2024 AICPA & CIMA Conference on Credit Unions

Takeaways and Hot Topics From Our Specialists

November 2024

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Conference overview

The annual American Institute of Certified Public Accountants (AICPA) and Chartered Institute of Management Accountants (CIMA) Conference on Credit Unions was held Sept. 9 through 11, 2024, in National Harbor, Maryland. The event included remarks from representatives of the National Credit Union Administration (NCUA), the Financial Accounting Standards Board (FASB), economists, and other industry leaders.

The conference addressed the current economic landscape, trends in consumer debt and real estate, and a likely declining rate environment on the horizon. Keynote speakers explored generative artificial intelligence (Gen AI) and its application in the credit union industry. Other hot topics included cybersecurity and fraud, as presenters cited an uptick in fraud and the need for institutions to reinforce their cybersecurity and risk assessment procedures. Digital assets and the current expected credit losses (CECL) model continued to be focal points.

On Monday:

- Barry Melancon, president and CEO, AICPA, and CEO, Association of International Certified Professional Accountants, discussed the current landscape for the AICPA's members, including remarks on effects of global political changes and economic conditions on the accounting profession, technological and demographic trends, and the future of the profession.
- Marci Rossell, former CNBC chief economist, presented a session titled "The Economy 2025: Monetary and Fiscal Policy in a New Era." Rossell discussed the correlation between consumer spending and residential real estate prices as well as matters affecting the global economy such as AI.
- Thomas Vartanian, executive director for the Financial Technology & Cybersecurity Center, delivered a presentation titled "21st Century Internet Alert: Tech Is Just as Destructive as Transformative!" Vartanian spoke on the risks of being on the internet, the "hacked hall of fame," online surveillance, and how AI plays a role in the internet of the future.

On Tuesday:

- Doug Duncan, chief economist at the Federal National Mortgage Association (Fannie Mae), delivered a housing market economic update. Duncan cited numerous statistics and indicators supporting the idea that the economy is not nearing a recession, despite concerns related to rising credit card debt and declining jobs and savings for average households. The economy is benefiting from "the lock-in effect" of low interest rates as homeowners hold onto their low-interest rate mortgages, increasing economic productivity, and continued appreciation of real estate, largely supported by an imbalance between supply and demand.
- Lamont Black, associate professor of finance at DePaul University, delivered a keynote on "Our Digital Future: AI, Blockchain, and Beyond." Black discussed the financial landscape and provided financial institutions with a framework for AI adoption and practical use cases for blockchain for credit unions.

On Wednesday, industry leaders on various panels explored current challenges for credit unions and strategies to address those challenges. Panels included "How to Make Enterprise Risk Management Thrive" and "Fintech: Relationships Are Complicated."

The 2025 conference is slated for Sept. 15 through 17, 2025, online and on-site, again at the Gaylord National Resort & Convention Center in National Harbor, which is just south of Washington, D.C. As was the case in 2024, the conference will be a co-located event with the AICPA & CIMA Conference on Banks and Savings Institutions.

We hope you find this summary useful.

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Economic updates

State of the economy

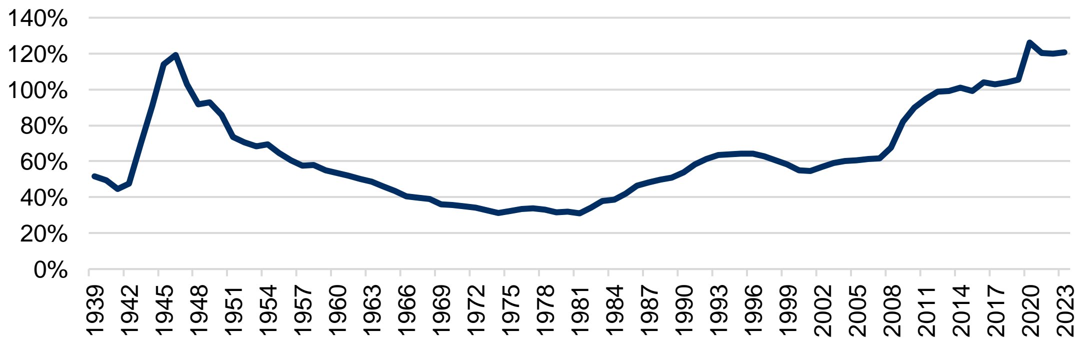
On the first day of the conference, keynote speaker and former CNBC chief economist Marci Rossell discussed the economy, focusing on the housing market and affordability, the impact of inflation, and trends in consumer behavior, among other matters. On the second day, Doug Duncan, chief economist at Fannie Mae, gave a keynote presentation on the economy, focusing on interest rates, inflation, fiscal policy, real estate, and an overall economic outlook.

Both economists emphasized that the U.S. is not nearing a recession. Rossell discussed previous recessions, citing that recessions are not caused by what people perceive or expect will cause a recession, such as a rise in interest rates or consumer debt, but rather unexpected events such as a global pandemic, dot-com bust, or housing crisis. Duncan forecasted an economic slowdown but not a recession. He cited that while savings rates are down, credit card debt, productivity, and gross domestic product (GDP) are all higher. He stated that approximately 70% of national income (defined as the total value of all goods and services produced in the U.S. in a given year) comes from the service sector, with the remaining 30% from the goods sector. While the goods sector, which includes housing, has shown signs of deterioration, the service sector remains strong and is less cyclical.

National debt and GDP

In 2024, federal spending to service interest payments on U.S. national debt surpassed the United States' national defense budget.[1] While some economists believe that this might cause concern in the future, the financial markets have not reacted to this news. Rossell clarified that a reaction by the market would be a "premium" on debt issued by the U.S., likely resulting in higher interest rates on U.S. debt to reflect the greater risk. The federal debt relative to GDP is currently at the same level as it was during WWII. Duncan suggested that rising GDP would help alleviate the national debt, as a rise in GDP would result in increased income tax revenue. In 2022, GDP was $25 trillion, and it has grown to $28 trillion in 2024. Investments in technology such as AI are expected to drive further growth in GDP.

U.S. public debt outstanding, as a percentage of GDP



Source: Federal Reserve Bank of St. Louis, retrieved Oct. 15, 2024.[2]

[1] https://www.crfb.org/blogs/do-we-spend-more-interest-defense
[2] https://fred.stlouisfed.org/series/GFDGDPA188S

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Fed fiscal policy, inflation, and interest rates

The Federal Reserve (Fed) policy on interest rates is expected to make a shift in late 2024. Fed Chair Jerome Powell recently made a statement[3] that now is the time to change the direction of monetary policy, indicating rate cuts are on the horizon. Rossell stressed the importance of the Sept. 17-18, 2024, Federal Open Markets Committee (FOMC) meeting and the potential decision to cut interest rates, which had not occurred since March 2020 when the COVID-19 pandemic started. She questioned the impact elevated interest rates have had on the economy, citing that inflation has decreased from 8.5% in March 2022 to 2.5% in August 2024. Rossell noted that the Fed set a target range for inflation between 1% and 3% and that the current inflation of 2.5% is within that range, indicating the Fed has met the policy goal it set out to achieve. Rossell expected the Fed to cut rates by 25 basis points. Duncan echoed that forecast, also expecting a rate cut of 25 basis points in September and another 25 in December, with 2025 forecasted to have one cut of 25 basis points each quarter.

