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Hot topics

Takeaways From the 2022 AICPA National Conference on Banks and Savings Institutions

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Conference overview

The 47th annual American Institute of Certified Public Accountants (AICPA) National Conference on Banks and Savings Institutions was held from Sept. 12 through 14, 2022, at the Gaylord National Hotel and Convention Center in National Harbor, Maryland. Conference topics focused on events significantly affecting the banking industry, both from an economic outlook and from an ever-changing regulatory landscape. Of note, environmental, social, and governance (ESG) and digital asset issues were discussed at length as emerging topics in the banking landscape.

The banking industry has had strong performance so far in 2022 with credit metrics and earnings consistent with 2021. While performance has been good, banks and savings institutions are facing economic headwinds heading into 2023, which can be attributed to global inflation and geopolitical pressures. The housing market is starting to show signs of cooling as rising interest rates are expected to persist into 2023 as the Federal Reserve (Fed) attempts to combat inflation.

ESG, digital assets, and current expected credit losses (CECL) continue to be a focal point within the industry. Regulators are continuing to evaluate developments within the ESG and digital asset space to determine the level of disclosure necessary to protect investors.

The conference included three keynote sessions. Rodgin Cohen, senior chair at Sullivan & Cromwell LLP, provided an update on the current regulatory landscape. Peter Morici, economist, author, and University of Maryland professor, discussed the current state of the U.S. economy. Scott Klososky from Future Point of View presented a concept called “Humalogy,” focusing on the rapid evolution in the ways humans and technology interact.

Panelists from the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) provided updates on each agency’s agenda. Other key sessions included updates from the Financial Accounting Standards Board (FASB) and chief accountants from the federal bank agencies.

The 2023 conference is slated for Sept. 11 through 13, 2023, online and on-site, again at the Gaylord National Hotel and Convention Center in National Harbor, Maryland.

We hope you find this summary useful and welcome your feedback.

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Economic updates

State of the economy
As in prior years, the conference began with an economic update. Morici provided an update on the state of the economy in addition to thoughts on how inflation is being combatted and the continued impacts of the COVID-19 pandemic. Additionally, Doug Duncan, chief economist at Fannie Mae, provided an update on the overall macroeconomic outlook and the U.S. housing market.

The workplace has changed permanently due to the restrictions put in place in response to the COVID-19 pandemic. Where, how, and when employees work has largely been redefined as companies and employees have been forced to reimagine what the modern workplace looks like. Labor imbalances and exacerbated skill gaps in the market have caused an exodus of workers in certain sectors of the workforce due to new remote work environments. These factors put continued pressure on employers to find and retain talent.

In addition to labor pressures, the U.S. and world economies continue to reckon with the economic fallout from the COVID-19 pandemic more than two years later. While certain indicators such as unemployment, which remained around 3% during the second quarter of 2022, point to a positive outlook, other underlying metrics tell a different story. Gross domestic product (GDP) fell for the second consecutive quarter in Q2, while industrial production has begun to show signs of slowing. Perhaps most importantly, historic levels of inflation continue to put strain on consumers and the economy. Inflation peaked at more than 9% in June 2022, the highest level seen since 1981. These inflationary pressures result largely from the unprecedented amount of government stimulus injected into the economy in response to mandated economic shutdowns in 2020.

Macroeconomic outlook

	Actual	Forecast	
	2021	2022	2023
Real GDP annual growth (Q4, quarter over quarter)	5.5%	0.0%	-0.4%
Unemployment rate (Q4)	4.2%	3.5%	5.4%
Core consumer price index (year-end, % year over year)	5.0%	5.9%	3.3%
10-year Treasury yield (annual average)	1.4%	2.6%	2.7%

Source: Fannie Mae Economic Forecast: August 2022

In an attempt to combat surging inflation, the Fed has continued to pursue an aggressive interest rate policy by raising rates to their highest levels seen since 2008. Morici expects these elevated rates to remain for an extended period, if not permanently. He also remarked favorably on the Biden administration's ability to implement an agenda through measures such as the Build Back Better Plan and the *Inflation Reduction Act* while also noting some skepticism as to ultimately how successful these initiatives will be in fighting inflation and at what cost.

