



FOCUS ON BUSINESS VALUE
2022 Crowe Financial Services Conference

Accounting and Financial Reporting Developments

Part I

November & December 2022

Presented by:

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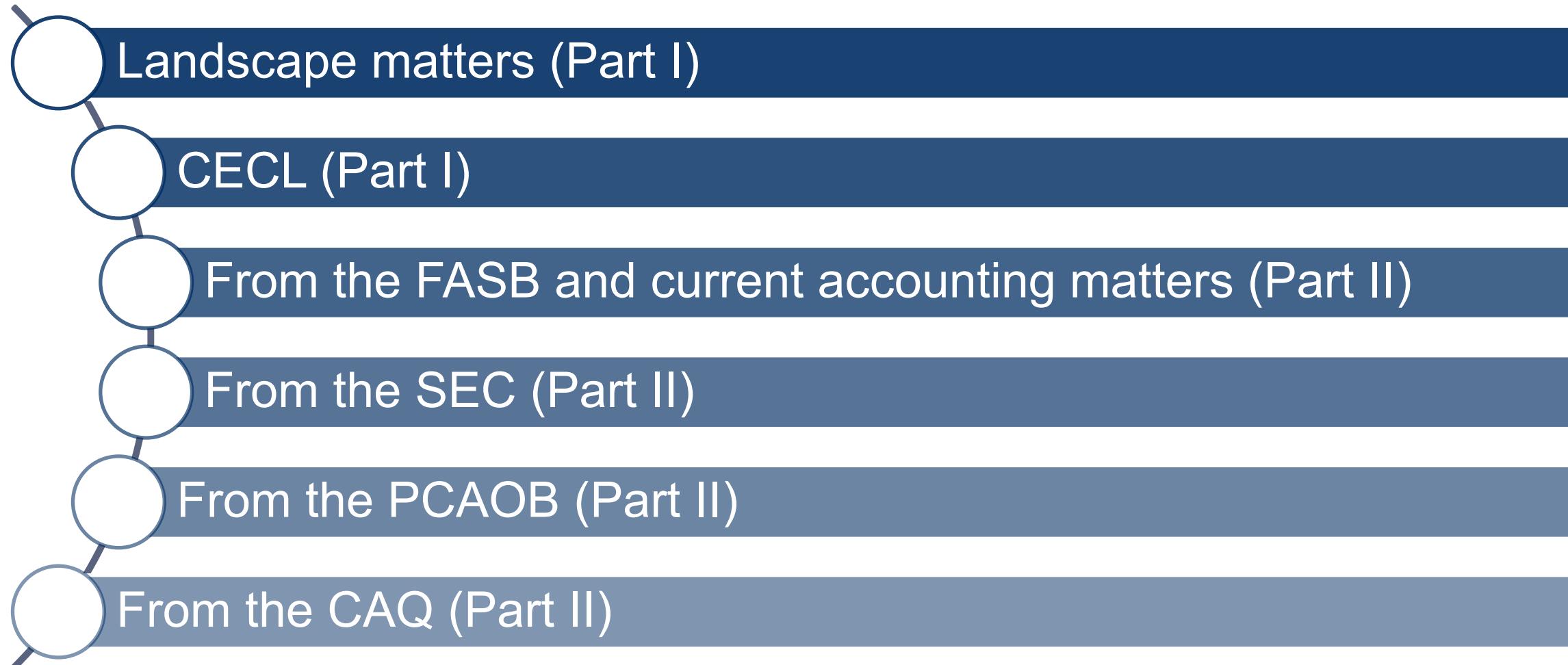
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Agenda



Landscape matters

AICPA Conferences

National Conference on Banks & Savings Institutions



Sept 12-14, 2022
Gaylord
National Harbor, MD

- Keynotes
- Messages from
- Regulators
- Standard setters
- Other stakeholders



National Conference on Credit Unions



Oct. 24-26, 2022
MGM Grand
Las Vegas, NV

Headlines

- Economic updates
 - Peter Morici, University of Maryland, Former Director of Economics, International Trade Commission
 - Doug Duncan, Chief Economist, Fannie Mae
 - Inflation, interest rates, housing market, Great Recession
- The Future of Humalogy in Banking
 - Scott Klososky, Tech Entrepreneur, Author, & Founder, Future Point of View
 - Balance automation and human touch, digital assets, branches, central bank digital currency
- Perspectives on the Regulatory Landscape
 - Rodgin Cohen, Senior Chair, Sullivan & Cromwell
 - Supervision, enforcement, crypto, ESG

