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Hot topics

Takeaways from the 2021 AICPA National Conference on Banks and Savings Institutions (updated)

Dec. 14, 2021

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Conference overview

UPDATED

The 46th annual American Institute of Certified Public Accountants (AICPA) National Conference on Banks and Savings Institutions was held from Sept. 20 through 22, 2021. After being 100% virtual in 2002, the conference returned to a hybrid format, with participants attending both in person and virtually. Conference topics focused on events significantly affecting the banking industry, both from an economic outlook and from an ever-changing reporting landscape. Of note, environmental, social, and governance (ESG) issues were discussed at length as emerging topics in the banking landscape. On Dec. 1, 2021, the AICPA hosted a one-day update for conference participants.

While approximately 150 banks adopted the current expected credit loss (CECL) standard in 2020, the overwhelming majority of banks will adopt the new standard in 2023. The continued resilience of credit portfolios, bolstered by government relief and improving employment trends, has resulted in allowance coverage ratios for CECL banks returning to pre-pandemic levels. However, margin compression brought on by excess cash levels continues to be of concern to bankers.

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On Nov. 11, 2021, the ACPA released its "AICPA Audit and Accounting Guide: Credit Losses." The guide is based on the 2019 AICPA practice aid "Allowance for Credit Losses – Audit Considerations," (63 pages) with three main changes:

1. Added implementation observations from 2020 adopters, including observations on use of resources, mod validation, and more
2. Added Chapter 4 for accounting issues (94 pages), including issues discussed by the Financial Accounting Standards Board (FASB) Transition Resource Group that did not result in standard-setting and those issues deliberated by the AICPA Financial Reporting Executive Committee (FinREC).
3. Made conforming changes to auditing guidance, reviewed by the AICPA Auditing Issue Task Force (AITF), which raise the guide to the level of being authoritative for audits of private entities, including nonpublic banks and credit unions

Current projects and rules published by the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) were highlighted by conference panelists. Other topics included the cessation of the London Interbank Offered Rate (LIBOR), comments from the FASB, thoughts on digital transformation, and considerations related to Community Development Financial Institutions (CDFI) grants.

The 2022 conference is slated for Sept. 12-14, 2022, online and on-site at the Gaylord National Resort and Convention Center in National Harbor, Maryland.

We hope you find this summary useful.

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Economic updates

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The conference offered two distinct economic updates featuring Marci Rossell, former CNBC chief economist, and Douglas Duncan, chief economist at Fannie Mae. Both Rossell and Duncan provided their perspectives on the current economic landscape and the ripple effects caused by COVID-19, as well as their outlook on which economic concerns are transitory and which are more long term. Stifel Chief Economist Lindsey Piegza provided the economic update in December.

The world is continuing to rapidly evolve due to the COVID-19 pandemic. In 2020, Rossell stated her belief that "the COVID-19 pandemic will permanently change how Americans will live, work, and play." In 2021, Rossell began the conference by saying that she continues to believe that this is true. She also stated that 10 years' worth of technology advances have been realized in the past 18 months.

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Economic pressures continue to linger from the ongoing crisis. However, the nature of these pressures has changed. In the early stages of the pandemic (March through May 2020), the economy was challenged by a lack of demand. Today, supply chain issues are causing economic dislocation. Specifically, Rossell called out stress on the semi-conductor supply chain and the shipping container supply chain as two areas of immediate concern. The lack of supply has caused significant price hikes (for example, Rossell indicated that the price of used cars has increased 32% year over year). Gross domestic product (GDP) is 6.7% higher in the second quarter of 2021 than it was in the previous quarter.[1] Piegza noted that Stifel's base case forecasts 3% GDP growth in Q4 2021 and 2% growth in the first half of 2022.

The recessions of the past 50 years stemmed from sources inside the economy, be it the energy crisis of the 1970s, the interest-rate shock of 1981, or the Great Recession. However, the 2020 recession stemmed from forces outside the economy (that is, COVID-19). This fact, combined with certain long-lasting effects from the Great Recession, has led to unusual outcomes. Specifically, and unlike in other recent recessions, wealth actually increased during the most recent recession.

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History has not offered much insight into how to consider the trajectory of this downturn as past recessions have resulted from economic events and not public health events. Generally, peaks in unemployment occur in the later stages of an economic recession. However, the loss of jobs occurred almost simultaneously with the beginning of the most recent recession. During COVID-19, the unemployment rate peaked at in excess of 14% at the beginning of the recession and has since declined to roughly 5%.[2] The October data from the U.S. Bureau of Labor Statistics shows a current unemployment rate of 4.6%.[3] Per Rossell, the immediate loss of jobs as a result of COVID-19 resulted in individuals "severing connections to their occupation, their employers, and even their cities." According to Piegza, labor markets are currently showing strength, as new jobs have averaged roughly 400,000 since March 2021 and unemployment is continuing to trend downward. The current unemployment rate, however, is somewhat affected by the roughly 3 million people who have exited the labor market since the beginning of the pandemic.