Real estate

Duncan provided an update on the state of the U.S. housing market. After a torrid 2021, the housing market has told a different story in 2022 as both home appreciation and refinance activity have slowed due to the sharp increase in interest rates. As a result, the market is starting to slowly cool, indicated by an increase in home inventory and price concessions on current buy/sell agreements. Even with the cooling of the housing market, Duncan asserted that the cost of housing is expected to remain high for an extended period due to rising rates, inflation, and an overall shortage of supply.

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Duncan noted a growing shift toward renting as payments increase for home buyers due to a rising-rate environment. This, in turn, has contributed to the low level of rental vacancies seen in 2021 and into 2022. Vacancies are expected to remain low in the short term. The current housing market sits in contrast to the housing market in 2008 primarily due to stronger underwriting standards coming out of the Great Recession. Credit scores and loan-to-value ratios remain healthy, while homeowners are not as overextended compared to more than a decade ago.

Conference takeaway: Rising rates have caused the housing market to exhibit signs of cooling off. Duncan expects the housing market to continue to slow due to rising interest rates. However, because of improved underwriting in recent years, homeowners are in a much better position than they were in the period leading up to the Great Recession.

Outlook

The short-term outlook of the economy remains largely unclear, although there is some consensus among economists that a recession likely is on the horizon. Domestically, persistent inflation continues to be the main threat to economic growth. Federal funds rates likely will continue to climb to combat record levels of inflation, which in turn hamper growth in the short to medium term. Internationally, the global economy also faces headwinds as a result of various geopolitical pressures. At the forefront remains the Russia-Ukraine war, the energy crisis across Europe, and COVID-19 shutdowns that are still in place in China.

Conference takeaway: It is still unclear how effective the current measures taken by the Biden administration and Fed will be at combating inflation. Given the combination of inflationary pressures and geopolitical unrest, many economists are anticipating a global recession in 2023.

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Regulatory landscape

Cohen kicked off the third day of the conference with an update on the regulatory landscape. He noted that regulatory agencies have been relatively quiet with respect to the issuance of new formal regulations. Current constraints on the creation of new regulations include, but are not limited to, a Supreme Court that has become increasingly active in recent years and a lack of consensus at supervisory agencies. However, the degree to which existing regulations are being enforced has changed greatly. Supervisory findings, including deficiencies and violations, are increasing significantly. Enforcement activity has been more muted, but the penalties have been more severe.

Cohen spoke on other topics such as merger activity, crypto assets, and a potential central bank digital currency (CBDC).

With respect to merger activity, Cohen noted that current economic and geopolitical uncertainty has taken the wind out of the sails of the mergers and acquisitions (M&A) market. Related to crypto assets, Cohen remarked that the federal banking agencies' "sprint" activity (announced in 2021) has slowed considerably, due to a lack of consensus at these agencies and the fact that the recent "crypto winter" has led to a decline in the number of banks that see crypto assets as a current priority. With respect to a CBDC, Cohen, citing the president's March executive order on ensuring responsible development of digital assets, believes that an issuance may happen sooner than expected.

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SEC updates

Representatives from the SEC's Division of Corporation Finance (CorpFin) and the Office of the Chief Accountant (OCA) provided insight on emerging issues affecting SEC registrants and audits of publicly traded financial institutions. Discussions centered on the SEC's agenda, non-GAAP disclosures, and auditor independence. Speakers from the SEC included acting Chief Accountant Paul Munter and Kevin Vaughn, senior associate from the Office of the Chief Accountant. Opening remarks from the speakers reinforced the SEC's mandate as an investor protection agency. The SEC views financial reporting as a communication activity with shareholders and not a compliance activity. It continues to hold firms accountable for independence violations, as compliance with these standards is critical in maintaining audit quality. Participants were reminded of Munter's June 2022 remarks, "The Critical Importance of the General Standard of Auditor Independence and an Ethical Culture for the Accounting Profession."

