

BankDirector.

Breakout 3:
**Accounting & Auditing
Issues: What Banks
Should Know**

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#A0BA24



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Accounting & Auditing Issues: What Banks Need to Know

Acquire or Be Acquired 2024

Meet the Presenters



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Agenda

- Regulatory Oversight & Continued Impact of Bank Failures
- FASB/GAAP Updates
- SEC/PCAOB/Other Regulatory Updates
- Audit Focus Areas

Regulatory Oversight, Rulemaking and Enforcement



U.S. SECURITIES AND
EXCHANGE COMMISSION



Office of the
Comptroller of the Currency



PCAOB
PUBLIC COMPANY ACCOUNTING
OVERSIGHT BOARD



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Continued Impact of Bank Failures

- Heightened focus on liquidity plan/deposit stability
- Analysis of unrealized loss positions
- SEC/Investor/PCAOB interest
- Slowdown in M&A
- More in-depth goodwill & going concern evaluations

FASB/GAAP Updates

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TDR “Elimination” (ASU 2022-02)

- ASU 2022-02 eliminates the TDR measurement model in the allowance for credit losses (ACL)
- Modified loans to troubled borrowers will follow the same CECL methods as unmodified loans, so all various CECL methods are allowed
- However, modified loans to borrowers experiencing financial difficulty can still be considered in the ACL process
 - Analyze individually, or in pool with modifications that have similar risk profile
 - Qualitative factor adjustments (credit trends)

TDR “Elimination” (ASU 2022-02) ACL Impact

- TDR measurement model requirements that were eliminated include
 - Requirement to use a DCF model to measure certain concessions, *e.g.*, extending the timing of cash flows or reducing the interest rate
 - Use of pre-modification effective interest rate in DCF approach
 - Consideration of reasonable expected extensions, renewals, & modifications (CECL requirement)

Segment Reporting – ASU 2023-07

- Objective
 - Improve segment disclosures to provide users more decision-useful information about reportable segments of a public business entity
- Effective Date
 - Fiscal years beginning after December 15, 2023 & interim period within fiscal years beginning after December 14, 2024
 - RETROSPECTIVE applicable required

Segment Reporting – ASU 2023-07

- Requires all public business entities to provide segment disclosures – including single segment entities
- Requires disclosure of significant segment expenses & other segment items
- Permit entities to disclose more than one measure of a reportable segment profitability used by the CODM
 - Non-GAAP Measures
- Requires disclosure of the title & position of the CODM & an explanation how the CODM uses the reported measure

Income Taxes – ASU 2023-09

- Objective
 - Improve the transparency & decision usefulness of income tax disclosures
- Effective Date
 - Public business entities for annual period beginning after December 15, 2024
 - Prospective application
- Provides enhanced information about individual income tax reconciling items
 - Nature & jurisdiction
 - Disclosed threshold – 5% of the statutory rate

Proposed ASU – Acquired Financial Assets



Purchased Financial Assets “PFA”



Proposed ASU would eliminate “Non-PCD” asset accounting



An acquirer would apply the gross-up approach to all financial assets in a business combination



Refresh on the “Gross-Up Approach” = PCD



Under the gross-up approach, there would be no immediate impact to provision for credit loss expense

Refresh on the “Gross-Up Accounting” for PCD

Under ASC 805, each acquired loan is marked to fair value with a credit adjustment & yield adjustment

Independent of fair value, management must estimate ACL on PCD loans based on unpaid principal balance

The ACL is added to the purchase price (fair value) to determine the initial amortized cost basis

Noncredit discount (the difference) is an accretable discount

No immediate impact to income statement

Other FASB/GAAP Updates

- Accounting for Investments in Tax Credit Structures
- Proposed ASU Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40)
 - The Board is issuing this proposed Update to improve the disclosures about a **public business entity's** expenses & address requests from investors for more detailed information about the types of expenses (including employee compensation, depreciation, & amortization) in commonly presented expense captions (such as cost of sales, SG&A, & research & development)
 - **Notable:** 220-40-55-20 thru 25, Example 3: Disaggregation of Income Statement Expenses by a Bank likely will cause changes

SEC/PCAOB/ Regulatory Update

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SEC Update

- SEC Final Rule: Cybersecurity Risk Management, Strategy, Governance, & Incident Disclosure
 - Final rule issued July 26, 2023 (proposed in March 2022)
 - Background: Diversity in practice on cybersecurity disclosures even after interpretive guidance issued in 2011 & 2018
 - Purpose: To enhance & standardize disclosures regarding cybersecurity risk management, strategy, governance, & incidents
 - New Reg S-K Item 106 requires disclosures
 - New Item 1.05 to Form 8K requirements