The speed and degree of government relief provided in response to the COVID-19 pandemic was unprecedented. Rossell noted that overall, COVID-related federal support amounted to approximately 25% of the GDP of the United States. Relief came through the Paycheck Protection Program, direct payments to Americans, and other programs included in the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act), the *Consolidated Appropriations Act, 2021*, and the *American Rescue Plan Act of 2021*. This relief, combined with the lack of demand for services, resulted in personal savings rates skyrocketing from 8% pre-pandemic to 34% in April 2020. However, as of October 2021, savings rates have retreated back to pre-pandemic levels at roughly 7%.

[1] https://www.bea.gov/data/gdp/gross-domestic-product

[2] https://www.bls.gov/charts/employment-situation/civilian-unemployment-rate.htm

[3] Ibid.

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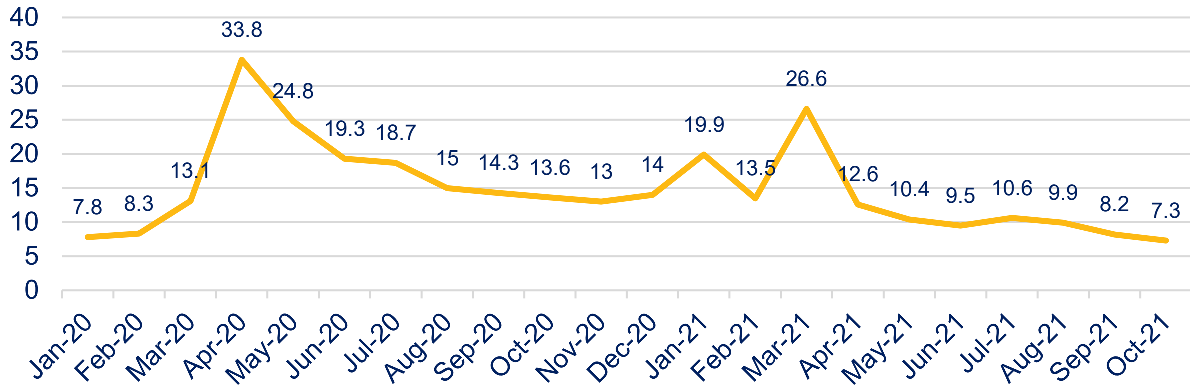
Personal saving as a percentage of disposable personal income (%)



Source: U.S. Bureau of Labor Statistics

Real estate

Despite the pandemic, the housing market remains strong, and the prices of homes are increasing. According to Fannie Mae's November 2021 housing forecast, the median price of new and existing single-family homes for 2021 is expected to increase by 15.6% over 2020 levels.[4]

The speakers indicated that home prices are expected to stay resilient in the near term. They explained that once Americans learned that COVID-19 was going to be a long-term issue, they made different decisions on how to live, where to live, and how much space they wanted to accommodate a work-from-home environment. These factors, combined with the current low interest-rate environment, have caused an acceleration in home purchases by people who, absent the pandemic, likely would have considered purchasing a home in the next few years. Finally, millennials who entered the workforce on the heels of the Great Recession are now in a financial position to purchase homes. Both Rossell and Duncan believe that the current demand for housing is real, in stark contrast to the speculative home buying of the mid-2000s.

> **Conference takeaway:** The speakers indicated that home prices are expected to stay resilient in the near term. Both Rossell and Duncan believe that the current demand for housing is real, in stark contrast to the speculative home buying of the mid-2000s.

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Outlook

Many market participants entered the workforce on the heels of the Great Recession. Rossell argued that because jobs were scarce, many millennials took employment at places that they did not necessarily want to work. The market dislocation caused by the COVID-19 pandemic allowed many of these millennials to pivot into careers that give them more career fulfillment. This fact, combined with the increased number of baby boomers who have accelerated retirement, has led to a shortage of talent that might have long-lasting implications for the U.S. economy. The labor force has roughly 4.2 million fewer participants in October 2021 than it did in February 2020. The following chart presents total employment by industry.