SEC Acting Chief Accountant

- Financial reporting in economic uncertainty
 - Inflationary constraints
 - Interest rates
 - How are uncertainties addressed?
- Estimates
 - Susceptibility to change in near term (e.g., cash flow projections, discount rates)
- Auditor independence
 - Investor should be able to invest under the assumption that auditors are objective and impartial
- Materiality
- Fraud

SEC staff

- Enforcement
 - Level 3 fair value
- Pandemic disclosure
 - Corp Fin Topics 9 and 9A, respectively
 - <https://www.sec.gov/corpfin/coronavirus-covid-19>
 - <https://www.sec.gov/corpfin/covid-19-disclosure-considerations>
 - Changes resulting from pandemic that have, or will, materially impact the registrant's financial statements should be disclosed
- Crypto
 - Staff Accounting Bulletin (SAB) 121 and consultations
- CECL
 - Consultations
 - Non-GAAP measures
 - Typically, adjustments should not be made to expense, outside of PPNR

Fed, FDIC, OCC Chief Accountants

- CECL
 - Current economic risks (e.g., inflation, supply chain disruptions)
 - COVID-19 data
- Crypto
- Climate
 - FDIC and OCC have issued draft principles related to climate-related risk management
 - Focus will be on institutions with assets greater than \$100 billion
- Call reports

FASB

- Agenda consultation
- CECL
- Standard setting

Headlines

- Economic Update
 - Ligia Vado, senior economist, Credit Union National Association (CUNA)
 - Economic trends, consumer trends
- Digital Assets - It's Not About Bitcoin
 - Lou Grilli, senior innovation strategist, PSCU
 - Cryptocurrency, blockchain, NFTs
- Risks in the Credit Union System Panel Discussion
 - Megan Rangen, Crowe; Chris Vallez, Nearman, Maynard, Vallez; Jackie Gilbert, CRO, Suncoast; Troy Garry, CFO, Sound Credit Union
- NCUA Regulatory Update
 - Kelly Lay, Director of the Office of Examination and Insurance, NCUA
 - Interest rate risk, credit risk, cybersecurity
- Technology, Fintech & Innovation
 - Bryan Clagett, Chief Revenue Officer (CRO) and Strategy Officer, Moven
 - Engagement, create value and be relevant, experiences

Crowe resources – conference takeaways



Crowe Smart decisions. Lasting value.™

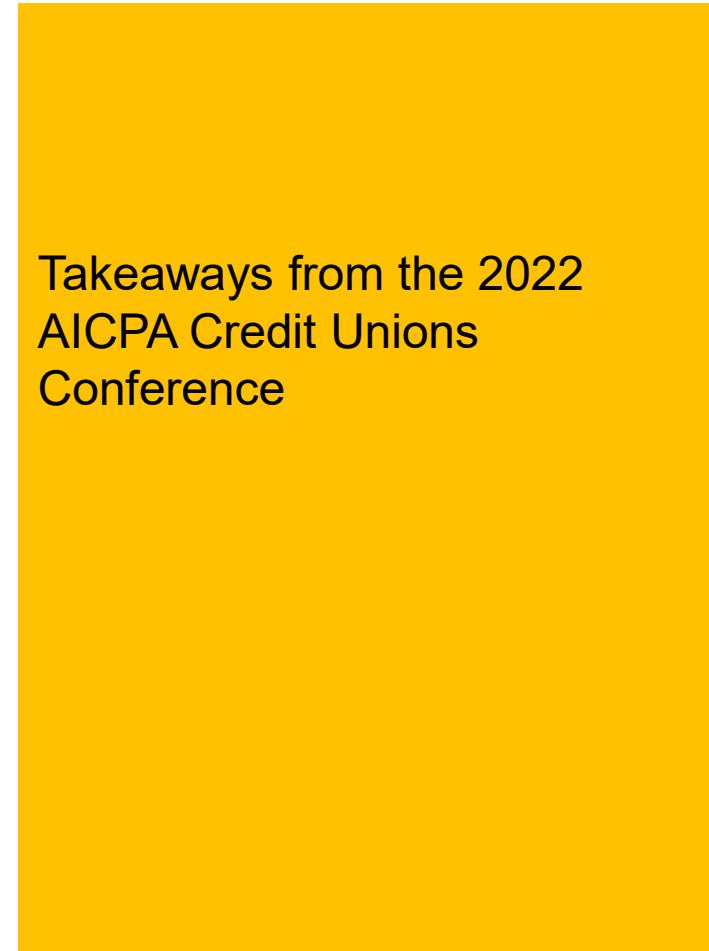
Hot topics
Takeaways From the 2022 AICPA National Conference on Banks and Savings Institutions
Oct. 12, 2022