Update: On Sept. 18, 2024, the FOMC lowered the target range for the federal funds rate by 50 basis points to a range of 4.75% to 5%.

Commercial real estate

According to sentiment in the financial institutions industry, prolonged weakness in the commercial real estate (CRE) market might be on the horizon. Specifically, there are concerns about the commercial office space sector, which has been affected by changes in how employees work, as well as the potential ripple effect that a decline in this sector could have on the U.S. economy at large. The COVID-19 pandemic introduced a rise in flexible work arrangements, which has lowered the demand for commercial office space since the pandemic. Coupled with the decline in office use by white-collar employees, Rossell noted that approximately “30% of commercial real estate debt comes due by 2026.” A majority of current CRE debt was negotiated in periods of lower interest rates, and refinancing at higher interest rates will increase service costs. As such, industry stakeholders are concerned about the mismatch of lower revenues and higher expenses and the potential for significant credit losses for financial institutions. Regional data suggests that the risk of credit losses depends, in part, on the geography in which the CRE is located, with cities such as San Francisco forecasting greater potential losses than other metropolitan markets like Chicago.

Rossell compared the potential impact of office CRE credit losses to the housing market crash in 2008, highlighting that CRE office space is roughly a quarter of the size of the housing market. Therefore, a stressed office CRE sector is unlikely to have the same impact on the U.S. economy as the previous housing market crash.

Residential real estate

Both economists shared information on the residential real estate market, citing that real estate has become less affordable for the average American household. Although the rate of home price increases has slowed down, home prices are still rising. They identified several reasons for the housing shortage.

- When the Fed lowered the target fed funds rate to near zero in 2020, homes were purchased and refinanced at rates lower than the current market rates, creating a “lock-in effect” for existing homeowners.
- There is a significant shortage of homes being built in the U.S., leading to a gap of about 3 million homes, as cited by Rossell.
- Supply is the primary factor contributing to elevated home prices.

[3] https://www.federalreserve.gov/newsevents/speech/powell20240823a.htm

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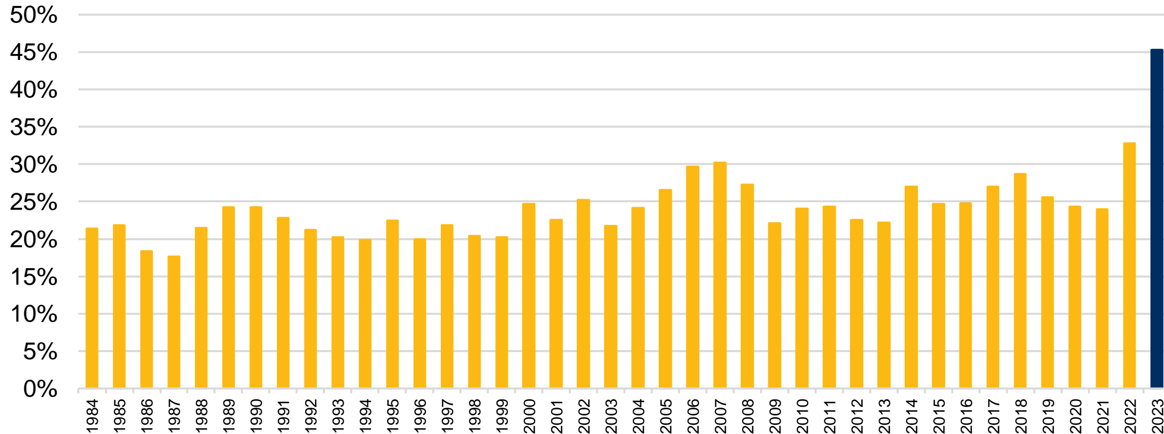
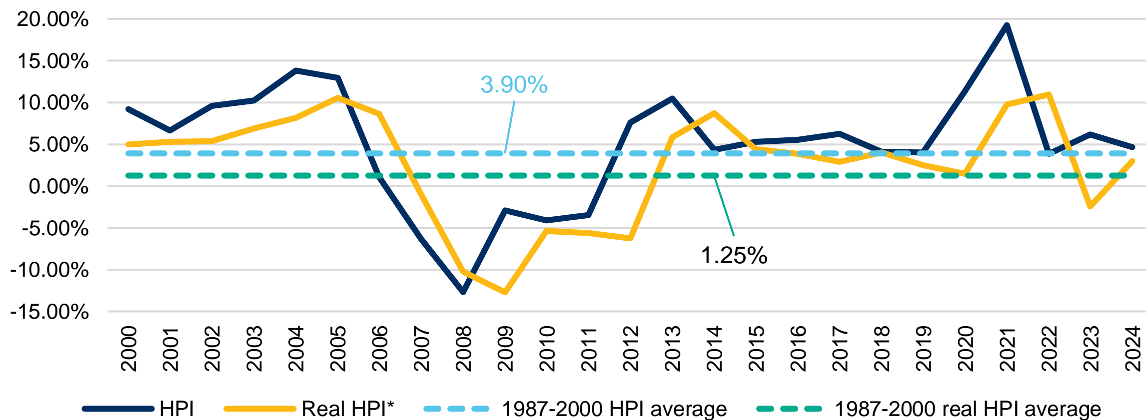
Duncan suggested a supply-side policy update is needed to address the housing shortage, as he believes that providing incentives to potential homebuyers would exacerbate the mismatch between housing supply and demand. Rossell stated she believes the biggest challenge facing the American economy is that “we do not have enough houses to put roofs over the heads of every single person in this country, and the solution is to build.” Both Rossell and Duncan said they expect the demand for housing to remain consistent for at least another decade.

Percentage of median household income needed to make 30-year mortgage payment



Source: Federal Reserve Bank of St. Louis, retrieved Oct. 15, 2024.[4]

Year-over-year change in housing prices, not seasonally adjusted



* HPI = Home Price Index. Real HPI is calculated by dividing the Case-Shiller U.S. National Home Price Index by the consumer price index.
Source: Bureau of Labor Statistics[5] and Federal Reserve Bank of St. Louis, retrieved Oct. 15, 2024.[6]

[4] https://fred.stlouisfed.org/series/MEHOINUSA672N#0
https://fred.stlouisfed.org/series/MSPUS
https://fred.stlouisfed.org/series/MORTGAGE30US#0
[5] https://data.bls.gov/pdq/SurveyOutputServlet
[6] https://fred.stlouisfed.org/series/CSUSHPINSA

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The impact of technology and AI on the economy

Technological advancements like smartphones and chatbots have significantly changed consumer behavior and access to information. These changes have implications for economic forecasting and productivity as there is now a potential for AI to transform low-skilled workers into medium- or high-skilled workers, boosting overall economic productivity.