[4] https://www.fanniemae.com/media/42011/display

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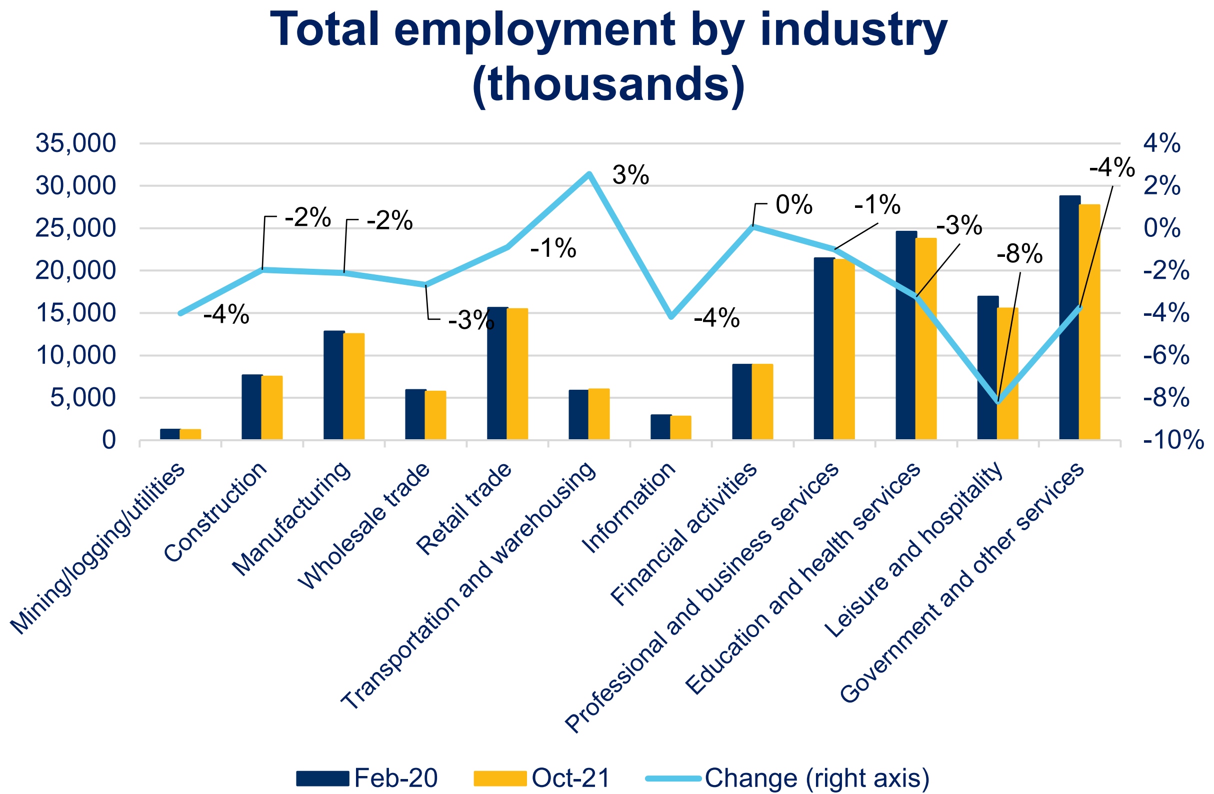

Source: U.S. Bureau of Labor Statistics.

While there are inflation risks, which were initially considered transitory but are now considered longer-term issues, the presenters said that the most pressing issue to the economy today is the war for talent. The imbalance between the level of jobs currently available and the employees available to fill these positions may take years to sort out.

Conference takeaway: Conference presenters said that the most pressing issue to the economy today is the war for talent. The imbalance between the level of jobs currently available and the employees available to fill these positions may take years to sort out.

ESG

For the first time in several years, CECL was not the primary focus of the conference. While no specific accounting issue dominated speakers' agendas, issues centered around ESG were discussed at length. Four sessions during the conference were focused solely on ESG, while many other presentations included ESG as an emerging topic.

Around the globe, regulators, standard-setters, investors, and others are engaged, to varying degrees, in ESG-related activities. These organizations fall into one of four categories: 1) standard-setters, 2) international goals and guidance organizations, 3) disclosure-based sustainability scorekeepers (such as the Dow Jones Sustainability Index), and 4) rating agencies. However, panelists noted that the industry should focus on a project by the International Financial Reporting Standards (IFRS) Foundation to ultimately publish and govern a set of sustainability reporting standards. Marc Siegel, Sustainability Accounting Standards Board member, said that a set of standards issued by the IFRS Foundation could drive convergence in ESG disclosures.

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At an international level, sustainability reporting disclosures are soon to be required in certain jurisdictions. The United Kingdom is widely expected to require reporting under a framework developed by the Task Force on Climate-Related Financial Disclosures (TCFD), which was established by the Financial Stability Board (FSB).

Further, the European Commission has announced a Corporate Sustainability Reporting Directive (CSRD), which will affect the reporting of banks and other financial institutions established in the European Union (EU) or EU exchange-listed companies. Global banks with operations in the EU might also have to apply the guidance. The CSRD proposal mandates that companies will need to report certain sustainability disclosures. These disclosures will require limited assurance and will be included in the management report of reporting companies. The CSRD proposal applies a concept of double materiality, in which businesses will have to consider both how sustainability issues affect the company ("impacts inward") and how the company affects society and the environment ("impacts outward"). Companies that adopt this new disclosure and reporting regime will likely see a fundamental shift in how they consider ESG measurement and reporting. Although the large majority of U.S. companies do not have international operations, U.S. banks should continue to monitor the international ESG disclosure landscape to identify best practices and implementation challenges given the rapidly changing sustainability reporting landscape.

Conference takeaway: U.S. banks should continue to monitor the international landscape to identify best practices and implementation challenges given the rapidly changing sustainability reporting landscape.

