KPMG

Banks & Savings Institutions

Issues & Trends

Speakers at the 2023 AICPA National Conference underscored the banking industry's evolution, focusing on changing economic scenarios, regulatory adjustments, and the influential role of AI, with fewer traditional accounting issues as the focus.

September 2023

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Contents

1 Meeting highlights

Current trends affecting the banking industry indicate that the upcoming years will be quite different than the recent past.

Speakers at the AICPA National Conference on Banks and Savings Institutions, which took place September 11-13 in Greater Washington, DC, discussed the implications of shifting economic conditions, market stresses of this past spring and the unpredictable yet vast potential of Artificial Intelligence (AI). Bankers, regulators, standard setters and auditors expressed the importance of trust and communication amongst industry stakeholders as these trends play out.

Certain accounting topics discussed in depth at previous conferences received notably less coverage on this year's agenda. Bank panelists observed that while time consuming and challenging, the Current Expected Credit Losses (CECL) methodology is now business as usual. The transition away from LIBOR is substantially complete. Customer demand for and regulatory tolerance of digital assets has waned. While work continues on ESG and climate disclosure, discussion by bankers was limited to continued speculation on the timing of the SEC's final rule issuance.

Overall, accounting topics discussed were less ubiquitous and more tailored to the specific circumstances of institutions. Conference speakers focused remarks on the implications of recent events and current trends for the banking industry.

Shifting economic conditions

Marci Rossell, former economist for CNBC, shared her belief that the world we have become economically accustomed to is about to look very different. In 2023, she noted the economy is facing a significant turning point due to demographic changes, technological advancement and geopolitical transformation.

While the Federal Reserve may achieve a so-called 'soft landing' of the economy in its inflation fight, Doug Duncan, Fannie Mae Chief Economist, warned of a greater economic reckoning looming on the horizon. Record high national debt levels, rising interest rates and other macroeconomic factors may combine to pose longer-term fundamental economic risks in as little as the next three to four years.

Regulatory response

Significant regulatory action has occurred in response to the market turmoil of this past spring, with proposed rules related to Basel III capital and long-term debt having notable implications for banks with greater than $100 billion in assets. Federal Banking regulators reflected on their experiences from earlier this year, emphasizing the importance of safeguarding public trust and open communication between bankers, regulators and auditors during times of stress.

Separately, a panel of representatives from various bank advocacy groups shared expected challenges related to compliance with the aforementioned proposed rules. Beyond rule changes, they also shared observations that members in general have felt heightened scrutiny during bank examinations since March.

As a result of market stress and economic uncertainty, the SEC staff communicated a need for more insight and transparency. Therefore, bankers should be prepared to provide clarity through enhanced disclosures and regulatory reporting.

Potential of AI

The world changed forever in November of 2022 when a capable AI engine was made commercially available to the public for the first time. Scott Klososky, Technology Entrepreneur, explained that AI's potential for change and disruption is almost unprecedented, and he shared various practical applications for bankers and accountants that are already underway or expected over the next five years.

Economists described the importance of AI efficiencies in combating the economic headwinds created by aging demographics, decreasing birthrates and restricted immigration. As expected with any novel technology, others expressed concern and skepticism.

2 Turning point in the economy

Economists shed light on the transforming economy

Speakers throughout the conference were focused on where the economy is, where it's headed, and how banks and the industry play a pivotal role in shaping it, all seeming to agree that the industry is currently at an inflection point. Keynote speaker Marci Rossell spoke about the specific reasons she believes the domestic and global economies are at a significant turning point.

> "2023 is one of those years where the economy is facing a significant turning point, where the next ten years are really not going to look anything like the last twenty. The world that we have become economically accustomed to is about to look very different."
>
> — Marci Rossell,
> Former CNBC Chief Economist

Rossell stated that changes in demographics are having a significant impact on global economies. China, for example, which has had the world's largest population for the last 20+ years, is experiencing a demographic shift due to an aging population. This demographic shift, coupled with a related strain on China's ability to provide cheap labor, and other economic issues (e.g. high debt levels, deflation and a collapsing property market), will make the future of China's economy look much different in the next decade.