Rossell observed that as the U.S. population ages and birth rates fall, the U.S. will not have enough people to maintain its standard of living. AI can help, both by doing the work for humans and by raising the skill level of the humans doing the work. She cited a Harvard study,[7] conducted with the Boston Consulting Group, that observed two groups performing similar tasks. One group used a large language model (LLM) for assistance, leading to around a 40% improvement in work quality compared to the control group. The experimental group also completed its tasks more than 20% faster. Rossell said this study demonstrates that low-skilled workers can work at medium or high skill levels with AI, potentially resulting in higher wages for these workers.

Rossell identified which sectors she believes have the greatest impact from AI: healthcare, education, consulting, legal, and accounting. She emphasized that AI will not eliminate all jobs in these industries but will instead lead to rearrangement of jobs. Duncan also commented on technology's role in the economy, noting that Moore's Law (the number of transistors on an integrated circuit will double about every two years) might be exhausted as we can now manipulate computer microchips at subatomic levels.

Crowe takeaway: AI is here to stay, and it is important for credit unions to understand how to leverage the evolving technology opportunities presented while also minimizing potential risks.

Labor market trends

Rossell provided insights on the influence rising rates have had on the labor market. The U.S. labor market has weakened, with the unemployment rate rising over the past two years from 3.5% (as of December 2022) to 4.2% (as of August 2024).[8] Despite this, GDP has grown from $25 trillion in Q1 2022 to more than $28 trillion in Q2 2024,[9] indicating underlying economic strength. Rossell commented that talent also has become easier to find and retain as the unemployment rate has increased. Businesses are no longer "hoarding" workers as they were when workers were shifting locations and working remotely. Trends in the labor market don't directly determine whether the economy is in a recession, however, as that is measured by productivity and GDP, both of which are growing. Duncan provided some insights into wage growth as well, noting it was strong during the pandemic but continues to cool down, as indicated in the following graphs.

[7] Fabrizio Dell'Acqua, Edward McFowland III, Ethan Mollick, Hila Lifshitz-Assaf, Katherine C. Kellogg, Saran Rajendran, Lisa Krayer, François Candelon, and Karim R. Lakhani, "Navigating the Jagged Technological Frontier: Field Experimental Evidence of the Effects of AI on Knowledge Worker Productivity and Quality," Harvard Business School, Sept. 22, 2023, https://www.hbs.edu/ris/Publication%20Files/24-013_d9b45b68-9e74-42d6-a1c6-c72fb70c7282.pdf

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

[9] https://www.bea.gov/itable/national-gdp-and-personal-income

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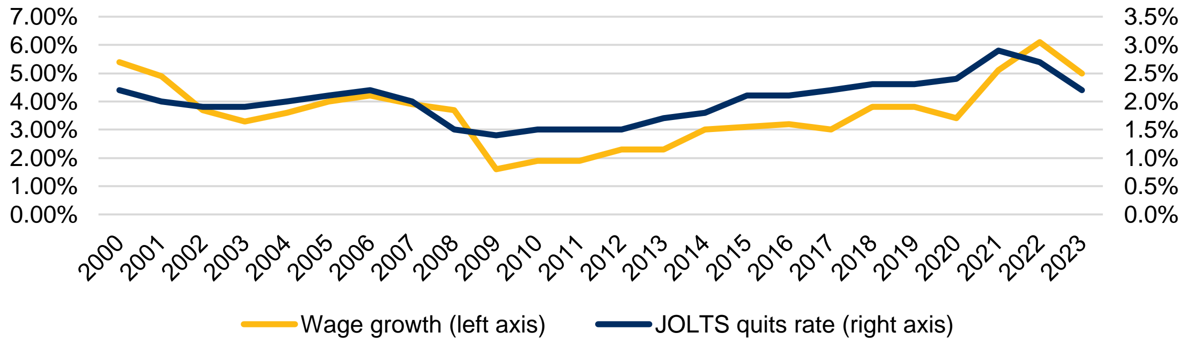
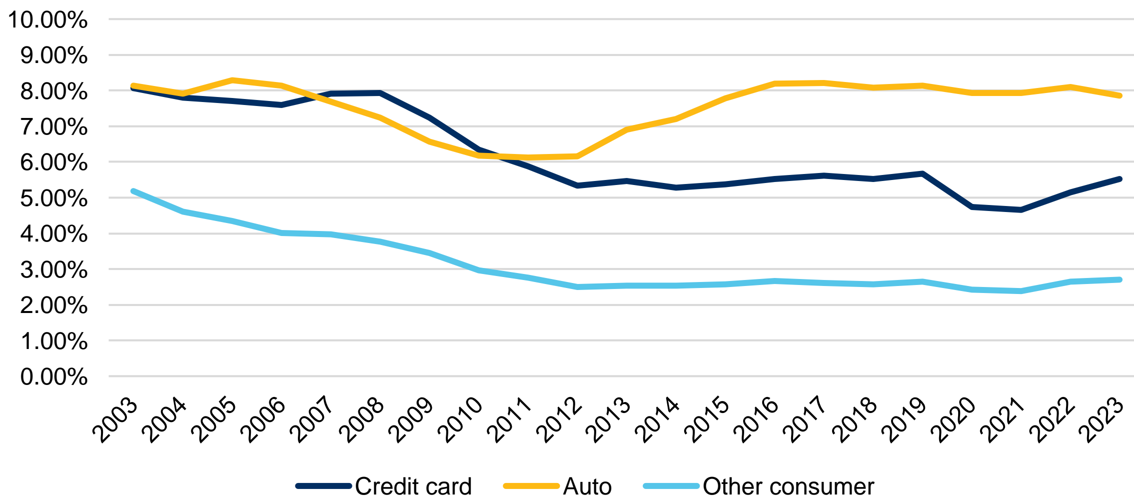


Source: U.S. Bureau of Labor Statistics[10] and Federal Reserve Bank of Atlanta, retrieved Oct. 15, 2024.[11]

Consumer behavior

Duncan said that the economy is not heading toward a recession, citing consumers' ability to maintain spending levels despite slower wage growth. Consumer spending – as measured by personal consumption expenditures (PCE), the value of goods and services purchased by, or on behalf of, U.S. residents – has continued to increase despite the slowed wage growth.[12] Credit card debt has risen significantly since the pandemic. The ratio of outstanding credit card debt to disposable personal income is near pre-pandemic levels, which raises the question of whether 2019 should be the period economists compare to as "normal." Duncan did not suggest an alternative period for future economic comparisons.