Domestically, the SEC has signaled its intent to propose guidance on ESG-related disclosures in 2021. Qualitative and quantitative disclosures on climate risk are likely to be proposed, as well as enhanced proxy disclosures on human capital.

The Center for Audit Quality (CAQ) recently conducted research on ESG-specific disclosures made by certain U.S. companies.[5] Approximately 90% of companies on the S&P 500 have disclosed some form of sustainability information. Examples include information on a company's investor relations page and issuance of a corporate sustainability report. The CAQ also researched the level of assurance provided on sustainability disclosures. Roughly half of these companies subjected certain metrics to some form of assurance. However, only 31 companies had assurance on these disclosures provided by accounting firms; the remaining companies' assurance activities were conducted by other service providers.

Panelists at the conference provided useful tips for companies that have not yet adopted ESG reporting disclosures. First, companies should perform a materiality assessment to determine what sustainability issues are relevant to them. Board training on ESG issues, combined with status updates on ESG reporting initiatives (both domestically and internationally), are also recommended. Finally, as sustainability disclosures might require assurance in the future, companies should consider the policies, processes, and controls surrounding sustainability-related disclosures, including the completeness and accuracy of data used to prepare these disclosures.

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At the December 2021 update, Federal Reserve Chief Accountant Lara Lylozian reminded conference participants of the IFRS Foundation's creation of the International Sustainability Standards Board (ISSB) in November 2021.[6] The intention is for the ISSB to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions. Per Lylozian, it is expected that the ISSB will issue a set of standards in 2022.

[5] https://www.thecaq.org/sp-500-and-esg-reporting/

[6] https://www.ifrs.org/groups/international-sustainability-standards-board/

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Current expected credit loss standard

Observations and challenges

Federal banking regulators devoted a significant amount of time to CECL in their sessions at the AICPA conference. Jeffrey Geer, Office of the Comptroller of the Currency (OCC) associate chief accountant, believes that CECL provides for greater flexibility and brings together multiple disciplines within a bank (for example, accounting, credit, treasury) to think about the allowance for credit losses holistically rather than in silos. Geer also remarked that he believes that the CECL standard is performing exactly as it was intended to.

In the large-bank panel, presenters noted that large banks are continuing to refine their CECL models, particularly the forecasting components of the model. Panelists noted the challenges that arose early in 2020 as the economic distress caused by the COVID-19 pandemic put significant stress on existing models. Also, they said they are working to enhance disclosures, by comparing themselves both to peers and also to their own prior period disclosures. As CECL is a forward-looking estimate, banks are performing self-assessments to determine if disclosures made in prior quarters provide enough information for investors and other users to understand the change in trends from period to period. Finally, large banks are comparing their disclosures to those of international banks that have adopted IFRS 9, as such required disclosures are more robust than what are required under the CECL standard.

Crowe observation: Although not presented at the conference, the following charts present median allowance coverage ratios and percent changes in median coverage ratios for public company banks, bifurcated by CECL adopters and nonadopters.

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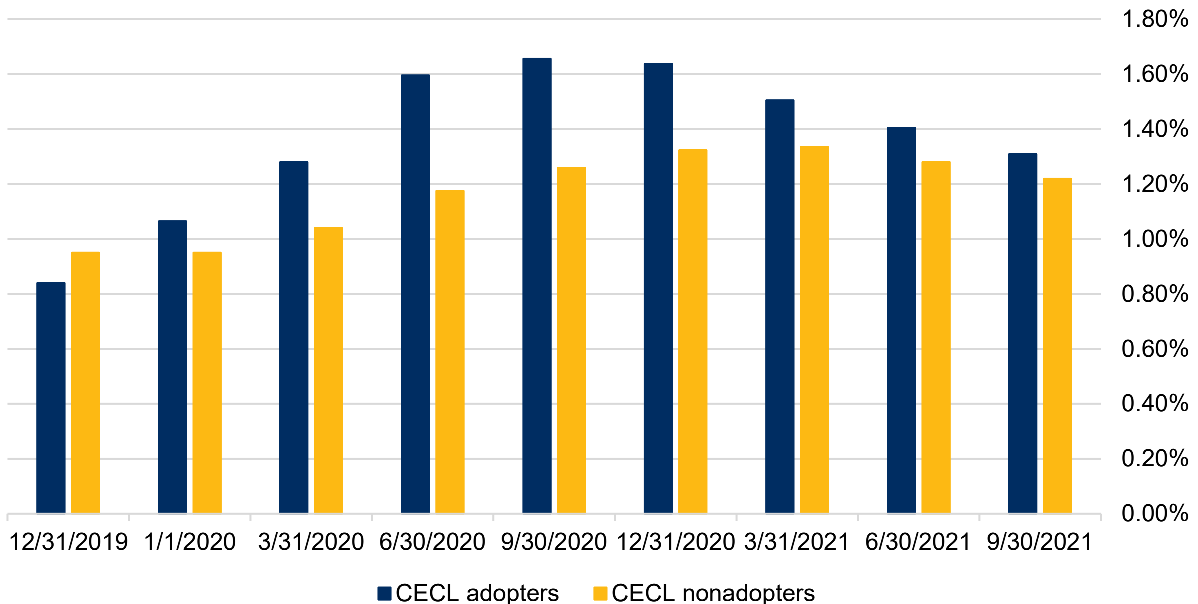

Source: Crowe analysis of press releases filed with the SEC, Sept. 30, 2021.