Turning to the US labor market, Rossell noted that demographics in the workforce are undergoing a change, as most Boomers are approaching retirement within the next decade, millennials settled into their careers during COVID, and a smaller generation, Gen Z, is entering the labor force. This changing workforce dynamic is ultimately driving lower unemployment rates with fewer people entering the workforce than leaving, or as Rossell phrased it, 'there's no slack'. So how does a business continue to grow with a labor shortage? She suggested an alternative to the historical answer of acquisition − technology.

The current influence of AI and its potential to reshape traditional industries and labor markets was one of the prevalent topics in the economic discussion. Rossell expressed an overall optimism about the potential for AI to drive economic growth and change. This included the potential for AI to transform certain industries that are historically very labor intensive (e.g. legal, accounting and consulting professions) and shift the competitive landscape to smaller businesses, which may not have been able to previously bear the expense. AI can also unlock productivity gains in many professions with Rossell even remarking that she leveraged ChatGPT to generate certain polling questions for her presentation.

Lastly, Rossell shared her perspective on the current interest rate environment and actions of the Federal Reserve to control inflation. She compared and contrasted the current environment to the 1980s, when the Federal Reserve raised interest rates so aggressively that it caused a recession, a scenario also known as a 'hard landing'. She discussed various other factors (e.g. oil prices, inflation expectations and labor markets) that make today's scenario different from that in the '80s and why we haven't seen a hard landing.

Douglas G. Duncan, Chief Economist at Fannie Mae, shared a similar sentiment to Rossell indicating he was hopeful that the Federal Reserve may actually achieve a 'soft landing'; however, he also stressed the significance of increasing US debt levels, rising interest rates and other macroeconomic factors, which all pose future economic risk.

Focusing on US debt levels, Duncan highlighted how debt, as a share of GDP, is at record levels. The US last saw these levels during WWII. Debt continues to grow by the magnitude of nearly $5 billion per day, which suggests that the US spends more on interest expense than on defense, a fundamental issue that contributed to Duncan's warning of a potential 'day of reckoning' in the near future.

Outlook on US housing market

Duncan further discussed his perspectives on the US housing and mortgage markets in the current macroeconomic environment and shifting trends in this market.

The rising interest rates experienced recently have left many borrowers with fixed-rate mortgages that are well below market rates. Duncan explained that over 90% of existing mortgages are more than 300 basis points below the market rate, which borrowers don't want to give up. Because these borrowers are 'locked in' at these rates with 30-year fixed mortgages, there is a disincentive for people to move. This phenomenon has caused a low supply in the housing market, which has driven up housing prices and caused first-time home buyers to seek alternative options, such as new homes or new markets.

The new housing market continues to grow and first-time home buyers, as a percentage of new home sales, is at the highest level since 2008. While builders continue to work through their project backlogs, Duncan recognized that the supply issue will take time to resolve.

Duncan also explained how the pandemic has helped contribute to the shift in the 'geospatial redistribution' of real estate values. First, with increased flexibility in the number of days workers are going into the office, people may be willing to move further out of cities they previously worked in. Taken a step further, housing data shows that there has been a geographical shift out of high-cost markets such as New York, Washington, DC and California and into 'new' markets such as the Midwest and Southeast. This redistribution of value carries across different types of real estate (e.g. household, commercial real estate) and Duncan believes it is likely not over.

Performance trends for banks

Chris Mihok, Managing Director at Keefe, Bruyette & Woods, Inc. (KBW) presented on what we can expect for bank performance, which includes slowing loan and deposit growth and increased pressure on net interest income and the bottom line for banks. Despite the macroeconomic pressures, however, KBW did not project any type of material recession and therefore relatively modest credit costs through 2024.

The slowdown of merger and acquisition (M&A) activity noted at the 2022 AICPA Banking conference had a repeat showing this year. While there is a continued slowdown in M&A activity in 2023, Mihok noted that dialogue between banks has increased as banks seek to manage their balance sheets for growth. The current interest rate environment may make a deal more attractive, thereby having a meaningful affect on M&A activity. Marking assets (such as held-to-maturity (HTM) securities, loans held for investment) and certain liabilities to fair value in a higher-interest environment will potentially tip the scales in certain key M&A metrics like accretion, tangible-book-value earn-back period and capital ratios. Mihok expects that most M&A activity will come from mid-sized to smaller banks as $100+ billion banks await final regulatory proposals from the FDIC and Federal Reserve.