Source: Federal Reserve Bank of New York[13] and Federal Reserve Bank of St. Louis, retrieved Oct. 15, 2024.[14]

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[10] Quits rate, Total nonfarm, seasonally adjusted - JTS000000000000000QUR at https://data.bls.gov/toppicks?survey=jt
[11] https://www.atlantafed.org/chcs/wage-growth-tracker
[12] https://www.bea.gov/data/consumer-spending/main
[13] https://www.newyorkfed.org/microeconomics/hhdc#:~:text=Credit%20Panel%2FEquifax-,Credit%20card%20balances%2C%20which%20are%20now%20at%20%241.14%20trillion%20outstanding,now%20stand%20at%20%241.63%20trillion.
[14] https://fred.stlouisfed.org/series/DSPI

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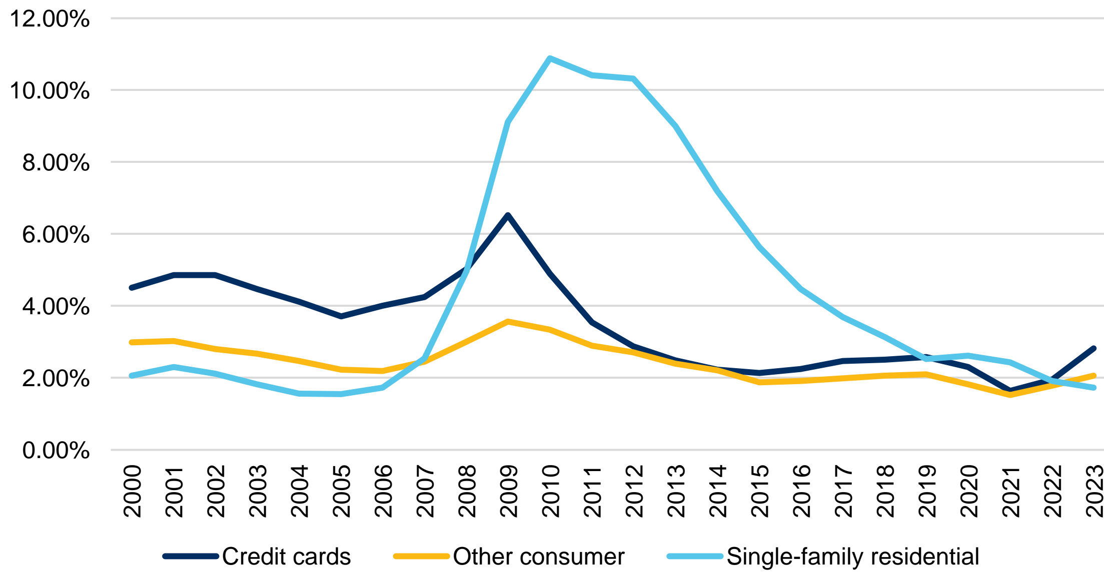

Source: Federal Reserve Bank of St. Louis, retrieved Oct. 15, 2024.[15]

Crowe takeaway: While credit card debt and delinquencies are rising, they remain relatively stable compared to previous recessions. As such, these trends alone do not indicate future shifts in consumer behavior.

Credit union industry

Jay Johnson, chief collaboration officer at Callahan & Associates, addressed credit union challenges, opportunities, and key questions. In addition, Larry Fazio, NCUA executive director, and Chris McGrath, NCUA chief accountant, discussed the state of the credit union industry. Johnson spoke about several performance themes that credit unions are experiencing, addressing the current slow growth environment, liquidity pressures, lower earnings, and member financial challenges. In addition to the themes introduced by Johnson, Fazio discussed changing technology, credit risk, new competitors, and cybersecurity and fraud. Johnson and Fazio both identified potential growth opportunities credit unions can take advantage of while considering credit union concerns

[15] https://fred.stlouisfed.org/series/DROCLACBS#0
https://fred.stlouisfed.org/series/DRSFRMACBS#0
https://fred.stlouisfed.org/series/DRCCLACBS#0

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Performance themes

Johnson observed that in 2022 and 2023, credit unions had record years of loan growth[16] as consumers took advantage of the low-rate environment. During that same period, share growth also peaked.[17] However, with a changing rate environment, Johnson noted a slowdown in loan activity is not surprising and share growth as of June 30, 2024, is at a 20-year low.[18] Consumer and real estate loan originations have dropped to 2019 levels. Loan growth has slowed across the credit union industry in 2024, with the greatest slowdown in new automobile loans, with balances outstanding decreasing 4.3% from Q2 2023 to Q2 2024, compared to a 12.8% increase from Q2 2022 to Q2 2023. Used auto loans remained flat from Q2 2023 to Q2 2024.[19]

Johnson next discussed liquidity trends in the credit union industry, noting that the loan-to-share ratio rose from Q1 to Q2 2024, ending at 84%. This approximates the loan-to-share ratio of 83.3% in the same quarter in 2019.[20] Unrealized losses continue to have a strain on investment portfolios. Credit unions are also reducing borrowings compared to the end of 2023, with current borrowings as a percentage of assets at 5.4% as of Q2 2024; however, they remain elevated compared to pre-pandemic levels.[21] Johnson surmised that the higher borrowing levels are a reflection of the unrealized losses in investment portfolios. Cash balances are not as elevated as they were during the pandemic, reaching as high as 13.1% of total assets as of June 30, 2021. At June 30, 2024, cash balances to total assets were 8.3%, which is more in line with pre-pandemic levels of 7.6% as of June 30, 2019.[22] Overall, Johnson said most credit unions seem to be managing their liquidity well.

Johnson stated that credit unions are experiencing lower earnings in 2024, mainly due to higher cost of funds and compressed margins. However, loan yields have increased consistently with cost of funds, and net interest margin has been above 3% since June 30, 2023.[23] Credit unions also have seen an increase in provision expense as asset quality declines. The return on average assets for credit unions was 0.69% at an annual rate for the first half of 2024, down from 0.80% in the first half of 2023.[24] Johnson attributed these low returns to the time it takes for the balance sheet to reset.

Johnson highlighted another matter affecting credit unions: understanding member financial challenges. A survey found that more than a third of Americans were very to moderately worried about not having enough money to pay their normal monthly bills and housing costs. Additionally, Fazio noted charge-offs and delinquencies are on the rise. He said that the most dramatic delinquency rate increases since 2020 have been in credit cards and used car loans.[25]

[16] https://ncua.gov/analysis/credit-union-corporate-call-report-data/financial-trends-federally-insured-credit-unions
[17] Ibid.
[18] Ibid.
[19] https://ncua.gov/files/publications/analysis/quarterly-data-summary-2024-Q2.pdf
[20] Ibid.
[21] https://ncua.gov/analysis/credit-union-corporate-call-report-data/financial-trends-federally-insured-credit-unions
[22] Ibid.
[23] Ibid.
[24] Ibid.
[25] https://ncua.gov/files/publications/analysis/quarterly-data-summary-2024-Q2.pdf