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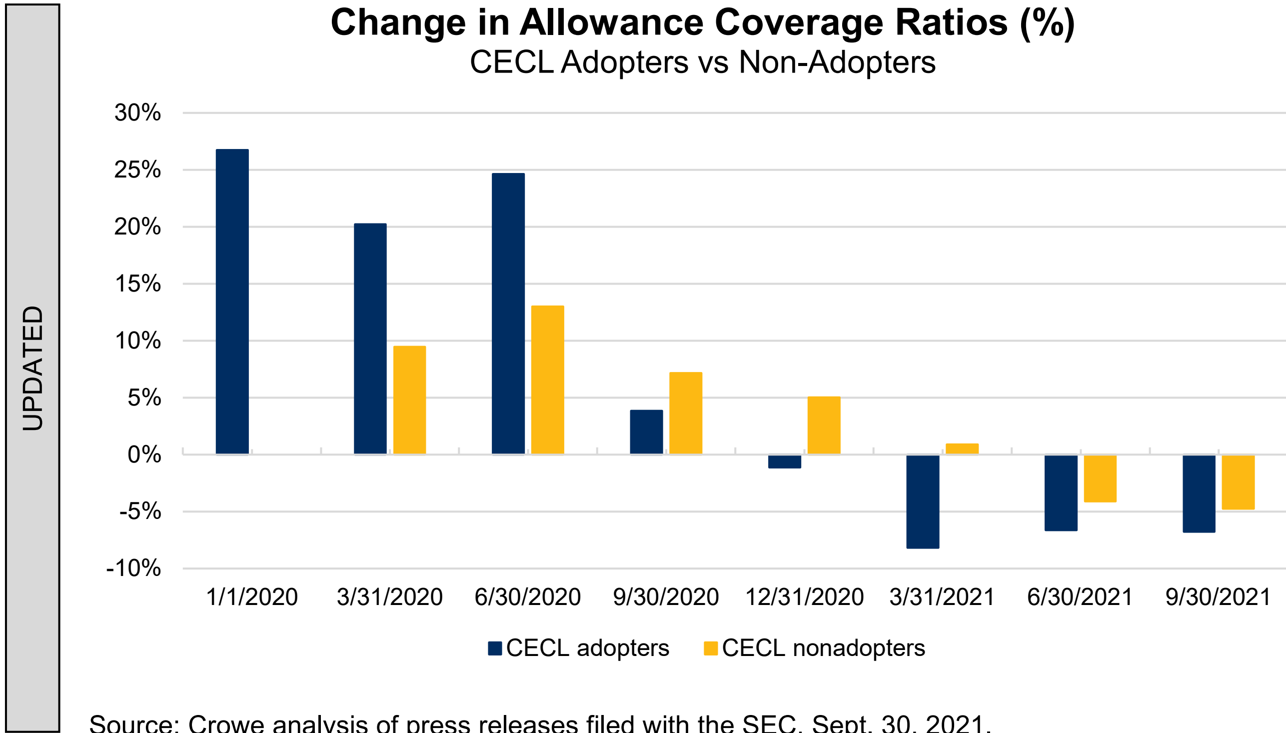

Source: Crowe analysis of press releases filed with the SEC, Sept. 30, 2021.

Looking ahead
Geer noted that the OCC is pleased with the implementation progress of banks that will adopt CECL in 2023. Many of these banks have selected their estimation method and engaged vendors. Regulators reminded bankers to remain vigilant, as credit risk remains elevated, and uncertainty remains surrounding the path of the coronavirus and the ultimate end to the pandemic.

> **Conference takeaway:** Regulators reminded bankers to remain vigilant, as credit risk remains elevated, and uncertainty remains surrounding the path of the coronavirus and the ultimate end to the pandemic.

FASB post-implementation review (PIR)
FASB members Frederick Cannon and Susan Cosper, along with technical director Hillary Salo, discussed the FASB's CECL PIR process. Since January 2020 (when CECL became effective for the majority of the assets in the banking system), the FASB and its staff have engaged in 237 feedback sessions with 123 unique stakeholders on the CECL standard. Stakeholders include investors, preparers, trade groups, academics, auditors, and regulators. Overall, feedback on the CECL standard has been positive, although stakeholders would like to see certain aspects of the standard improved.

> **Conference takeaway:** Based on interaction between the FASB and stakeholders, feedback on the CECL standard has been positive, although stakeholders would like to see certain aspects of the standard improved.