SEC Rule – Listing Standards for Recovery of Erroneously Awarded Compensation (aka Compensation Clawbacks)

Directs each national securities exchange to establish listing standards requiring each issuer to develop & implement a clawback policy

Required by Dodd-Frank

- Effective January 27, 2023
- Exchanges have 90 days from then to publish proposed standards to be effective no later than one year from their publication

If an issuer is required to prepare an accounting restatement, whether Big "R" or Little "r," the issuer must recover from any current or former executive officers' incentive-based compensation that was erroneously awarded during the three years preceding the date such a restatement was required

Recoverable amount is that compensation received in excess of the amount that otherwise would have been received had it been determined based on the restated financial measure

SEC Rule – Compensation Clawbacks – Recent Development



NYSE & NASDAQ proposed clawback rules in February

Both exchanges filed amended proposed rules in early June

SEC approved rules from each exchange on June 9 with an effective date of October 2, 2023

NYSE & NASDAQ issuers were then required to adopt appropriate exchange-compliant clawback policies by December 1, 2023

SEC Comment Letter Trends

Comment Letter Trends

Top-ten topics

Twelve months ended July 31, 2023

Topic	Percentage of all reviews	Current-year rank	Change in rank from prior year
MD&A	36%	1	—
• Results of operations	22%		
• Liquidity	11%		
• Critical accounting estimates	3%		
Non-GAAP measures	33%	2	—
Segment reporting	12%	3	—
Revenue recognition	10%	4	—
Acquisitions, mergers, and business combinations	10%	Tie - 5	↑ 5
Signatures, exhibits, and agreements	9%	Tie - 5	—
Internal control over financial reporting	8%	7	—
Fair value	7%	8	↓ (2)
Inventory and cost of sales	7%	9	—
Debt	7%	10	↑ 2

For additional information about SEC comment letter trends, see Deloitte's Roadmap [SEC Comment Letter Considerations, Including Industry Insights](#).

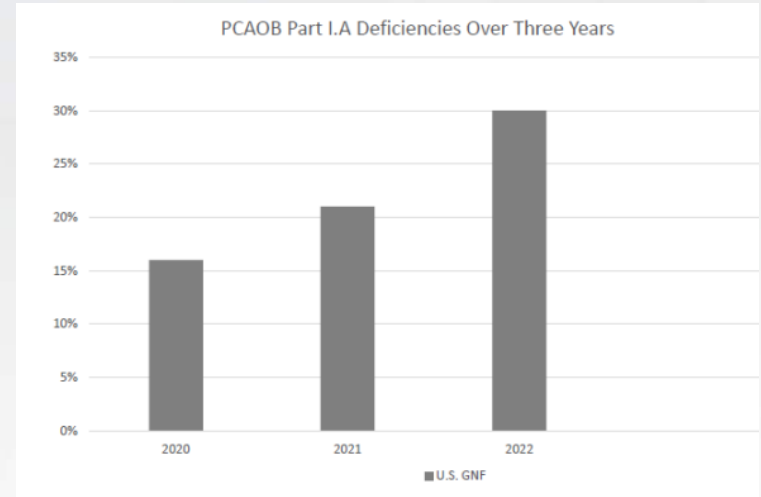
Note: Comment letter trend information was derived from data provided by Audit Analytics based on the percentage of all comment-letter-yielding Form 10-K and 10-Q reviews that include a comment on topic.

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PCAOB Regulation & Inspection

- No official 2023 inspection results available; however, downward trend in audit quality has not changed from 2022
- Part I.A. deficiencies have continued to increase
- Continued strengthened enforcement
- Two years in a row of the highest monetary penalties in PCAOB history



	2020	2021	2022	2023*
Public Enforcement Orders	17	21	42	46
Total Civil Money Penalties	\$1.5M	\$1.1M	\$11M	\$20M

* Through November 30, 2023

PCAOB Regulation & Inspection

PCAOB Proposal – “NOCLAR”

- Non-compliance with laws & regulations & the effects on financial statements
- Significant expansion of auditor responsibilities for instances of non-compliance



FDIC Update

- FIL-37-2023: Estimated Uninsured Deposits Reporting Expectations
- Special Assessment Pursuant to Systematic Risk



Auditing Areas of Focus



Internal Controls,
internal controls,
& internal controls



CECL
Implementation &
Maintenance



In-depth analysis of
unrealized loss
positions,
repositioning, &
investment
strategies



Additional focus on
liquidity



Commercial
Real Estate

Questions?

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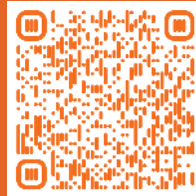
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