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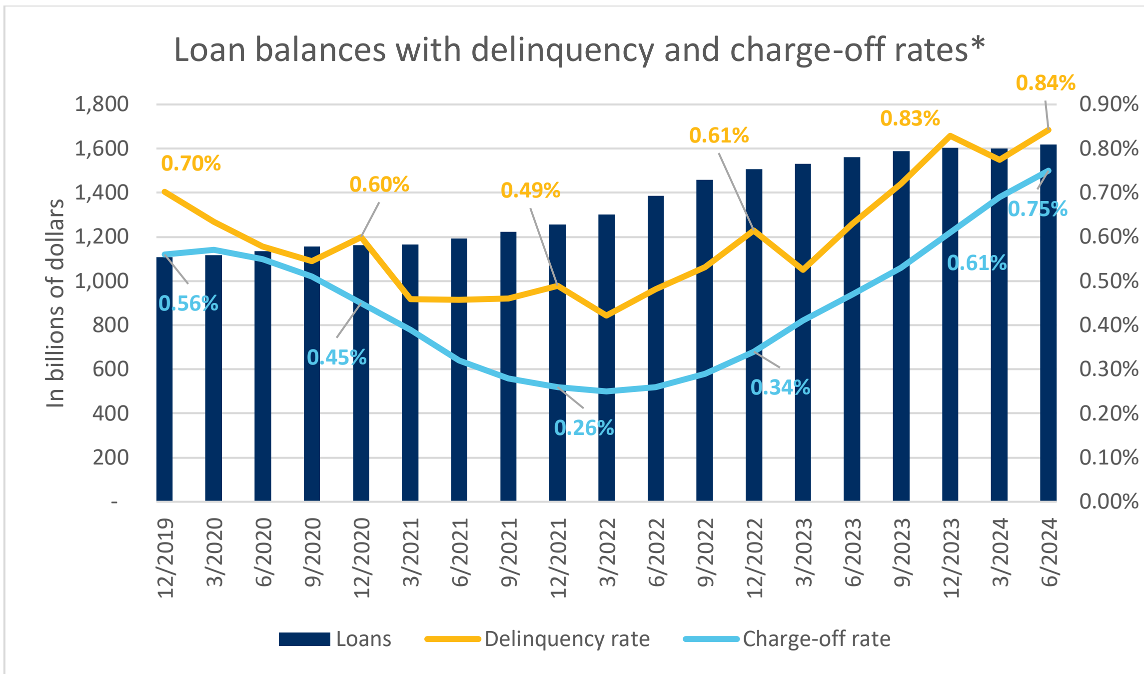
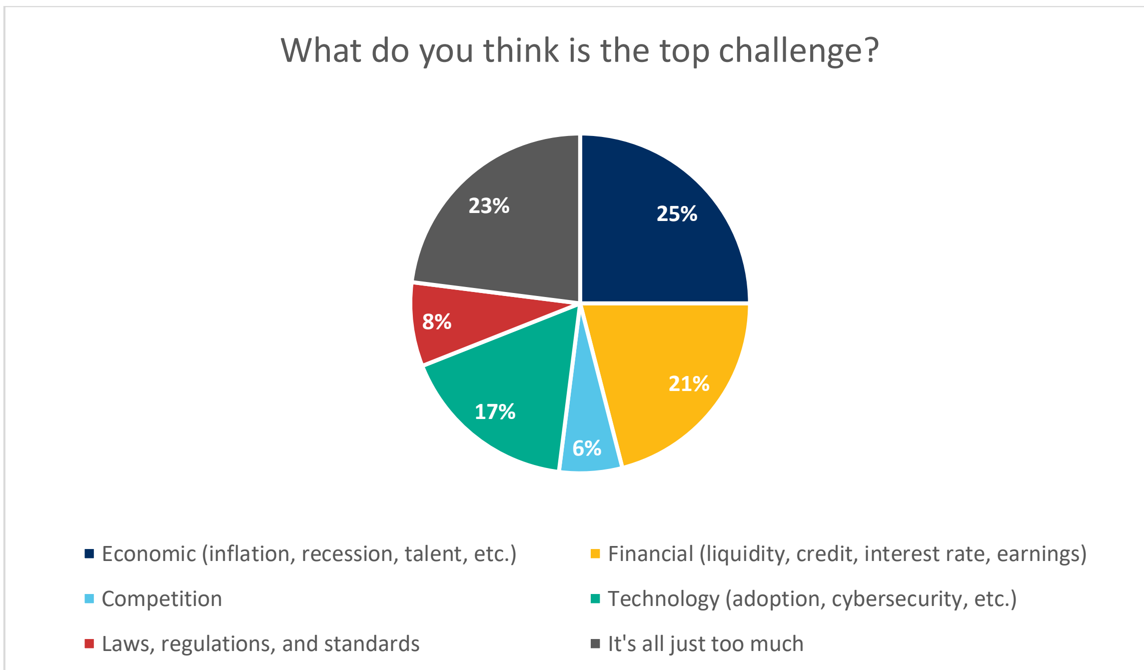


* https://ncua.gov/analysis/credit-union-corporate-call-report-data/financial-trends-federally-insured-credit-unions

NCUA presenters polled the audience about the top challenge facing credit unions. Here are the results:



Source: Poll results from conference.

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Cybersecurity

Fazio reminded participants of the cyber incident reporting rule that became effective Sept. 1, 2023. The rule requires credit unions to inform the NCUA within 72 hours of a reportable cyber incident, defined as a substantial loss of confidentiality, integrity, or availability caused by unauthorized access.[26]

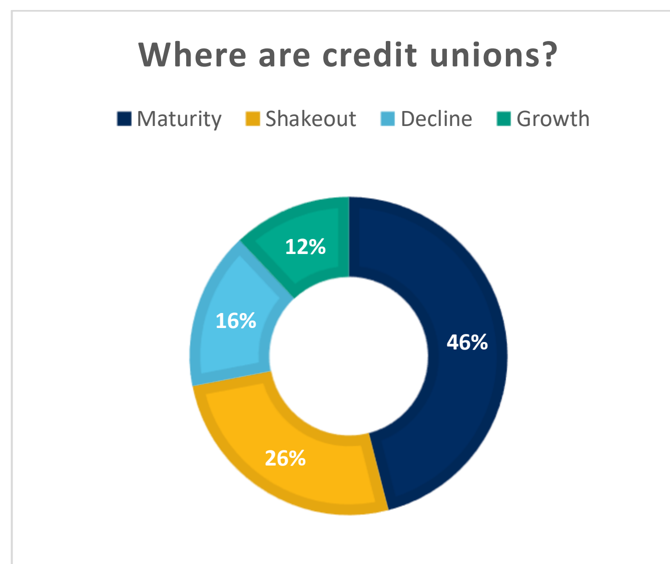
Other key credit union issues

In 2023, credit union mergers and acquisitions were active, as banks and credit unions continued to consolidate. The trend of credit unions acquiring banks is expected to continue. Most of these mergers and acquisitions involved financial institutions with assets below $100 million. As of June 30, 2024, 4,533 federally insured credit unions were operating in the U.S.[27]

Johnson cited a Cornerstone Advisors study that stated the percentage of new checking accounts being opened is rising for digital banks/fintechs and falling for other types of financial institutions. Notably, in 2020 credit unions accounted for 7% of new checking accounts, and in 2023 that number dropped to 6%. Mega and regional banks saw larger declines, community banks increased from 5% to 6%, and digital banks/fintechs increased from 36% in 2020 to 47% in 2023. Johnson theorized the increase in digital banks/fintechs indicates a change in consumer expectations and the younger generation's desire for simple, direct access to their accounts.