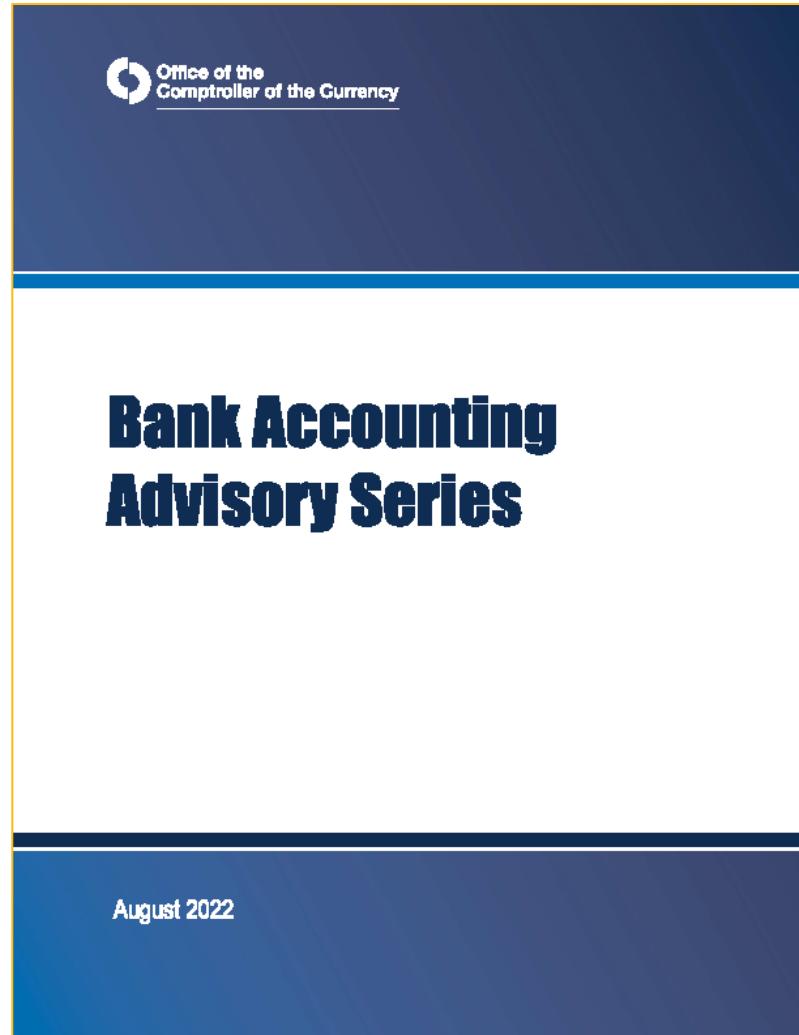
<https://www.crowe.com/insights/asset/2/2022-aicpa-banking-conference-summary-takeaways>

Thank you to:
Sydney Garmong
JP Shelly
Justin Murberg

Thank you to:
Sydney Garmong
Kevin McNaney
Tim Messman
Jason Naber
Megan Rangen

Slated for
Nov. 28





August 2022 changes:

New

- Subtopic 1A, Investments in Debt and Equity Securities (Question 20)

Updated

- Subtopic 3A, Lessor Classification and Accounting (Question 2)

<https://www.occ.gov/publications-and-resources/publications/banker-education/files/pub-bank-accounting-advisory-series.pdf>

SEC landscape matters



Confirmation of two new Commissioners

- Jaime Lizárraga (D.)
- Mark Uyeda (R.)

Current regulatory flexibility agenda

- Additional potential ESG-related items migrating through agenda
- Potential changes to definition of “securities held of record”

<https://www.reginfo.gov/public/do/eAgendaMain>

Reg flex agenda: securities held of record

§ 240.12g-1 An issuer is not required to register a class of equity securities pursuant to section 12(g)(1) of the Act if on the last day of its most recent fiscal year:

(b) (2) The class of equity securities was held of record by fewer than 2,000 persons in the case of a bank; a savings and loan holding company....