Non-GAAP disclosures

The SEC's CorpFin division discussed non-GAAP disclosures, warning issuers to avoid being overly aggressive with these types of disclosures. The staff highlighted reservations about showing impairment on digital assets as a non-GAAP adjustment to income. The staff provided further context that the expectation is that non-GAAP measures must be clearly labeled and described to ensure that users of the information are being properly informed about what is being presented. The staff also reminded participants that non-GAAP measures are required to be disclosed in the management's discussion and analysis section of SEC filings. SEC panelists also reminded participants about the agency's general thoughts about the prominence and labeling of non-GAAP measures.

Finally, conference participants were reminded that CorpFin Disclosure Guidance: Topic No. 9 and Topic No. 9A are still applicable to registrants. Issuers should continue to monitor and enhance disclosures to address business and market disruptions related to COVID-19, as applicable.

Auditor independence

The SEC has continued to focus on promoting compliance with auditor independence standards.

The key message from Munter and Vaughn to conference participants was that reasonable investors should be able to invest under the assumption that auditors are both objective and impartial. Munter commented on accounting firms that provide multiple services, stating that "firms need to have embedded as core to their DNA, compliance with independence permeating in everything they do." He added that the SEC does not take a stance on the appropriateness of a multiservice model and reiterated that regardless of a firm's model and the variety of services it provides (for example, attest and nonattest services), it is the firm's responsibility to ensure compliance with the appropriate standards.

Conference takeaway: The SEC views financial reporting as a communication activity with shareholders and not a compliance activity. It continues to hold firms accountable for independence violations, as compliance with these standards is critical in maintaining audit quality.

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PCAOB updates

Acting Chief Auditor Barbara Vanich provided an update on the PCAOB's standard-setting agenda while Jason Bullington, regional director, provided an update on the Division of Registration and Inspections.

Standard-setting remains the key initiative of the PCAOB in the short and medium term. Of note is anticipated amendments to audit standards relating to certain planning and supervising procedures by the lead auditor in audits that involve additional auditors. Vanich highlighted some short-term standard-setting projects happening over the next 12 months, including:

- Improvements to firms' quality control policies and procedures
- Noncompliance with laws and regulations
- Modernization of attestation standards
- The use of technology during the confirmation process

Long-term areas of focus include:

- Better alignment of substantive analytical procedures with risk assessment
- Ethics and independence standards
- Interim standards
- Fraud risk

With respect to inspections of registered audit firms, financial institutions remain at the center of the PCAOB's attention. Out of the 141 audit firms inspected, approximately 20% of inspections focused on financial institutions. PCAOB speakers said that this is due to the significance of banks to the financial system. Specific areas of focus related to banks included allowance for credit losses (ACL), loans, and investments. Although repeat findings in these areas continue to occur, Bullington noted that many of the larger audit firms have continued to show progress in addressing findings. Of note, Bullington said that audit deficiencies continued to decline in 2022.

Some common themes in the latest inspection cycle included:

- Inadequate testing of significant inputs and assumptions specifically related to accounting estimates such as the ACL and fair value measurements
- Failure to identify and select controls that address risks of material misstatements
- Insufficient risk assessment and alternative procedures related to deposits and deposit confirmations
- Inadequate testing of the controls related to the completeness and accuracy of historical data used in the operation of key controls

Current year inspections are expected to shift focus toward the impact of auditing in a remote environment as well as the impact of personnel turnover on overall audit quality. Other anticipated areas of focus include industries with higher perceived risk (special purpose acquisition companies, airlines, hospitality, etc.), audit firm quality control systems, and nontraditional inspection areas such as cash, deposits, and debt.