According to Johnson, Callahan & Associates research also revealed that Generation Z uses fintechs at a higher rate than other age groups. Johnson stated that Generation Z primarily seeks financial information and advice from social media; specifically, 42% of them get their advice from TikTok and 27% from YouTube, with other platforms having smaller percentages. One credit union showcased in Johnson's presentation has caught onto this trend, hiring TikTok influencers to promote specific certificate of deposit products.

Johnson asked attendees where they believe credit unions are in the industry life cycle: introduction, growth, shakeout, maturity, or decline.



Source: Poll results from the conference.

Johnson challenged credit unions to begin experimenting with new ways of doing business to set a new standard for the upcoming era.

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[26] https://ncua.gov/regulation-supervision/regulatory-compliance-resources/cybersecurity-resources/cyber-incident-reporting

[27] https://ncua.gov/files/publications/analysis/quarterly-data-summary-2024-Q2.pdf

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FASB updates

FASB technical director Jackson Day, along with board member Fred Cannon and senior project adviser Rosemarie Sangiuolo, provided an update on the FASB's current standard-setting agenda,[28] including current priorities. They focused on the technical agenda items that they believe to be the most impactful to participants.

Technical agenda update

The FASB's technical agenda is being driven by the results of the agenda consultation that concluded in mid-2022. In addition to the two Accounting Standards Updates (ASUs) that have been released in 2024 to date, the FASB anticipates issuing two final ASUs and nine exposure drafts prior to year-end.

Final ASUs issued in 2024:

- ASU 2024-01, "Compensation – Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards"
- ASU 2024-02, "Codification Improvements – Amendments to Remove References to the Concepts Statements"

Final ASUs expected in 2024:

- Induced conversions of convertible debt instruments
- Disaggregation – income statement expenses

Exposure drafts issued or expected to be issued in 2024:

- Accounting for and disclosure of software costs
- Accounting for environmental credit programs
- Accounting for government grants
- "Derivatives and Hedging (Topic 815) and Revenue From Contracts With Customers (Topic 606): Derivatives Scope Refinements and Scope Clarification for a Share-Based Payment From a Customer in a Revenue Contract" (proposed ASU issued July 23, 2024)
- "Derivatives and Hedging (Topic 815): Hedge Accounting Improvements" (proposed ASU issued Sept. 25, 2024)
- Determining the acquirer in the acquisition of a variable interest entity
- "Compensation – Stock Compensation (Topic 718) and Revenue From Contracts With Customers (Topic 606): Clarifications to Share-Based Consideration Payable to a Customer" (proposed ASU issued Sept. 30, 2024)
- Codification improvements (next phase)
- Interim reporting – narrow-scope improvements

Other items on the technical agenda currently being deliberated by the board include:

- Targeted cash flow statement improvements
- Purchased financial assets (PFAs)

Purchased financial assets

Notably absent from the list of expected exposure drafts in 2024 is PFAs. While a proposed ASU was issued in 2023, feedback from comment letters received led the FASB to reconsider certain aspects of the proposed ASU. These deliberations are ongoing. The project currently does not have a target date set for a new exposure draft.

[28] https://www.fasb.org/projects/current-projects

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As a reminder, the PFA project is the result of the CECL post-implementation review function, which concluded in 2022. Sangiuolo discussed the current status of the project, noting the overall goal remains that all “seasoned” PFAs will be subject to the “gross-up” approach, where the credit loss component of the fair value adjustment (for financial assets subject to ASC 326-20 acquired in a business combination or an asset acquisition) is recorded directly to the allowance for credit losses (ACL) rather than being recorded as a component of the net premium or discount on acquired financial assets. Current GAAP permits the gross-up approach to be applied only to purchased credit deteriorated (PCD) assets.

Sangiuolo noted that the original intention of the PCD approach was that the application of the “more than insignificant” threshold would result in most acquired financial assets being considered PCD, with the remaining non-PCD consisting of mainly “newly originated assets with very little credit embedded in the purchase price.”

However, Sangiuolo stated that in practice the percentage of acquired loans in acquired portfolios designated as PCD varied “pretty significantly, and in some cases the percentage of non-PCD loans exceeded 80%, which was much higher than the board would have anticipated.” Sangiuolo discussed one of the FASB’s objectives in expanding the PCD model is to minimize inconsistencies among entities’ disclosures and yield more intuitive outcomes.

Additional items the FASB is reconsidering relate to the scope of financial assets subject to the model as well as implementation matters. Items being considered by the FASB include the potential exclusion of credit cards and revolving loans from the project’s scope as well as eliminating the proposed retrospective adoption guidance. These items are the direct result of comment letters from stakeholders of all types.

Crowe takeaway: To learn more about the FASB proposal on PFA please visit our “Take Into Account” accounting and financial reporting hub, where you can find updates on current FASB projects.

Targeted cash flow statement improvements: Financial institutions

Cannon addressed the FASB’s ongoing deliberations related to targeted improvements to the statement of cash flows. The project, focused on financial institutions, aims to reclassify cash flows between operating, financing, and investing sections as well as to further disaggregate certain cash flows. Cannon emphasized areas for potential improvements to disclosures of cash flows to provide more transparency and consistency, including:

- The disclosure of cash interest received (in addition to the existing cash interest paid disclosure)
- A reconciliation of net interest received in cash to net interest income as presented on the income statement
- Disaggregation of purchased financial asset accretion and noncash gain on sales of loans

The FASB is performing additional research and outreach to determine the scope of entities that would be affected and exploring potential changes to the definitions of investing and financing activities.

Accounting for software costs

Sangiuolo discussed the FASB’s project on the accounting for software costs for internally developed software. The project was initially started to identify a single model for all software capitalization, but the FASB’s ongoing deliberations instead resulted in targeted improvements for internally developed software.

Both preparers and auditors provided feedback that the current rules for capitalizing internal use software costs that are based on a sequential development method are outdated and do not reflect modern software development practices. This is due to the shift toward more iterative “agile” development methods, which for many companies can result in an “expense all” model. The FASB is working to better align with current practices.

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The proposed changes would remove the project development stages that are viewed as difficult and outdated. Initial capitalization thresholds would be clarified to specify that entities would begin capitalizing when management has authorized and committed to funding the software and it is probable that the project will be completed and used to perform the intended function.

The proposal will provide guidance for determining whether it's probable that a project will be completed if it does not clearly meet the initial capitalization threshold, considering two factors related to significant development uncertainties: whether the software is novel or unproven and whether the entity has identified the significant performance requirements of the software.

The board also decided to enhance disclosures, including presentation of cash paid for capitalized internal use software within the statement of cash flows, which is expected to provide greater transparency to investors and will appear as a separate line item in the investing section of the statement of cash flows.

Board deliberations are completed, and a proposed ASU is expected to be issued in Q4 2024.

Conference takeaway: FASB panelists noted that the movement from a broad overhaul of the software accounting guidance to the narrow-scope improvements was driven by input from both investors and preparers and the desire for improved transparency.

The panelists said they believe the narrower scope of the project still accomplishes modernization goals and do not expect institutions in attendance to see any meaningful change in financial outcomes.