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The FASB has three CECL-related projects based on feedback from the PIR in process. First, the FASB is considering removing the troubled debt restructuring (TDR) recognition and measurement guidance for those institutions that have adopted CECL. Stakeholders have argued that a majority of the impact of TDRs on the allowance for credit losses already is included in the analysis of expected credit losses under CECL. Although the FASB is also contemplating the removal of recognition principles for TDRs, it has signaled an intent to introduce new loan modification recognition principles and disclosure requirements, particularly given stakeholders historically have found modification-related disclosures useful. An exposure draft was released by the FASB on Nov. 23, 2021, which proposes removal of the TDR recognition and measurement principles for institutions that have adopted the CECL standard.

The FASB is also assessing feedback on the accounting for acquired financial assets. Currently, the accounting model for initial recognition of credit losses differs between loans that have had more than insignificant credit deterioration since origination, referred to as “purchased credit deteriorated,” and those that have not. Feedback from stakeholders generally indicated that having a single recognition model for purchased assets is preferable; however, there is less consensus on which model is preferable. At the conference, Cosper indicated that it might take significant time for FASB staff to conduct research and for the FASB to publish an exposure draft for this project.

Finally, the FASB has a project on whether to require entities to report gross charge-offs and recoveries by vintage disclosures in financial statements.

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December update

In the December conference update, the OCC’s Geer provided thoughts regarding the adoption of CECL for banks that have yet to do so. Geer reminded participants of the OCC’s expectation that banks will not have to reconstruct data from prior periods to create CECL models; however, banks should consider the relevance and reliability of data used in modeling. Smaller institutions don’t need to engage an economist or purchase macroeconomic scenario data to comply with the standard. Per Geer, “small banks don’t need big models.” The larger a bank is, the more granularity in modeling will be expected. All banks should be prepared to support the rationale for the methodology selected and the data used to develop the estimate of expected credit losses.

Lylozian provided some brief comments on the Scaled CECL Allowance for Losses Estimator (SCALE) tool. She reminded participants that the SCALE model, which was developed by the Federal Reserve, is not a safe harbor model, nor is it mandated or preferred by examiners. The model is merely an option that can be used by smaller institutions to document the expectation of credit losses. However, banks that use SCALE must consider qualitative adjustments to the SCALE model, including but not limited to adjustments needed to reconcile peer data used in the calculation to an institution’s own portfolio. Inherent in this assessment is a sufficient understanding of the peer banks used in the calculation.

SEC updates

Representatives from the SEC’s Division of Corporation Finance (Corp Fin) and the Office of the Chief Accountant (OCA) provided insight on emerging issues affecting audits of publicly traded financial institutions. Discussions centered on accounting consultations submitted to the OCA, amendments to auditor independence rules, digital assets, and disclosure considerations around CECL.

John Vanosdall, deputy chief accountant (OCA), and Paul Munter, acting chief accountant (OCA), opened their session by emphasizing the critical importance for investors to receive high-quality information that is both transparent and relevant. They noted that in times of uncertainty, the degree of challenges with updating accounting estimates and the amount of related judgments required make it imperative that issuers be clear and transparent in disclosures related to these estimates. For audit purposes, management must maintain sufficient documentation to support those critical accounting estimates.

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Auditor independence

Recent amendments to SEC auditor independence rules were discussed. The amendments, adopted in October 2020 and effective June 2021, maintain the principle that independence in both fact and appearance is foundational to the creditability of financial statements. They are intended to more effectively focus the independence analysis on relationships and services that may pose threats to an auditor's objectivity and impartiality. Specifically, the amendments, among other things:

- Amend the definitions of "affiliate of the audit client" and "investment company complex" to address certain affiliate relationships including entities under common control
- Amend the definition of "audit and professional engagement period" to shorten the look-back period for domestic first-time filers in assessing compliance with the independence requirements
- Add certain student loans and other consumer loans to the categorical exclusions for independence-impairing lending relationships
- Replace outdated transition provisions with a new transition framework to address inadvertent independence violations that arise only as a result of a corporate event, such as a merger or acquisition transaction, involving audit clients

OCA consultations

Vanosdall and Munter discussed their observations of SEC consultation trends over the past year. While consultation topics in early and mid-2020 were dominated by COVID-19 and related uncertainties, since then, the SEC has received a significant volume of consultations on unique transactions, such as entering and exiting business lines. Other frequent consultation areas include revenue recognition (including identification of performance obligations, consideration payable, and gross versus net considerations), capital raising (including questions over special purpose acquisition company transactions), distinguishing liabilities from equity, business combinations, derivative transactions, and ESG.

CECL disclosures

Stephanie Sullivan, associate chief accountant (Corp Fin), spoke about the SEC's observations on CECL-related disclosures and suggested issuers should focus on transparently disclosing changes in the allowance for credit losses (ACL) estimate driven by changes in assumption and estimates. She highlighted certain issuers disclosed the cause(s) driving the change in the ACL balance (for example, impact of portfolio composition changes, charge-off activity, changes in reasonable and supportable forecasts, qualitative factors), and quantified the impact. The staff said some issuers included a table disclosing key quantitative inputs and assumptions that drive the calculation.