Despite banking indices lagging behind the market since February 2023 and overall stock prices trading below a 15-year median on both an earnings-per-share and tangible-book-value basis, Mihok ended his remarks with a positive outlook for banks. He highlighted that over the last six recessions, while bank stocks have generally been negative for the first few months post-recession, they have outperformed over a 12- or 18-month period post-recession.

3 Trust, the cornerstone of our banking system

> "One of the key lessons learned this year is that we must never lose sight of the important role that trust plays in the financial system. Trust is the foundation for everything we do in the financial services industry."
>
> — Amanda Freedle,
> OCC Deputy Comptroller and Chief Accountant

The importance of trust in the banking and financial services industry was a major theme of this year's conference, as highlighted during the regulators' Chief Accountants panel. Essential for the stability and integrity of the financial system, trust is built on checks and balances that promote the reliability of information in financial statements and regulatory reports. Auditors, bankers, standard setters and regulators play a crucial role in maintaining this trust.

Office of the Comptroller of the Currency remarks

It takes a village. Amanda Freedle, Chief Accountant of the Office of the Comptroller of the Currency (OCC), referenced the popular book in emphasizing the shared responsibility to safeguard public trust and confidence in the banking system. Accounting is a critical function that should not operate in a silo within a business, and collaboration across functions is key.

Freedle also expressed hesitation about the FASB's exposure draft related to purchased financial assets, which would change the timing of credit loss recognition for certain purchased assets. She reiterated a longstanding position of preferring earlier credit loss recognition through earnings and expressed concerns about transparency due to the way credit loss, expenses and interest income are commingled under the proposed approach. See Standard setting update for more coverage of this exposure draft.

Board of Governors of the Federal Reserve System remarks

Lara Lylozian, Chief Accountant of the Board of Governors of the Federal Reserve System (FRB), highlighted priorities related to strengthening supervision and regulation, which includes initiatives to improve the speed, force and agility of supervision that empower examiners to focus on key risk areas and escalate when necessary.

The FRB is working to raise the baseline of resilience for banks. Their work to date includes proposals that would provide changes to capital rules and increased requirements for large banks under Basel III Endgame, and an expansion of current Global Systemically Important Banks long-term debt holding requirements down to banks with assets greater than $100 billion. Additional rules may be forthcoming, as the FRB commented on continuing to look at interest rate risk, liquidity risk, the risk of uninsured deposits, and the treatment of HTM securities in liquidity rules.

Lylozian also referenced Supervision and Regulation Letter 23-7, which recently announced a new Novel Activities Supervision Program, effective immediately. Novel activities are a priority for the FRB, and the new program is designed to support responsible innovation and enhance supervision around activities related to:

- crypto-assets;
- distributed ledger technology; and
- complex, technology-driven partnerships with nonbanks to deliver financial services to customers.

Federal Deposit Insurance Corporation remarks

In her remarks, Shannon Beattie, Chief Accountant at the Federal Deposit Insurance Corporation (FDIC), shared questions that the agency received on the referencing of regulatory reports for internal control over financial reporting (ICFR) in certain Part 363[1] submissions. Beattie clarified that the reference to regulatory reports for ICFR is required to be performed at:

- a consolidated financial statement basis either at an insured depository institution level, which would reference the Call Report; or
- a holding company level which, for example, would reference the FR Y-9C.

Permitting a holding company to comply with the ICFR reporting requirements of Part 363 at a holding company parent-only level by referencing the FR Y-9SP or FR Y-LP is not consistent with the requirements of Part 363. Therefore, the holding company-only level regulatory financial statements would not satisfy Part 363 requirements.