Accounting for government grants

FASB panelists discussed a forthcoming proposed standard on grants, where no direct GAAP currently exists. The FASB opted to use the accounting framework within International Accounting Standard (IAS) 20, "Accounting for Government Grants and Disclosure of Government Assistance," for government grants. IAS 20 was chosen as many business entities analogize to either this standard or the guidance for not-for-profit entities.

Sangiuolo noted the FASB undertook the project because stakeholders highlighted the issue as lacking specific guidance. Grants are impactful to certain financial institutions that currently receive or previously received government grants (for example, awards granted in connection with programs stemming from COVID-19 responses and programs such as the Community Development Financial Institutions Fund).

The scope of the proposal is expected to narrow the scope of IAS 20 by including transfers of monetary and tangible nonmonetary assets, including forgivable loans, from a government to a business entity while excluding exchange transactions, below-market interest rate loans, and government guarantees.

Cannon discussed the decision to maintain the optionality present in IAS 20 related to the cost accumulation approach versus the gross approach for asset grants. Cannon provided an example of each approach using an asset valued at $10 million with $5 million granted thus far, as illustrated here:

	Approach	
	Cost accumulation	Gross
Recorded amount	$5,000,000	$10,000,000
Offsetting adjustment	-	($5,000,000)
Net value	$ 5,000,000	$ 5,000,000

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While each approach results in the same ending amount, the view of the staff was that while the gross approach provides more transparency, the cost accumulation approach better reflects the transaction economics. As a result, the board voted to provide for the optionality of either approach.

Alternative views considered an expansion of the current not-for-profit guidance in GAAP to for-profit entities as well as requiring additional disclosures reconciling the gross and cost accumulation approach.

Board deliberations are complete, and a proposed ASU is expected to be issued in Q4 2024.

Accounting refinements and improvements to Topic 815

The panelists discussed a number of refinements and improvements to Topic 815, including refinements to the scope of a derivative to align hedge accounting guidance with entities' risk management objectives. The hedge accounting project aims to address issues such as changes in hedged risk, nonfinancial forecasted transactions, and net written options.

Refining the scope of a derivative

The FASB released a proposed ASU on July 23, 2024, to refine the scope of Topic 815 through the expansion of derivative scope exceptions. The 90-day comment period ended Oct. 21, 2024.

Sangiuolo noted that stakeholder feedback indicated that a number of items currently captured in the scope of derivatives [for example, environmental, social, and governance (ESG)-linked instruments] suggests the current bifurcation criteria in Topic 815 is unintuitive and leads to unintended outcomes.

Sangiuolo discussed an example ESG-linked loan or bond that is tied to the issuer's ESG performance levels via a contingent interest rate adjustment feature. In one example, the interest rate of an ESG-linked note is based on whether the debt issuer meets certain performance targets, such as greenhouse gas emissions reduction targets. Under current accounting guidance, the contingent feature would be accounted for as bifurcated derivative and measured at fair value. The panel noted similar issues were identified in other contracts reviewed (for example, research and development funding arrangements and litigation funding arrangements).

To provide relief, the FASB determined that principles-based guidance was the best way to address a class of contracts with common characteristics. Through research and deliberation, the FASB added a scope exception to the derivative guidance in ASC 815 that would be applicable to non-exchange-traded contracts with underlying features based on the operations or activities specific to one of the parties to the contract.

The FASB also considered alternatives including other targeted scope exceptions or a change to the definition of a derivative in ASC 815, but FASB members raised concerns about unintended consequences and the ability for targeted amendments to the accounting literature to be a long-lasting solution.

The proposal permits an entity to elect the fair value option at transition. It also includes a prospective transition approach for new contracts with the option to elect a modified retrospective approach in order to provide relief for entities that currently have ESG-linked or other qualifying loans or bonds that otherwise would have qualified for the exception.

Conference takeaway: Sangiuolo emphasized that the goal of ESG-related projects was not to create an ESG standard but rather to provide a principles-based approach to account for financial instruments with ESG-linked features.

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Hedge accounting improvements
A proposed ASU to make targeted improvements to the hedge accounting guidance in Topic 815 is based on issues raised by stakeholders. The proposal addresses the following five discrete issues:

- Change in hedged risk (considerations for "choose-your-rate" debt)
- Cash flow hedges of nonfinancial forecasted transactions
- Dual hedges
- Shared risk assessment in cash flow hedges
- Net written options as hedging instruments

The first three items were considered in a 2019 FASB exposure draft intended to further clarify the targeted updates to hedging guidance (ASU 2017-12). The latter two arose as a result of feedback received in the FASB's 2021 agenda consultation.

In the session, the panelists discussed a few of the items:

Change in hedged risk
Sangiuolo discussed situations where entities would have a missed forecast if the risk in the hedging relationship had changed but the revised risk remained highly effective. The proposal ultimately was narrowed to apply only to hedges of existing debt instruments issued by an entity where the terms of the debt identify all of the potential interest rate indexes or interest rate tenors that an entity can change to during the life of the instrument. This is commonly referred to as "you pick 'em" or "choose your rate" and was viewed by FASB as a "natural fit" for change in hedged risk accounting improvements.

Shared risk assessment in cash flow hedges
Sangiuolo remarked that the FASB is attempting to find an alternative approach to allow entities to change from one interest rate index to another in a cash flow hedge without creating the risk of a missed forecast. To achieve that, the board decided to allow multiple risks to be included in a single pool by permitting entities to broaden hedged pools to include multiple risks, therefore making hedging transactions more efficient. One of the goals is to help entities avoid unintended outcomes beyond the entities' control that could trigger a missed forecast, such as a situation where a customer changes its preferences on an interest rate.

Under the proposal, the quantitative threshold necessary to determine that a group of individual forecasted transactions has a similar risk exposure will be consistent with the highly effective threshold. Furthermore, entities would be permitted to conclude that a group of individual forecasted transactions has a similar risk exposure if the hedging instrument is highly effective against each risk in the group. However, entities are permitted to perform separate tests for risk assessment and hedge effectiveness purposes.

Sangiuolo emphasized that the proposals are in the context of the existing hedge accounting model, which possesses a number of restrictions. As such, it is important for stakeholders to understand that these improvements will not solve for every issue that could arise in hedge accounting.

Net written options as hedging instruments
Passing the net written option test is required whenever an entity wants to designate a written option as a hedging instrument and serves as a "gating condition" prior to when a hedge begins. For an entity to pass this test, gain and loss potential of the combination of the hedged item and the net written option must be symmetrical.

Sangiuolo commented on an accounting issue that arose after the cessation of the London Interbank Offered Rate (LIBOR), whereby a swap with a written floor is used as a hedging instrument against a loan with a floor. The swap and the loan may have different interest rates [for example, Secured Overnight Financing Rate overnight index swap (SOFR OIS) in the swap and SOFR Term in the loan], which might result in the swap failing to achieve hedge accounting treatment, despite that the addition of the written floor and the swap results in a better economic hedge and a more highly effective accounting hedge.