Conference takeaway: With respect to CECL, certain issuers disclosed the cause(s) driving the change in the ACL balance (for example, impact of loan balances, charge off activity, forecasts, qualitative factors), and quantified the impact.

PCAOB updates

The PCAOB's acting chief auditor, Barbara Vanich, and associate director, Glenn Tempro, provided an update on the PCAOB's research and standard-setting projects and current inspection themes.

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The speakers focused their comments on research projects on audit evidence and data and technology, stemming from the increasing prevalence of technology-based tools used by auditors and preparers, which continue to affect the nature, timing, and preparation of financial information and the planning and performance of audits. The PCAOB acknowledges its current standards do not explicitly encourage the use of such tools, indicate when their use may or may not be appropriate, or highlight related risks associated with their use. The PCAOB will continue to conduct research and engage in outreach activities (focusing on understanding how auditors are using technology-based tools in responding to identified risk of material misstatement as well as identifying, assessing, and responding to fraud risks) to aid in its assessment of whether there is a need for new guidance, changes to PCAOB standards, or other regulatory actions.

Two standard-setting projects on quality control and supervision of audits involving other auditors are aimed at updating the audit standards to meet the technology currently employed by audit firms.

Conference takeaway: The PCAOB will continue to conduct research and engage in outreach activities to understand how auditors are using technology-based tools in responding to identified risk of material misstatement.

With respect to inspections, the PCAOB introduced more unpredictability into the inspection process by selecting certain nontraditional areas to review. Financial institutions account for approximately 20% of PCAOB inspections, and areas affected by the COVID-19 pandemic, such as impairments, going concern assessments, allowance for loan and credit losses, and the increased risk of fraud, were selected for review. The presenters noted the most frequent areas of audit deficiencies included auditing the allowance for loan loss and other accounting estimates and auditing internal control over financial reporting (ICFR). Common audit deficiencies over the allowance included instances where auditors did not sufficiently test 1) significant inputs and assumptions, and 2) completeness and accuracy of the information used to develop the reserve. Common deficiencies over ICFR included insufficient testing of the design and operating effectiveness of controls that included a review element, identifying and selecting controls for testing that address risk of material misstatement, and testing controls over the completeness and accuracy of issuer prepared data or reports used in the control owner's operation of these controls.

FASB updates

The FASB is in the midst of recalibrating its standard-setting agenda. The FASB performed outreach with more than 200 stakeholders to identify priority areas of financial reporting. Through that outreach, the FASB identified more than 40 topics of potential improvements to financial reporting.

On June 24, 2021, the FASB published an "Invitation to Comment" (ITC) to give stakeholders the opportunity to provide feedback on its future standard-setting agenda. Questions asked in the ITC are based on feedback received from initial outreach performed, generally in one of the following categories:

- Increasing disaggregation of financial reporting information
- Addressing emerging transactions
- Reducing unnecessary complexity
- Enhancing certain standard-setting processes

The comment period ended on Sept. 22, 2021, and the FASB received more than 500 comment letters in response.

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The FASB also recently published its "2021 FASB Investor Outreach Report."[7] The FASB believes that investors are critical to the overall standard-setting process, "as investor perspectives help Board members evaluate:

- "Whether current financial reporting is meeting investor needs
- "How standards might be changed to better meet investor needs
- "How financial information is used by investors and when it directly affects their decisions
- "After companies have implemented new standards, whether financial reporting improved as expected"

In addition to the CECL projects already mentioned in this article, the FASB is working on projects on topics such as reference rate reform and fair value hedging transactions. Specifically, with respect to reference rate reform, Salo noted that the FASB acknowledges the disconnect between the "sunset date" for entities to elect relief from transition away from LIBOR (Dec. 31, 2022) and the date that most U.S. dollar-based tenors of LIBOR will cease to be published (June 30, 2023). Salo told participants that it is likely that the FASB will align these two dates through upcoming standard-setting.

Conference takeaway: FASB technical director Hillary Salo noted in her remarks that it is likely that the FASB will align the "sunset date" for LIBOR transition relief in Accounting Standards Codification (ASC) 848 (Dec. 31, 2022) to the LIBOR cessation date for most U.S. dollar-based tenors (June 30, 2023) through future standard-setting activities.

Other banking industry hot topics

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FDICIA Act Part 363

John Rieger, Federal Deposit Insurance Corp. (FDIC), addressed ongoing discussions at the FDIC about whether additional relief should be given to institutions that are required to comply with the provisions of Part 363 of the *Federal Deposit Insurance Corporation Improvement Act of 1991* (FDICIA). As a reminder, in 2020,[8] the FDIC provided temporary relief to institutions exceeding $500 million, $1 billion, or $3 billion in assets thresholds due to temporary growth from participating in government stimulus activities. At the December 2021 update, FDIC Chairman Jelena McWilliams informed participants that relief granted by the FDIC related to Part 363 will expire at the end of 2021.

