets, the allowance for credit losses is added to the purchase price, *i.e.*, fair value, in determining the amortized cost basis rather than as an earnings charge. However, for non-PCD assets, the corresponding charge is recorded through a provision expense on the acquirer's books. In addition, the acquisition fair value includes an expectation of credit losses as part of the purchase discount. This results in the perceived double counting of expected credit losses on non-PCD assets.

FASB's original decisions on PCD accounting were one of the most debated deliberations of the CECL standard-setting process. FASB received feedback that in determining if acquired financial assets qualify or do not qualify for PCD accounting, treatment remains complex and the credit discount on certain loans is double counted upon acquisition. To address these concerns, FASB issued an exposure draft in June 2023 with the following provisions:

- Expand the population of acquired financial assets subject to ASC 326's "gross-up" approach currently applied to PCD assets.
- Eliminate the day-one credit loss expense.
- Eliminate the use of "gross-up" method for AFS debt securities.

Feedback was mixed on the changes. Investors and some auditors were supportive, but preparers and auditors raised concerns on the following areas:

- Expanded scope was operationally challenging for certain financial assets like credit cards.
- Recognition and measurement challenges for some items covered by the expanded scope.
- Seasoning criteria; use of qualitative guidance rather than the 90-day rule.
- Retrospective application, prospective application with early adoption permitted is preferred.

FASB is redeliberating this comment letter feedback, but no timeline has been released for an updated exposure draft. Nothing is currently expected in 2024.

> The banking supervisor joint panel noted that their agencies did not support the proposed scope expansion and felt that changes to the CECL model may be premature, given the recent adoption for the majority of banks. The agencies were supportive of a prospective adoption application.

Hedging

Scope

FASB has heard from stakeholders that applying guidance in ASC 815, Derivatives and Hedging, can be complicated, especially for new products and arrangements not contemplated when guidance was first issued including research and development (R&D) or litigation funding arrangements and bonds in which interest payments may vary based on environmental, social, and governance (ESG) linked metrics. FASB issued an exposure draft on July 23, 2024 that would add a new principles-based derivative scope exception for contracts with underlying features that are based on the operations or activities of one of the contract's parties and changes the predominant characteristics assessment applicable to certain contracts that are not traded on an exchange from a correlation assessment to a fair value assessment. Comments are due by October 21, 2024.

Resource

Proposal to Clarify Derivative Scope Exception & Share-Based Payments

Hedge Accounting Improvements

FASB acknowledged that its 2019 exposure draft for narrow-scope hedging improvements fell short. FASB is expected to issue an exposure draft by the end of the third quarter, which would include the following targeted improvements to hedging guidance:

- Hedging forecasted interest payments on choose-your-rate debt instruments.
- Similar risk assessments in cash flow hedges.
- New written options as hedging instruments.
- Cash flow hedges of nonfinancial forecasted transactions.
- Foreign-currency-denominated debt instrument as a hedging instrument and hedged item (dual hedging relationships).

An exposure draft is expected before the end of the third quarter 2024.

Cash Flow Statement – Targeted Improvements for Financial Institutions

FASB is currently performing research and outreach on reorganizing and disaggregating the statement of cash flows to be more useful for financial statement users. FASB is considering the following:

- Reclassification of activities, such as accepting deposits and making loans to operate, as these are central to financial institution operations.
- Enhancement of disclosures related to cash interest received and a reconciliation of cash net interest income received to net income on the income statement.

No expected issued date has been released.

Forvis Mazars prepares a quarterly update on FASB standard-setting activity, including upcoming effective dates, outstanding exposure drafts, and ongoing projects that may impact your accounting and financial statement reporting.

CECL

Key reminders consistent across supervisors and regulators:

- Is loan segment-level reporting still sufficient to provide transparency to risk?
- Are historical prepayment speeds still appropriate based on our current environment?
- Is the loss lookback period still appropriate based on our current environment?
- Does the data applied in the development of Q factors remain relevant and reliable in our current environment?
- Is our forecast period still reasonable and supportable?
- Does the economic data relied upon in supporting our forecast period remain applicable to our institution in our current environment?

Midsize Banks

Banks are enhancing and improving the models, focused on ensuring that the models provide intuitive results for changes in economic indicators, given the forecasted Fed interest rate cuts in September and December. This includes coordination with the credit department and financial reporting teams to ensure the 'story is consistent.'

Large Banks

Banks are making continuous refinements to models to improve data quality and reduce lag times in the rollforward to the reporting date. One bank moved from a single scenario to multiple scenarios. For another bank, growing more comfortable with the model and its outputs has increased the granularity in its internal reporting.

Climate Change as a Model Input

None of the conference's bank panelists included climate change as a CECL model input/factor. The large bank panel highlighted the challenges of incorporating a separate factor into the credit risk model or as a separate factor in the CECL model. While there is historical data on catastrophic events and resultant losses, predicting which 'severe events' will occur during the life of a loan and the impact on a loan's performance would be extremely difficult to incorporate into the model.