A popular question raised to the panel was when the FDIC proposed rulemaking on Special Assessment Pursuant to Systemic Risk Determination is expected to be finalized. Due to the active rulemaking process, Beattie could not comment on timing. She did note, however, the proposal points to ASC Topic 450 (Contingencies) as the relevant accounting guidance for the assessment. Speakers from the industry and trade association panel as well as the large bank experts panel commented on when to record the assessment and noted the agreed-upon trigger for recognition is when the final rule is published in the Federal Register.

Beattie also commented on transfers between categories, primarily transfers of securities from available-for-sale (AFS) to HTM. She noted that a transfer of debt securities between categories needs to be recorded on the date of the transfer, which provides the most accurate presentation of an institution's financial condition and results of operations as of the date of the Call Report. Beattie cautioned that it is inappropriate to amend a previously filed Call Report to retroactively report a debt security in another category.

To recap…

The Chief Accountants panel focused on the need for trust, collaboration, adaptability, communication, strong regulations, and robust working relationships in the financial sector. This could not be truer in times of market stresses such as those recently experienced by the banking industry. Now, more than ever, it is important to nurture and maintain strong working relationships within the industry, as these relationships are crucial for navigating challenges and changes in the industry.

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[1] Part 363 of the FDIC’s rules and regulations, *Annual Independent Audits and Reporting Requirements*

4 Insights into high-quality financial reporting from the SEC

SEC representatives discussed a wide array of topics at the conference, delving into the latest activities and priorities of the SEC. SEC staff from the Office of the Chief Accountant (OCA) and the Division of Corporation Finance (Corp Fin) discussed the importance of high-quality financial reporting and the significance of risk assessment in today's economic environment.

Office of the Chief Accountant

Paul Munter, Chief Accountant, and Jonathan Wiggins, Deputy Chief Accountant, discussed a variety of topics during their remarks. They emphasized the need for robust risk assessment processes by both management and auditors and highlighted the effect of economic and geopolitical uncertainties on financial reporting. They underscored the importance of conveying economic events and transactions in a transparent and understandable manner to investors as well as the need for effective accounting standards, accurate application of those standards, and reliable audits of financial information to maintain high-quality financial reporting.

They cautioned banks to carefully address risks involving the current interest rate environment in the financial reporting process. While many banks have seen a reduction in net interest margin (NIM) due to the current environment, Wiggins commented that higher interest rates have benefited some banks in their NIM but have also led to significant unrealized losses in their securities portfolios. For the broader banking system, declines in the value of fixed income securities have led to reductions in liquidity, so interest rate risk remains a watch point for the SEC.

> "Capital markets are built on trust, and that is built through an accumulation of each of your everyday actions and decisions. It really requires each of us and all of us fulfilling our respective responsibilities and professional obligations in order to build and maintain that trust in our markets."
>
> — Jonathan Wiggins,
> SEC Deputy Chief Accountant

Risk assessment and internal controls

Munter highlighted the importance of the risk assessment process not being grounded in risk factors from the past, but instead being a continuous process that adapts to the changing economic landscape. Pulling from his statement "The Importance of a Comprehensive Risk Assessment by Auditors and Management," Munter stressed the significance of adopting a holistic approach to risk assessment, considering both individual risk characteristics and their cumulative effect, and maintaining an unbiased and objective evaluation from the perspective of a reasonable investor.

Munter observed that management and auditors may be too narrowly focused on matters that directly impact financial reporting without giving enough thought to the potential effect broader issues may have indirectly on financial reporting. He further remarked that those indirect issues typically are recast in the financial statements as a revision restatement or a 'little r' restatement, whereas applying a more holistic view might have led to a conclusion of a reissuance restatement or 'Big R' restatement. Wiggins also reminded conference participants that severity assessments should be focused on the 'could' factor of the potential of the magnitude of the misstatement rather than focusing only on the actual misstatement.

Disclosures

The OCA panelists reminded registrants that they have to address issues created by the rapidly changing economic environment through the traditional disclosure-based regime. Wiggins recommended they take a renewed look at their risk disclosures provided under Item 305 of Regulation S-K to ensure that information is sufficient to address any significant risks that they are facing in the current environment. Material trends and uncertainties can be addressed through additional disclosure in management's discussion and analysis or through the disclosures of critical accounting estimates. Wiggins outlined some questions for entities to consider when developing critical accounting estimates disclosures.