Conference takeaway: Financial institutions continue to be an integral part of the PCAOB's inspection agenda. Common areas of criticism related primarily to auditing controls over significant estimates such as the ACL. An increasing focus is on risk assessment and procedures performed over deposits, particularly in cases where negative confirmations are a principal audit procedure.

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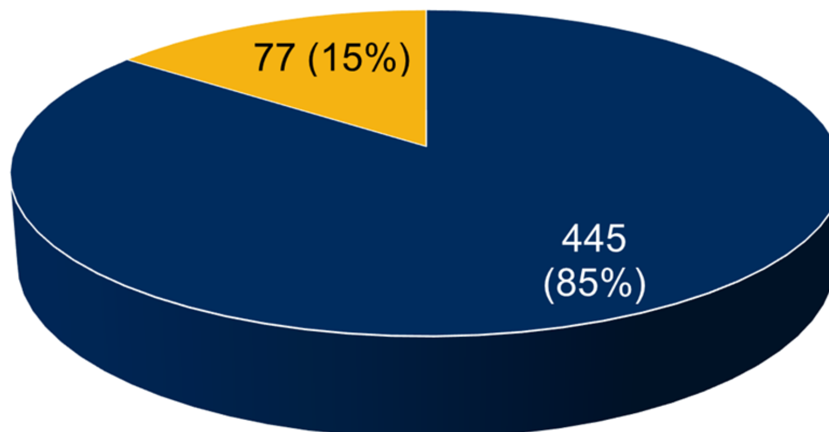
FASB updates

FASB board member Sue Cosper and Hillary Salo, technical director, provided an update on the FASB's recent agenda consultation, the post-implementation review (PIR) of the CECL standard, and the current standard-setting agenda.

Agenda consultation

The FASB provided an update on the agenda consultation that commenced in December 2020. It included FASB outreach to more than 200 stakeholders as well as more than 500 responses received from the board's invitation to comment. Digital assets and ESG-related transactions and disclosures remain a top priority to stakeholders. More than 50% of respondents indicated that accounting for digital assets was a top priority, and 35% of respondents indicated that accounting and disclosure for ESG-related transactions was a priority. Of the 522 responses received, 445 (more than 85%) mentioned digital assets in their response even if it wasn't a top priority.



Source: 2021 FASB Agenda Consultation Report

Based on the results of the consultation, the FASB changed both the technical and research agendas, including the following updates:

Projects redefined on the technical agenda:

- Targeted improvements to income tax disclosures
- Disaggregation – income tax expense

Projects added to the technical agenda:

- Accounting for and disclosures of digital assets
- Accounting for and disclosures of software costs
- Accounting for environmental credit programs

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Projects removed from the technical agenda:

- Distinguishing liabilities
- Consolidation, reorganization, and targeted improvements
- Lease modifications
- Subsequent accounting for goodwill
- Phase three of the definition of a business project

Post-implementation review of CECL

The objective of the CECL PIR is to determine if the standard accomplished its established purpose and if any improvements to the standard are required through the standard-setting process. The PIR resulted in three additions to the technical agenda:

- Accounting for troubled debt restructurings (TDR)
- Disclosure of gross charge-offs by vintage in financial statement footnotes
- Accounting for acquired financial assets

Stakeholders questioned the utility of the current TDR disclosures given that the new CECL estimation methodology already captures the majority of impacts of concessions granted in instances of TDRs. As such, the board voted to remove the current TDR recognition and measurement guidance for issuers that have adopted CECL. Accounting Standards Update (ASU) 2022-02, issued in March 2022, will require adopters to apply Subtopic 310-20 to all loan modifications and disclose other information for specific modifications. Further, ASU 2022-02 amends Accounting Standards Codification (ASC) 326-20-50-6 to require public business entities to present gross charge-offs recorded in the current period by year of origination in vintage disclosures. This disclosure is to be presented on a prospective basis. Early adoption of ASU 2022-02 is permitted for CECL adopters.