Climate Rules

Only one session was dedicated to current developments on climate regulations for the U.S. (SEC and California) and globally, but the topic was addressed during other sessions. Europe is much further ahead in implementing mandated climate and sustainability disclosures in financial statements. Bank supervisors noted that they are monitoring European developments and no imminent changes to reporting requirements were planned.

The large bank panel discussed current efforts in voluntary climate and sustainability reporting, and preparations for the stayed SEC and soon to be effective California rules. They all felt that voluntary disclosures should have the same level of assurance and control framework as mandated reporting. The effort is cross functional within an organization and there were a few different reporting lines for the chief sustainability officer, including direct report to the CFO or accounting policy team, or with a dotted line to the public affairs team. All large banks were working on the definition of 'materiality,' which could be different than financial statement materiality.

Resources:

Updated SEC Expectations on Climate Disclosures

The 1-2-3s of the GHG Protocol: Tips for California Climate Reporting

Identifying Internal Controls for SEC Climate GHG Reporting

SEC's Climate Disclosure Rule (Stayed)

Artificial Intelligence (AI)

There were three dedicated AI sessions and mentions by multiple speakers in nondedicated sessions. There was universal agreement that AI is here to stay; however, there are a wide range of opinions on the potential benefits and risks of AI. Presenters from KPMG and Rhino.ai put forth a practical approach and use cases spotlighting AI to accelerate application modernization and development. Financial institutions would need to find the most appropriate use case balancing risk concerns with value creation/cost savings.

Midsize bank panelists were monitoring AI developments as a tool with future promise for financial reporting teams. Sale side departments were seen as the most likely initial adopters.

Fintech

Banking supervisors are seeing an uptick in fintech arrangements. An interagency policy statement was issued in July 2024 highlighting potential risks and examples of risk management processes to address those risks.

Tax Credits

Banks of all sizes use tax credit investments to satisfy CRA requirements, reduce cash taxes paid, and for strategic initiatives. In 2023, FASB issued ASU 2023-02, which expands the proportional amortization method accounting election—under certain conditions—to other existing programs such as the New Markets Tax Credit (NMTC), Historic Rehabilitation Tax Credit (HTC), and Renewable Energy Tax Credit (RETC). Certain existing specialized guidance for Low-Income Housing Tax Credit (LIHTC) investments has been removed to provide more comparable accounting for all tax programs.

Resources:

Proportional Amortization Option for More Tax Credit Programs & LIHTC Accounting Changes

New Markets Tax Credit 101: An Intro to the Program & Process (Webinar)

Renewable Energy Tax Credits: Banking on a Sustainable Future (Webinar)

Economic Outlook

Marci Rossell, former chief economist at CNBC, and Douglas Duncan, chief economist at Fannie Mae, separately presented engaging sessions on the current macroeconomic environment and real estate market updates. Both speakers provided multiple indicators that the economy is recovering, and a recession is not likely. Rossell noted that recessions are generally caused by unexpected events and that future losses in CRE are unlikely to trigger a recession. Some sectors within the CRE market continue to perform well, such as warehouses and senior housing.

Duncan's comments were consistent with Rossell, noting an unlikely recession with economic indicators that do not reveal a weak economy. He further analyzed the CRE space, highlighting the broad nature of the asset class, with the troubled indicators seen mainly in traditional office vacancy rates. Elevated vacancy rates are noted as geocentric. Overall, he indicated a fallout of CRE lending would not impact the economy nearly as much as a residential fallout.

Market expectations and comments from Fed Chair Powell ("higher for longer" and "easing less rapid") indicate a 25-basis point cut in September and December.

Federal Deficit

The deficit as a percentage of GDP is at the same level as it was during WWII. Given the rise in interest rates, the cost to fund the deficit will shortly exceed the defense budget. The interest rate premiums demanded in the global market will be a leading indicator that the federal deficit gets too large. Rossell noted that if interest rate remains below 5%, then productivity gains can offset debt funding increases—but this becomes problematic if at a rate over 5%.

Global Demographics

In the near future, there will not be enough working age people to maintain current living standards.

Slowdown in Chinese Economy

China is the world's second largest economy, and it is facing multiple challenges—high levels of debt, deflation, and a demographic cliff in the working-age population (by 2050, China is expected to lose 216 million working-aged people). Consumer spending represents 25% of GDP (versus 15–18% in the U.S.).

Bank Panels

This section covers those topics not covered elsewhere in this document.

Large Banks

Senior accounting policy officers from Wells Fargo, Citigroup, US Bancorp, and Bank of America discussed top-of-mind accounting and financial reporting topics.

Segment Reporting

ASU 2023-07 will be effective for public entities for 2024 annual reports. These banks are spending significant time and effort reviewing their existing segments and what additional expenses will need to be broken out at a segment level for the first time. All agreed that interest expense would not be broken out separately since this is not managed separately. For the first time, the chief operating decision maker will be disclosed, and careful consideration was given to whether this should be a single individual or a committee. The allocation of corporate overhead is being evaluated; however, the composition of each firm's centralized corporate functions varied.