Ask…	
Can the investor understand from the disclosure why the particular estimate is critical?	Does the disclosure include qualitative and quantitative information?
Does the disclosure adequately provide information incremental to the accounting policy disclosure?	Can an investor understand past variability in the estimate?
In addition…	
Does the disclosure discuss both qualitatively and quantitatively the sensitivity of the reported amount to the method and assumptions underlying its calculation?	

Areas of bank accounting judgments

Rachel Mincin, Associate Chief Accountant in the SEC's Office of the Chief Accountant, highlighted the importance of having systematic processes and controls around judgmental evaluations.

She summarized past consultations where judgments were applied in which the OCA staff objected to the entity's conclusions regarding transfers and sales of HTM securities and loans. An expectation of credit deterioration alone is not an appropriate reason to make a transfer from the HTM category to the AFS category because the guidance requires actual credit deterioration. Further, when there is change in the intent and ability to hold loans for investment to holding loans for sale, losses (if fair value is lower than cost) need to be immediately recognized at the time the decision to sell is made. An entity cannot wait until the sale happens to recognize losses.

She encouraged conference participants to read Staff Accounting Bulletin No. 119. While this SAB provides updates to portions of interpretative guidance to align the staff's guidance with the FASB's credit losses standard (ASC Topic 326), it serves as a helpful framework for any sort of judgment and includes fact patterns on:

- developing, maintaining and documenting a systematic methodology;
- documenting the results of that systematic methodology; and
- validating that systematic methodology.

Division of Corporation Finance

Stephanie Sullivan, SEC Division of Corporation Finance Associate Chief Accountant, provided insights into best practices for certain disclosures.

Interest rate risk

When banks elect to provide an interest rate sensitivity analysis, Corp Fin staff expects them to disclose the key inputs and assumptions made for purposes of this analysis, including assumptions regarding future balance sheet composition and loan and deposit pricing assumptions. Sullivan noted several additional inputs and assumptions Corp Fin staff have observed in some disclosures that provide useful information to investors. Those inputs and assumptions include deposit beta, migration assumptions from non-interest bearing to interest bearing, and whether a static or non-static balance sheet assumption was used in the analysis.

Deposits

Corp Fin staff recently observed an increase in disclosures related to deposit types given the recent environment. Sullivan noted Corp Fin believes banks should provide quantitative and qualitative information regarding their deposit base to assist investors in understanding any material changes in the deposit base and funding costs that are likely to result in material changes in liquidity or funding costs. Best practices highlighted included disclosing disaggregation of deposit statistics, characteristics to help investors evaluate potential deposit duration, and factors affecting deposit changes.

Credit risk concentrations

Sullivan encouraged banks to provide information for investors to understand risk and exposure when the banks have material concentrations in a particular loan category. Best practices observed include disaggregation of the loan portfolio, geographic disaggregation of high-risk loans, and disclosure by year of major tenant rollovers in high-risk loan products.

Liquidity risk

Corp Fin staff have observed enhanced disclosure in the 2023 interim periods regarding liquidity risk. Examples noted include expanded disclosure of sources of liquidity both on- and off-balance sheet, parameters to access borrowing capacity, and the extent to which accessing funding will involve realizing material losses. Another informative disclosure is a tabular presentation of available liquidity sources separated by type of borrowing capacity. Sullivan also encouraged banks to consider discussing liquidity policy guidelines, metrics used to manage liquidity, and compliance with internal guidelines.

Tangible common equity

While Sullivan remarked banks generally do not have many non-GAAP measures, she did note banks of all sizes include tangible common equity in their Form 10-K and Form 10-Q disclosures. This measure is disclosed in many ways, including tangible common equity, tangible book value for common share, return on average change of equity, and tangible common equity excluding OCI losses. Corp Fin staff observed inconsistencies in the way these measures were calculated and disclosed. Banks were encouraged to take a fresh look at these non-GAAP measures. Sullivan noted that the measure needs to be appropriately titled as non-GAAP, describe its calculation, and be calculated consistently across periods to prevent misleading disclosure.