Conference takeaway: In March 2022, the FASB issued ASU 2022-02, which updates the accounting and disclosure requirements related to TDRs for adopters of CECL and requires vintage disclosure tables to include gross charge-offs. This ASU is effective for fiscal years beginning after Dec. 15, 2022, for entities that already have adopted ASU 2016-13. For entities that have not yet adopted ASU 2016-13, this amendment has the same effective date as ASU 2016-13. Early adoption is permitted.

Technical agenda update

The technical agenda is being driven largely by the results of the agenda consultation that concluded in mid-2022.

The FASB added the topic of digital assets to the technical agenda in May 2022 and addressed the scope in August. The topic is an active project to determine where improvements are needed.

The ESG project currently is in the research phase with a much narrower focus on stakeholder questions related to sustainability-linked bonds and loans. Specifically, the FASB staff is focusing on how to account for ESG-related provisions in financial instruments. The next steps are for the FASB staff to bring recommendations to the board.

Software

The FASB acknowledged that the accounting for software costs needs to be reassessed based on the development and use of modern software. The FASB is considering the adoption of a single model framework to account for all types of software. This topic is an active project, and FASB staff continues to perform outreach.

Conference takeaway: Financial institutions have made clear that the areas of digital assets and ESG need to be addressed. These will be significant focus areas for the FASB in order to provide improved accounting and financial reporting guidance in the near future.

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Federal banking agencies' chief accountants

Chief Accountants Amanda Freedle (Office of the Comptroller of the Currency, OCC), Lara Lylozian (Fed), and Shannon Beattie (Federal Deposit Insurance Corp., FDIC) discussed a broad range of topics.

CECL remains a significant focus of banking regulators, with particular attention to how financial institutions are incorporating current economic risks into their models and disclosures. The speakers highlighted that they are sympathetic to the efforts the industry already has made to address the impact of the recent economic events; however, the expectation is that current issues such as inflation, supply chain disruptions, and other relevant economic risk factors continue to be considered and disclosed going forward.

Questions remain as to how banks will incorporate data from the COVID-19 pandemic (including the unprecedented levels of government stimulus) into CECL estimation models. Regulators have not taken a stance on whether this historical data should be included or excluded. Rather, their focus will be on understanding the rationale behind managements' decisions. Freedle noted that robust documentation of the considerations made and the conclusions reached will be critical. Freedle also commented that the OCC is beginning to focus on model backtesting, benchmarking, and sensitivity analyses. These tools are crucial to the reporting function to monitor the performance of models over time.

Conference takeaway: The general sentiment from chief accountants of the federal banking agencies is that now is not the time for complacency in evaluating risk within portfolios. Entities need to continue to address the growing risks that are present in today's environment.

Other topics included crypto assets and climate. In March 2022 the SEC released Staff Accounting Bulletin (SAB) 121, which expressed its view regarding the accounting for obligations of entities that safeguard crypto assets. The accounting result of SAB 121 is that crypto assets being safeguarded by entities often will require recording a safeguarding liability, with an offsetting asset also being recorded. For financial institutions, this asset has the effect of decreasing both leverage ratios and risk-based capital ratios under the Prompt Corrective Action (PCA) framework. Banking regulators noted that the application of SAB 121 is required only for companies subject to oversight by the SEC.

Lylozian commented that there is not only a desire but a need for banks to be able to buy, hold, and sell crypto assets, but she acknowledged the punitive nature of SAB 121 on regulatory capital levels. Agency representatives noted that public and private banks might account for safeguarding certain crypto assets differently. The speakers acknowledged that addressing SAB 121 as it relates to regulatory capital is a complex topic that still requires a significant amount of work from a number of policy divisions. Agencies do not want the different capital requirements of regulatory capital policy to hinder competition between public and private banks. At the same time, they want policies to adhere to GAAP accounting. Given the unique issues that SAB 121 presents, the agencies created a cross-functional working group across multiple agencies to address these issues.