Innovation

The first day of the conference opened with the chief innovation officers of the federal banking agencies. During the session, agency participants noted that they support innovation, but only when the innovation is achieved in a safe and sound manner. Among other things, the banking agencies warned about entering into partnerships with fintech companies without sufficient due diligence and ongoing monitoring. Specifically, bank partners (that is, fintechs) must understand the bank's regulatory environment, and the bank should have an exit strategy if the partnership does not achieve intended results. Ongoing monitoring is critical as fintech companies often will pivot based on the rapidly changing economic and technology environment. These pivots could result in the bank engaging in an unsafe and unsound banking practice without knowing it.

[7] https://www.fasb.org/cs/Satellite?c=Document_C&cid=1176177084543&pagename=FASB%2FDocument_C%2FDocumentPage

[8] FDIC Financial Institution Letter (FIL) 99-2020, "The FDIC Approves Interim Final Rule to Provide Temporary Relief From Part 363 Audit and Reporting Requirements," Oct. 20, 2020, https://www.fdic.gov/news/financial-institution-letters/2020/fil20099.html; and FIL 116-2020, "Information Regarding the FDIC's Reservation of Authority for Determining Part 363 Compliance Requirements for Insured Depository Institutions (IDIs)," Dec. 22, 2020, https://www.fdic.gov/news/financial-institution-letters/2020/fil20116.html

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Digital assets
In the September session, the deputy and acting chief accountants of the SEC offered their thoughts on digital assets, emphasizing that the accounting begins with the question "what is it?" They said many digital assets may not be considered securities under U.S. GAAP and are most likely considered intangible assets. It is important to follow relevant guidance on whether digital assets could meet the definitions of cash and cash equivalents, securities, or other financial assets.

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At the December update, the Federal Reserve's Lylozian highlighted current regulatory activities surrounding digital assets. The federal banking agencies recently completed three "policy sprints." These sprints focused on creating a common vocabulary of consistent terms; identifying key risks, consumer compliance issues, and legal permissibility considerations; and performing a gap analysis based on existing regulations and guidance.

Per Lylozian, next steps in the agencies' supervisory oversight include consideration of the following digital asset-related items: safekeeping and custody, facilitation of customer purchases and sales of digital assets, loans collateralized by crypto assets, issuance and distribution of stablecoins, and the holding of crypto assets on balance sheets. The regulatory agencies are also currently considering the treatment of digital assets in regulatory capital calculations.

LIBOR transition
The most used tenors of U.S. dollar-based LIBOR will continue to be published through June 2023. Despite that fact, federal bank regulators reminded conference participants that they generally will view any LIBOR-based contract entered into after Dec. 31, 2021, as an unsafe and unsound banking practice.

Conference takeaway: Federal bank regulators reminded conference participants that they generally will view any LIBOR-based contract entered into after Dec. 31, 2021, as an unsafe and unsound banking practice.

Panelists also reminded conference attendees about the SEC's expectations for public company disclosures as summarized in a July 2019 staff statement.[9] Companies should disclose:

- Activities and related risks
- How the company is preparing, managing, and monitoring their transition activities
- Current status of the transition away from LIBOR
- Qualitative and quantitative disclosures about anticipated impacts

Bank performance and outlook
Catherine Mealor, managing director at Keefe, Bruyette & Woods (KBW), noted that 2020 was a better year than expected as pandemic and economic headwinds were offset by government stimuli and prudent loan modifications. She said 2021 is projected to be a transition year. Core net interest margin remains compressed; however, earnings are being boosted by Paycheck Protection Program (PPP) fee accretion and releases in the allowance for loan (credit) losses. She said KBW expects 2022 to return to a normal operating environment and credit quality across the industry has remained pristine through the crisis.

Mealor said KBW also is expecting that the Federal Reserve will increase the federal funds rate two times in 2022 and, further, that banks will deploy excess liquidity built up over the past 18 months.

[9] https://www.sec.gov/news/public-statement/libor-transition

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CDFI rapid response grants

Many institutions received "rapid response" grants from the CDFI Fund in 2021. From an accounting perspective, the OCC's Geer referenced the OCC's Bank Accounting Advisory Series,[10] which states that banks should account for these grants under ASC 958 either directly or by analogy. Grants should be recorded as revenue, not capital. During the Community Bank Hot Topics session, panelists referred to the updated compliance manual published by the CDFI Program and Native American CDFI Assistance Program on Sept. 20, 2021.[11]

[10] https://www.occ.treas.gov/publications-and-resources/publications/banker-education/files/bank-accounting-advisory-series.html

[11] https://www.cdfifund.gov/sites/cdfi/files/2021-09/AMIS_Compliance_Training_Manual_Revised_Final_9_1_21.pdf

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