PCAOB Proposal related to Noncompliance with Laws and Regulations

Dennis McGowan, VP of Professional Practice at the Center for Audit Quality, led a panel discussion of partners from various audit and law firms on the recent PCAOB proposal related to Noncompliance with Laws and Regulations (NOCLAR). Members of the panel described key aspects of the proposal, which would expand auditor responsibilities related to identification of a company's NOCLAR[2].

While current standards do not require an auditor to identify and contemplate laws and regulations that may indirectly affect the financial statements, the NOCLAR proposal would expand this to include identification of laws and regulations with which noncompliance could reasonably have a material effect on the financial statements. Panelists expressed hesitation around the feasibility of complying with the increased scope, citing that global companies in a highly regulated industry such as banking are subject to tens of thousands of laws and regulations.

Panelists also expected the proposal to result in a significant increase to an auditor's use of legal specialists. The amount of expertise needed to identify and perform risk assessment around the specific laws and regulations of various local jurisdictions does not likely exist within audit firms. Legal representatives on the panel shared further skepticism around an auditor's ability to take responsibility for the work of a specialist making such judgmental legal determinations, and questioned whether some of the required communications around the auditor's compliance determinations could be construed as providing legal services to the client, raising independence concerns.

The speakers also shared that a large number of stakeholders had participated in the comment letter process, with 137 submitted to date. While the majority of letters were in opposition to key aspects of the proposal, most expressed support for the overall goals of improving audit quality and modernizing the audit standards.

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[2] KPMG Hot Topic – PCAOB proposal would expand auditors' responsibilities

5 A look at FASB's latest standard-setting activities

The FASB panel covered a range of topics related to the FASB's recent activities, future priorities, and changes in accounting standards. The panelists were Hillary Salo, FASB Technical Director, Chase Hodges, FASB Practice Fellow, and Dan Stuhlemmer, FASB Project Manager.

> "…[C]alendar year 2023 is really shaping up to be what I would call the year of execution on many of these different topics. We have issued five exposure drafts this year already. We've issued five final ASUs this year, and we're on target to issue more."
>
> – Hillary Salo, FASB Technical Director

Standard setting update

The panel began its discussion by reviewing the status and activities resulting from the post-implementation review (PIR) process for CECL. As part of the feedback from the CECL PIR, investors noted the current model for purchased credit deteriorated assets was unnecessarily complex and that a single accounting model would result in more decision useful information. As a result, the FASB added a project to its technical agenda and released the Proposed ASU on Purchased Financial Assets[3] (PFA) in June 2023.

The proposed update seeks to expand the scope of financial assets accounted for using the PFA (gross-up) approach at acquisition. Day 1 credit loss expense is not recognized for an acquired financial asset accounted for under this approach; instead an allowance for credit losses is established by grossing up the acquired asset's amortized cost basis on acquisition.

The proposed update would apply to 'seasoned' financial assets – i.e. those that are either (1) acquired as part of a business combination or (2) acquired more than 90 days after origination if the acquirer did not have involvement in the origination. If these seasoning criteria are not met, the financial asset would be considered an originated financial asset, and therefore not eligible for the PFA gross-up approach.

The proposal would eliminate the concept of purchased financial assets that have experienced a 'more-than-insignificant' credit deterioration. Therefore, it would eliminate the need for an acquirer to make the judgmental assessment of whether a purchased asset has experienced such credit deterioration.

The proposal has received some preliminary feedback, particularly regarding the operational complexities of applying the PFA gross-up approach to credit cards and the modified retrospective transition. The FASB speakers noted the feedback is currently being reviewed

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

and is open to further comments to ensure the proposed update can be successfully adopted and implemented.