- Potential changes to definition of “securities held of record” under 17 CFR 240.12g5-1
- Timing – Notice of proposed rulemaking – Oct. 2022

<https://www.reginfo.gov/public/do/eAgendaMain>

“The Division is considering recommending that the Commission propose amendments to the “held of record” definition for purposes of section 12(g) of the Exchange Act.”

CECL

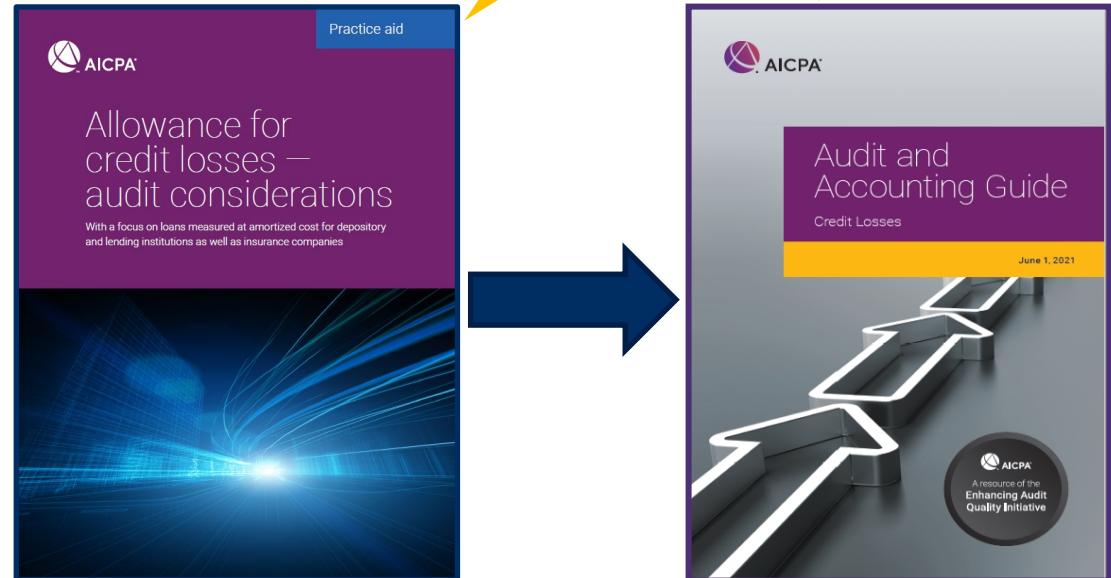
AICPA CECL Practice Aid and A&A Guide



- Preface, including implementation observations
- Chapters
 1. Introduction and procedure
 2. Internal control and governance
 3. Audit objectives and procedures
 4. Accounting issues
 5. Presentation and disclosure
 6. Communications

Sep. 9, 2019
68 pages

Nov. 11, 2021
203 pages



<https://www.aicpa.org/cpe-learning/publication/aicpa-audit-and-accounting-guide-credit-losses-pub>

Available for
purchase at:

>150 financial institution SEC registrants adopted as of Jan. 1, 2020

Significant time and resources

- Previous experience in financial modeling (stress testing) was meaningful

Loss estimates derived under CECL may not be comparable between companies, even those with similar size and/or geography

Use of third parties

- Calibration and customization
- Quantitation framework

Model validation

Parallel runs

Three CECL Projects

- Removing Troubled Debt Restructuring (TDR) accounting and enhancing disclosures*
- Requiring gross write-off information in vintage disclosures
- Expanding scope of purchased credit deteriorated (PCD) model*

* Added as result of FASB Post Implementation Review (PIR)

ASU 2022-02 issued
March 31, 2022

Transition

- Prospective, option to early adoption for CECL adopters

Effective

- Years beginning after Dec. 15, 2022

ASU 2022-02: Loan modifications

- Instead of evaluating modifications for TDRs, evaluate if modification:
 - Meets criteria for disclosure to a borrower experiencing financial difficulty
 - Determine whether a new loan or not
- Disclosures
 - Modifications due to financial difficulty
 - Modifications that defaulted within the previous 12 months
- Transition
 - Prospective with option for modified retrospective for the elimination of TDR guidance
- Agenda request from the AICPA
 - A practical expedient for all entities to not apply the TDR guidance

Comparison: Evaluating loan modifications



TDR guidance

Step 1

- Is the modification a TDR?
 - Borrower experiencing financial difficulty
- Lender granted a concession
- Insignificant delays – typically 3 months; consider all past restructurings



Revised guidance

Steps

- Is the modification to a **borrower experiencing financial difficulty**?
- Is the modification a direct change in contractual cash flows?
 - Insignificant delays – typically 3 months; consider restructurings in past 12 months

If yes to both, disclose

Step 2 – determine income statement impact

- Measure impairment

Step – determine if have income statement impact

- Is the loan a new loan or continuation of the prior loan?