Separately, on July 29, 2022, the FDIC published an advisory letter for insured institutions, urging them to make sure they understand the risks involved in their dealings with crypto companies in order to not mislead consumers into thinking their money or investments are safe in instances where those assets are not insured. The letter reiterated the fact that the FDIC does not insure assets issued by nonbank entities such as crypto companies.

Conference takeaway: FDIC-insured institutions have a responsibility to understand and communicate to their customers the risks associated with holding crypto assets. Assets issued by non-FDIC-insured institutions (which typically include crypto companies) are not insured.

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On the topic of climate change, the FDIC and OCC have issued draft principles related to climate-related risk management. The Fed is working on issuing a set of draft principles as well. The draft principles issued by the OCC and FDIC limit focus to the financial institutions with assets greater than $100 billion. On Sept. 12, the OCC appointed Dr. Nina Chen as chief climate officer. She will focus on the design and implementation of a risk management framework related to climate change within the federal banking system.

ESG

Similar to digital assets, ESG was a topic woven throughout the conference. A panel discussed climate change and its current impact on accounting and financial reporting. The banking panelists were Michael Tovey, corporate controller at Bank of America, and Andrew Nix, chief governance officer at Regions Bank.

Tovey communicated that ESG and climate-related risk are “a train that has already left the station.” Scrutiny from investors and regulators regarding ESG is only going to continue to intensify. He likened the topic of ESG and related reporting requirements to where we were 10 years ago with cybersecurity.

The SEC proposal on climate-related disclosures has received a record number of comment letters with common themes of concern over increased compliance costs, board oversight issues, and expected levels of disclosure.

Conference takeaway: ESG likely is here to stay. Creating the necessary accounting and disclosure infrastructure, including internal controls over financial reporting (ICFR), will go a long way in helping organizations achieve compliance with ESG disclosure requirements. An upfront investment likely will save time, energy, and money in the long run.

Humalogy

Klososky addressed the conference with a presentation on Humalogy.® Future Point of View is a technology-based firm that helps companies leverage and integrate technology into their businesses to maximize efficiency and potential. Technology is converging to affect our lives through the ways we work, how we consume information, and how we spend our money. The Humalogy Scale provides banks with a “framework in order to find the best balance between automating and human touch.” This scale allows companies to visualize the integration of human input with technological help on a continuum.

The current question bank leaders must answer is, “Where do we as an organization want to be on this scale in five years?” The answer to this question is going to be unique to each organization based on different characteristics and goals of each organization. Today, technology is already deeply ingrained in the banking ecosystem from both a customer-facing and internal process perspective. Klososky highlighted that the majority of banking services currently operate at a level that moderately augments human output with technology. Mobile applications, paperless processes, and cloud-based core systems are all examples of how banks already are planting their flag on this scale whether they realize it or not. This question is going to become only more pronounced going forward with certain technologies such as blockchain and crypto assets disrupting the market.

One key struggle that banks still face in this age of digital transformation is the lack of clear regulation while also experiencing increasing compliance costs. The U.S. federal government has been slow to act on digital transformation within the banking space compared to other countries such as those in the European Union and Australia. Inconsistency among the various regulatory bodies is contributing to the higher compliance costs associated with scaling these technological changes.

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While technology is transforming the way the financial services sector operates, technology is more than just the sum of its operational costs and benefits. Organizations need to be aware of the impacts that technology has not only on their customers' experiences but also on their employees. The new remote work environment offers flexibility in where and when we work, but it also can lead to "Zoom fatigue" as people spend more and more time in front of a screen. Work-life balance will not happen naturally in the modern workplace. We will need to help our teams achieve this balance to create a sustainable and happy workforce.

Conference takeaway: Significant potential exists for improvements in the banking space with the technological advances being made. Technology is a tool to help leverage our human potential, not a means to replace it.