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

Near term

Topic	Highlights
Accounting for and Disclosure of Crypto Assets[4]	• Addresses the subsequent measurement, presentation, and disclosure of certain crypto assets. • Proposed amendments would require: – 'in-scope' crypto assets to be subsequently measured at fair value through net income; – separate presentation from other intangibles on the balance sheet; – presentation of gains/losses on in-scope crypto assets separate from amortization and impairment of other intangibles on the income statement; – enhanced disclosure requirements. • Final ASU expected during Q4 2023.
Targeted Improvements to Income Tax Disclosures[5]	• Enhances income tax disclosures through more disaggregated information. • Proposed amendments would require disclosure of: – for public business entities, additional disaggregation of individual reconciling items in the rate reconciliation; – for other entities, the nature and effect of significant differences between the statutory tax rate in the country of domicile and effective tax rate by specific categories of reconciling items; – for all entities, income taxes paid by jurisdiction. • Final ASU expected during Q4 2023.
Segment Reporting[6]	• Provides users with more information about reportable segments of a public entity. • Proposed amendments would require: – disclosure of significant segment expenses; – disclosure of other segment items for each reportable segment (reconcile each measure to segment profit/loss);

4 KPMG Defining Issues – FASB to issue final crypto asset accounting ASU

5 KPMG Defining Issues – FASB proposes improvements to income tax disclosures

6 KPMG Defining Issues – FASB proposes improvements to segment disclosures

Topic	Highlights
	– single reportable entities to provide segment disclosures; – most annual disclosures to also be made on an interim basis. • Proposed amendments would clarify that, in addition to reporting the measure of profit or loss that is most consistent with measurement principles under GAAP, a public entity is not precluded from reporting additional measures of a segment's profit or loss that are used by the chief operating decision maker. • Final ASU expected during Q4 2023.

On the horizon

Topic	Highlights
Accounting for and Disclosure of Software Costs	• The purpose of this project is to modernize the accounting for software costs and enhance transparency about an entity's software costs. • Scope includes recognition, measurement, presentation and disclosure of costs to internally develop or acquire software. • The Board is exploring a model in which all direct software costs would be capitalized from the point at which it is probable that the software project will be completed until the project is substantially complete.
Topic 815 – Hedge Accounting Improvements	• The purpose of the project is to make targeted improvements to the hedge accounting guidance based on issues raised by stakeholders. • Shared risk assessment in cash flow hedges of loan portfolios and written options as hedging instruments have been added to the scope of the project. • The staff will continue its research and engage in outreach for future Board meetings.
Definition of a Derivative	• This project is in the research stage to consider potential refinements to the scope of Topic 815. • The staff will continue its research and engage in outreach for future Board meetings on topics such as R&D funding arrangements, ESG-linked financial instruments and litigation funding arrangements.

Topic	Highlights
Disaggregation of Income Statement Expenses[7]	• The purpose of this exposure draft is to improve disclosure of a public business entity's expenses by providing more detailed information about certain types of expenses. • Exposure draft was issued on July 31, 2023, with comments due October 30, 2023. A public roundtable is to be held on December 13, 2023.

[7] KPMG Defining Issues – FASB proposes income statement disaggregation disclosures

6 Numbers don't lie, but AI might

AI's emergence as a topic at this year's conference is reflective of its meteoric rise in society over the past year. Scott Klososky explained that while AI has been around for decades, it wasn't until November of 2022 that for the first time a consumer could interact with an AI engine and achieve a novel outcome. Expectations for its implications on banking and accounting were explored by various speakers.

> "All of you should already have four or five AI engines in your inventory that you use every day. We're concerned about the gap that is forming. If you're saying to yourself, I tried ChatGPT once but I don't really use these things, you're already on the wrong side of this gap."
>
> — Scott Klososky,
> Technology Entrepreneur

Klososky warned skeptics of the risk of losing competitive advantage, and shared various examples of how banks are either currently using the technology, or expect to be over the next five years.