The ASU requires entities with a single reporting segment to provide all newly required and existing ASC 280 disclosures. Each firm is drafting single-segment disclosures for its wholly owned broker-dealer that must file a standalone financial statement with the SEC.

Resource

FASB Mandates New Segment Details for Public Companies in 2024

CRE

Banks are watching this sector carefully and highlighted several themes noted above. They are drilling into portfolio details such as owner-occupied loans, institutional owners, and newer/older properties. Since appraisals are unlikely to be engaged and finalized within a reporting cycle, policymakers are looking at alternate procedures to ensure proper valuations.

Midsize Banks

Accounting officers from Huntington Bank, Atlantic Union Bank, and Santander U.S. fielded questions on a variety of topics.

Efficiencies & Improvements

All three institutions were focused on developing efficiencies and consistencies across multiple legal entities or offices and reducing the number of technology platforms used in accounting functions while automating task-oriented functions, *e.g.*, accounts payable, reconciliations, and treasury operations.

Panelists indicated depending on the size and complexity of the process, offshoring operations are deployed through direct employment or indirectly through a vendor. One bank chose to offshore 80% of its SOX testing indirectly by hiring a domestic vendor that then outsourced to an offshore third party. Another bank directly employs assets offshore and sends tasks that have an expected outcome or lack subjectivity to offshore teams to allow onshore talent to focus on strategic matters.

Data quality and reducing manual processes were also focus areas. One project included a review of manual journal entries for month-end and quarter-end close. Is the journal entry material to the financial statements? Can it be moved out of a peak period before or after close?

Workforce

All banks had a hybrid workforce, which has resulted in a broader talent pool. For the best success, communication is critical and in-office days are coordinated. Senior management must be intentional about meeting planning, prioritizing in-person meetings on days when all staff are in the office. The officers draw employees to physically attending meetings in person when in office versus Zoom calls from individual desks.

Regulator & Auditor Relationships

Banks were consistent in being upfront, transparent, and candid with both regulators and auditors through regularly scheduled meetings to ensure 'no surprises' for either party. Banks welcomed the slowdown in FASB accounting changes to better deal with increasing regulatory changes, *e.g.*, new capital requirements.

Regulatory Capital

Banks are being strategic about managing capital levels, including:

- Credit linked notes.
- Securitizations.
- Tax strategies that include LITHC and EV leasing tax credit. Huntington Bank includes tax alongside business strategy in forecasting and capital planning.
- Improving data quality to ensure risk-weighted asset calculations are accurate.
- Ensuring that the prudentially underwritten classification is applied correctly.

Community Banks

Lisa O'Neill, EVP & CFO at Lakeland Financial Corporation, Janet Verneuille, senior EVP & CFO at First National Bank of Long Island, Jason Long, EVP & CFO at C&F Financial Corporation, and Tony VunCannon, EVP & CFO at Home Trust Bank all presented on community banks.

Human Capital

A hybrid workforce has helped recruit new talent, but it is harder to build culture. Institutions are outsourcing when they cannot find the right talent.

Profit Management

Conduct contract reviews with all existing service providers. Some banks added financial planning and analysis staff for better accountability and budget discipline; these added positions also improved data quality and reporting frequency for better risk management and business decisions.

Test Liquidity Plans

A postmortem of the 2023 bank failure indicated bank personnel lacked access codes and a list of authorized users to effectively tap the Fed discount window and that appropriate assets were not pledged as collateral to the federal home loan banks (FHLBs). Two participants acknowledged unforeseen operational challenges in accessing these backup liquidity sources. They now regularly use these facilities to ensure that their liquidity plans will operate as intended, even during a crisis.

Reputational Risk

Another lesson learned from 2023 was that reputational risk should be actively considered as part of liquidity risk. The power of the internet and the speed of 2023's deposit withdrawals caught everyone off guard. These banks now regularly monitor social media feeds for information related to their institution and peer cohorts.

Cybersecurity

Panelists encouraged a review of all vendor contracts to add breach notification language to their institution's plans, including how and when notification is required.

Conclusion

Forvis Mazars can help your financial institution tackle issues inherent to the industry, including market growth, internal control threats, industry consolidation, and compliance. Forvis Mazars is a leader when it comes to audit work for financial institutions, holding the number two position as auditors of public banks in the U.S., according to data from S&P Global. Our team of dedicated professionals has concentrated experience in the financial institutions, mortgage banking, broker-dealer, specialty finance, and asset management industries.

Combine our focus on Unmatched Client Experience with the resources of a global firm, and you will find that Forvis Mazars is the trusted advisor your institution needs. Serving you is our passion and privilege.

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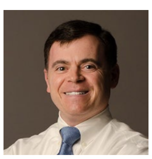

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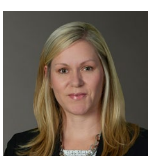

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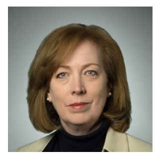

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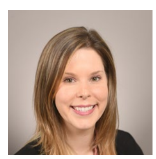

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