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Other banking industry hot topics

Bank performance and outlook
Catherine Mealor, managing director at Keefe, Bruyette & Woods, provided a generally positive attitude toward the performance of banks so far in 2022. She is expecting this performance to continue for the next four to eight quarters while remaining cautious about lingering uncertainties and potential headwinds. Banks have shown strong loan growth and improved profitability in the face of regulatory pressures related to overdraft fees and market conditions limiting mortgage banking fees and Small Business Administration loan sale spreads. Market analysts are placing particular focus on deposit betas, which already are higher than earlier projections. Competition for deposits is increasing as consumers begin to feel the impact of inflation, requiring them to dip into savings built over the past two years.

Updates for community banking
A panel of CFOs discussed key topics affecting community banking such as inflationary pressures, CECL adoption, and fraud. The panel emphasized that as inflationary pressures continue to mount, community banks' best tools available to mitigate risk are balance sheet management and increased scrutiny on credit monitoring. The panel highlighted that the Paycheck Protection Program granted banks a lot of goodwill within their communities as customers appreciated the impact these loans had. However, banks still need to be aware that even longtime customers are taking deposits elsewhere in pursuit of better rates.

The panel also discussed some of the struggles that smaller institutions are facing in their preparation for the adoption of CECL. The primary challenge community banks are facing is finding the right resources internally to implement the new standard. Given COVID-19's impact on both unemployment data and loss rates, organizations are having trouble finding strong correlations between economic data and default data given recent history. Other areas of concern include board and investor reactions to model volatility and loss of peer comparability, as the types of models across organizations remain diverse.

Sydney Garmong, Crowe national office partner; Mike Lundberg, national director of financial institutions at RSM; and Todd Sprang, managing director of financial services at CLA, provided an update on the financial reporting topics affecting the community banking industry.

From a regulatory perspective, there has been a noted shift of focus from accounting to auditing. This shift by the PCAOB and SEC has seen regulators emphasize issues such as auditor independence, auditor ethics, and audit quality. Another topic of discussion, the Emergency Capital Investment Program, might lead to unanticipated accounting impacts for embedded derivatives. Commentary on CECL included internal controls with particular focus on model validation and the value provided particularly with complex models. Effective model risk management requires "effective challenge" as a core principle. Model validation over an organization's CECL model is one way (though not the only way) in which institutions can address this concept. Regulators have acknowledged that an organization's approach to model risk management will be unique depending on the size and complexity of the model (that is, no one-size-fits-all approach exists).

Mergers and acquisitions valuation considerations
Mealor commented that M&A activity has ground to a halt in 2022 compared to 2021. One key factor driving the decline in activity is delays in regulatory approval. Mealor noted that some deals have been terminated due to the length of delays being seen. Of note, the Fed had, until July 2022, been operating without a vice chair for supervision. The lack of a supervising executive at the Federal Reserve was one reason for the delay in merger approvals.

In addition to these regulatory approval delays, depressed loan valuations also are limiting opportunities for merger activity. Core deposit intangible (CDI) premiums are extremely high given the current rising-rate environment. Bank multiples have been declining due to the overall economic environment. The belief is that CECL is not having a significant impact on loan portfolio due diligence or on loan portfolio valuations.

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Digital assets

Digital assets was a relevant topic throughout the various presentations at the conference. While the crypto market has seen a significant downturn over the past 18 to 24 months, digital assets continue to be a disruptive force in the financial services space. Key classes of digital assets include:

- Crypto assets
- Utility tokens
- Asset tokens
- CBDCs
- Security tokens
- Nonfungible tokens (NFTs)

Adoption of these digital assets continues to increase, resulting in increased opportunities for financial institutions to create value and generate revenue. Applying U.S. GAAP to digital assets continues to be a challenge as the industry is still collectively navigating how to account for these assets. Key financial accounting implications include classification, impairment and fair value reporting, and systems and processes. Issuers of tokens need to take precautions to ensure they are not inadvertently selling unregistered securities. The SEC is encouraging institutions engaged in issuing tokens to consult with the agency about the form of the issuance.

Conference takeaway: Institutions that are considering performing an initial coin offering (ICO) should consider a consultation with the SEC to avoid cases of inadvertently issuing unregistered securities.

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