Intelligent customer relationship building and interaction

Customized avatar tellers (already being integrated into smart ATMs)

Autonomous systems for cybersecurity

AI driven Robotic Process Automation systems

Digital twin of a bank, supporting next level dashboards

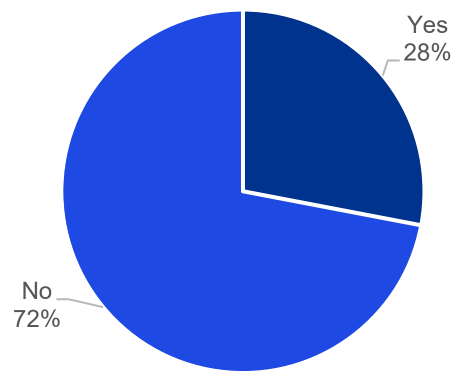
Increasing speed of payment systems

AI powered distributed ledger technology and frictionless integration into existing systems

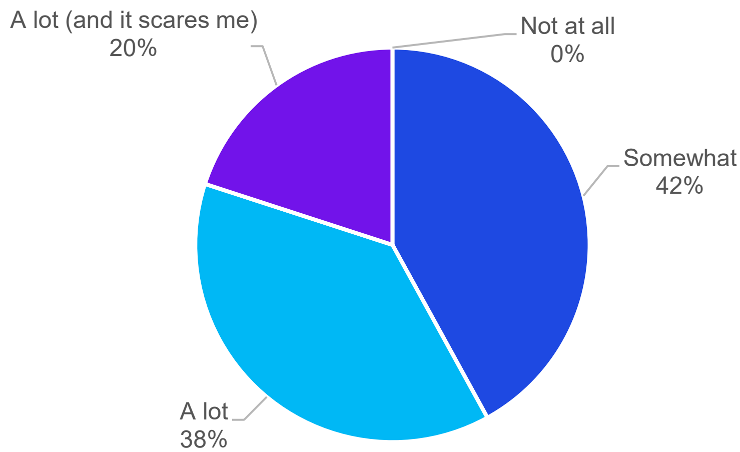
Economists remarked on the importance of using technological advances to gain efficiencies in the workplace. They encouraged the audience to not fear AI replacing human jobs because a current shortfall of younger skilled workers will only be exacerbated in the coming years by aging demographics, a decline in the birthrate and restrictions on immigration.

While most seemed to agree on the potential of AI to significantly affect the industry, a majority have not seen it practically applied. As part of her talk, Marci Rossell used live polling questions to demonstrate the audience’s sentiment.

Have you observed any tangible examples of AI implementation that directly contribute to productivity improvements or cost savings in your organization?



To what extent do you believe AI will reshape traditional industries and labor markets within the next five years?



Speakers on the Large Bank Experts Panel shared that most had received directives from their institution to review internal processes for opportunities to gain efficiencies by leveraging AI. Progress to date and overall sentiment was mixed. While some are using AI for things like automation of cumbersome reconciliations, others noted that asking AI technical accounting questions consistently yielded “wrong” answers.

A panel of representatives from various industry advocacy groups expressed concerns about the emerging skills gap, particularly at smaller institutions that may not have the resources to hire staff with adequate technical expertise to leverage the benefits of AI. Panelists also shared apprehension related to the lack of AI guidance provided by regulators, and the potential for early adopters to have challenges explaining their AI strategy and risk management to regulators.

The topic of AI was not specifically addressed by the regulators during the conference. Drawing on their remarks related to the importance of safeguarding public trust and collaboration amongst industry stakeholders, and given AI’s uncertainty and large potential impact, it may only be a matter of time. If the AI-generated title of this section is any indication, the journey may just be beginning.

KPMG Financial Reporting View

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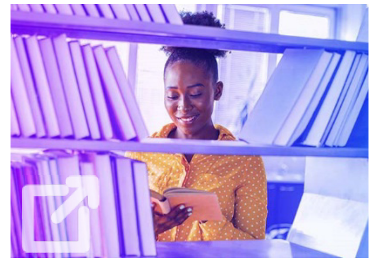
Our collection of newsletters with insights and news about financial reporting and regulatory developments, including Quarterly Outlook and FRV Weekly.

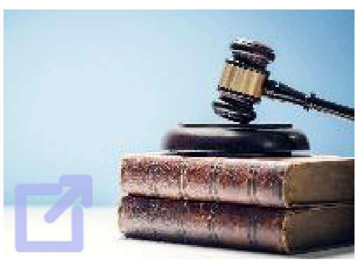
Handbooks

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



Hot Topics

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



ASU effective dates table

Our ASU effective dates table has moved to our Financial Reporting View website to provide real time access.

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Acknowledgments

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

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

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