ASU 2022-02: Gross write-offs

> > Example 15: Disclosing Credit Quality Indicators of Financing Receivables by Amortized Cost Basis

Condensed example from ASU 2016-13

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
	20X5	20X4	20X3	20X2	20X1	Prior		
As of December 31, 20X5								
Commercial business loans:								
Current-period gross writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current-period recoveries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current-period net writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial mortgage:								
Risk rating:								
1–2 Internal grade	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3–4 Internal grade	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5 Internal grade	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6 Internal grade	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7 Internal grade	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total commercial mortgage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial mortgage loans:								
Current-period gross writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current-period recoveries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current-period net writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Project: Expanding the Purchased Credit Deteriorated (PCD) model



July 14, 2021 –
FASB adds project to
consider expanding
the scope

Expands the “gross up”
approach which
eliminates the double
count issue

Feb. 2, 2022 –
FASB tentatively
decides to apply
PCD model for
certain acquired
assets

purchased
financial
assets (PFA)

Oct. 12, 2022
FASB addresses
terminology,
seasoning and scope
(e.g., cards,
HELOCs)

Terminology change

- Purchased financial assets with credit deteriorated (PCD)
- Purchased financial assets (PFA)

Seasoning

- Asset acquisitions - defined using principles-based criteria, based on acquiror's involvement, with bright-line period of 90 days
- Business combination – presumed seasoned

Scope includes

- Credit cards, home equity lines of credit (HELOCs), and other revolving arrangements with active borrowing privileges
- Trade receivables
- Assets not recognized at fair value

PCD and Non-PCD Accounting



- Illustrative example, loan purchased at discount:

	Current Non-PCD Accounting	Proposed Gross-Up Approach	Facts:
1/1/2021 To record acquisition			
Dr. Loans 1,000,000	Dr. Loans 1,000,000		Purchase Price \$900,000
Cr. Discount 100,000	Cr. Noncredit Discount 40,000		Par Amount \$1,000,000
Cr. Cash 900,000	Cr. Allowance for credit losses 60,000		Discount (\$100,000)
	Cr. Cash 900,000		Stated Coupon 5.00%
3/31/2021 To record estimate of expected credit losses at reporting date			Purchase Yield 7.47%
Dr. Credit loss expense 60,000	There has been no change in the ACL estimate,		Remaining Term
Cr. Allowance for credit losses 60,000	so no entry is recorded.		5 years
3/31/2021 Income statement impact			Initial ACL estimate \$60,000
Interest income \$ 16,807	Interest income \$ 14,276		
Credit loss expense (60,000)			

PCD and Non-PCD Accounting



- Illustrative example, loan purchased at par:

Current Non-PCD Accounting	Proposed Gross-Up Approach
1/1/2021 To record acquisition	
Dr. Loans 1,000,000 Cr. Cash 1,000,000	Dr. Loans 1,000,000 Dr. Premium* 60,000 Cr. Allowance for credit losses 60,000 Cr. Cash 1,000,000
3/31/2021 To record estimate of expected credit losses at reporting date	
Dr. Credit loss expense 60,000 Cr. Allowance for credit losses 60,000	There has been no change in the ACL estimate, so no entry is recorded.
3/31/2021 Income statement impact	
Interest income \$ 12,500 Credit loss expense (60,000)	Interest income \$ 9,712

Facts:

Purchase Price
\$1,000,000
Par Amount
\$1,000,000
Stated Coupon
5.00%
Remaining Term
5 years
Initial ACL estimate
\$60,000
*Under the gross-up approach, a premium is recorded (instead of a discount) for assets acquired at par or where the ACL estimate is greater than the discount.

Questions?



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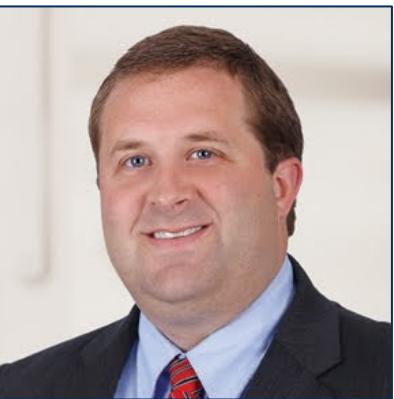
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