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The FASB proposed a solution that addresses circumstances where a hedging instrument is made up of a written option and a swap. In the FASB's proposal, entities can assume that certain terms are matched for purposes of applying the test. Sangiuolo noted that the FASB acknowledges that this represents a narrow fix in ASC 815 and will not address all situations where entities are trying to designate written options as hedging instruments. As a result, the board is including a question in the exposure draft to solicit feedback.

Cannon reminded participants that the proposed improvements are narrow, as broader solutions tended to run into the core pillars of the existing hedge accounting framework, despite many stakeholders' interest in broader solutions.

Transition would be prospective, with elections for certain situations including adding new risks to existing hedges, migrating forecasted transactions to new pools, and reassigning hedging instruments.

Crowe observation: On Sept. 25, 2024, the FASB issued a proposed ASU, "Derivatives and Hedging (Topic 815): Hedge Accounting Improvements." The amendments in the proposal would enable entities to apply hedge accounting to a greater number of highly effective economic hedges, thereby improving the decision-usefulness of information. The FASB is seeking public comments within a 60-day comment period ending Nov. 25, 2024.

Research agenda

The panel discussed certain topics on the FASB's research agenda, addressing feedback received from stakeholders on targeted improvements to deposits and liquidity disclosures. Cannon covered investor feedback related to exploring whether certain disclosure information on deposits and liquidity could be codified into GAAP to require consistent disclosures. Cannon noted that while this is not a current research agenda item, it could be considered in the future.

Crowe observation: The FASB's research agenda includes projects that FASB staff is actively working on to identify emerging issues in financial reporting. The research agenda is determined by the chair.

Items on the research agenda include:

- Accounting for and disclosure of intangibles
- Accounting for commodities
- Agenda consultation
- Consolidation for business entities
- Definition of a derivative
- Financial key performance indicators for business entities
- Statement of cash flows

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Technology, AI, and blockchain

Lamont Black, Ph.D., associate professor of finance at DePaul University and a research fellow to the Filene Research Institute, provided a keynote address to participants on emerging technologies like AI and blockchain. His presentation was aimed at addressing the question many boards are now asking: “What are we doing with AI?” Black also explored how blockchain can enhance the market for mortgages and auto loans.

Emerging technologies

Black identified the financial landscape and options financial institutions face when considering new technologies such as instant payments, digital wallets, open banking, embedded finance, omnichannel, AI, and decentralized platforms. He said credit unions need to adapt and adopt new technologies in order to avoid obsolescence.

Black suggested boards should think about the risks posed by implementing these emerging technologies but also about how those same technologies can alleviate other risks. Cyberthreats create an opportunity for cybersecurity. Identity fraud creates opportunities for identity verification. Black’s premise was that with the assistance of AI, impersonal customer experiences can be personalized, and disruption can lead to transformation. Black argued that personalization for the next generation is about not only face-to-face handshakes and smiles but also how well an institution understands its customers and their behaviors and can tailor services to customer expectations and situations. One example of this is how music streaming services can suggest songs they determine customers will like within playlists of music the customers created and already like.

Artificial intelligence

Specific to AI, Black observed ChatGPT’s release in November 2022 was a tipping point for the industry and LLMs and GenAI are now household words. He said given the risks present as well as the potential opportunities provided, institutions across the country are debating whether the impact of AI on the workforce will turn out to be positive or negative. Of note, he said, credit union boards are talking about this technology, considering relevant use cases for AI, and deciding how to take advantage of this technology. Black noted that appropriate governance and guardrails are equally important to couple with AI in order to limit risks.

Some of the most practical use cases for credit unions are related to customer service, according to Black. He said every institution has a “knowledge base” of policies, procedures, and information repositories. LLMs can be used today by customer service representatives to answer customer questions they do not know the answer to, which will save their supervisors time and make call centers more efficient. He said chatbots are not always well received by customers, so credit unions should use AI to speed up rather than replace their customer service teams. Black said he expects in the near future, AI will be able to listen to recorded conversations and gather customers’ sentiments based on their vocal tone and language rather than asking them to fill out a survey – thus providing real-time process improvement feedback to institutions.

Black suggested the future of education, whether in schools or training in the workplace, also will be supported by AI. Instead of trainees reading textbooks or watching lectures, they will have an interactive conversation with an LLM. Everyone will have access to their own personal tutors, which will make learning and skill advancement more engaging.

The future of AI in the workforce is moving employees away from doing routine tasks that can be automated and into higher-level thinking, Black said. He suggested that instead of a person assembling information to use in a financial forecast, AI can do that. AI also can prepare the forecasts and make predictions based on past events.

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Crowe takeaway: Numerous use cases for AI are available to credit unions today. AI can research, write accounting memos, or even help draft performance evaluations.

Blockchain

According to Black, blockchain technology was designed to provide transparency to the markets and serve as a “single source of truth.” Blockchain is a system for shared and decentralized recordkeeping. Generally, blockchain does not help any individual institution, because the data is all internal and does not require external validation. Where financial institutions will see a rise in the use of blockchain is on the secondary market, for buying, selling, and participating in loans.

Black explained how a blockchain for buying and selling loans would work from a technical perspective, mentioning that each loan would have its own non-fungible token and unique attributes that loans are often pooled into. He said this technology will lower the cost of selling loans, remove the need for brokers and third parties to provide loan data, and provide institutions with more assurance because the data is on a decentralized platform.

Conference observation: Credit unions should start exploring how they can use AI and invest in new technologies prudently to improve member experience and satisfaction.

CECL

Despite CECL having been implemented by nearly all credit unions now, CECL continued to be a hot topic during this year’s conference, with discussions about good practices, lessons learned, and future-state models. In addition, the proposed ASU over PFA was discussed in several sessions, as covered in the FASB updates section.

A panel comprising representatives from credit unions, an auditor, and a vendor provided insights into the practical aspects of CECL implementation and management, highlighting the complexities and the necessity of ongoing vigilance and adaptation. Understanding which inputs and assumptions significantly affect the model’s output and its potential volatility is important with either an internally developed or a vendor-hosted model.

The sessions addressed the need for regular model validation to maintain the reliability and accuracy of CECL estimates. A panelist emphasized that the model validation process is instrumental in identifying areas in policies and procedures where documentation could be enhanced.

Other key themes included:

- **Collaboration.** Clear policies and communication are essential, as managing the CECL model often involves multiple departments such as finance, credit, and accounting.
- **Data integrity.** The CECL model is not just a “set it and forget it” model. It requires ongoing data validation to ensure data integrity.
- **Information use.** As one panelist noted, CECL can enable new ways to evaluate the loan portfolio, which can drive business decisions and operations.
- **Evolving conditions.** The current environment likely has shifted since implementation. It is critical that credit unions adapt the model to changing conditions and anticipate adjustments as they gain additional insights.

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Crowe observation: Institutions should deploy an allowance methodology that is appropriate to estimate their current expectations of credit losses. While no specific method or model is prescribed, an institution is responsible for ensuring that the ACL represents management's best estimate and that the methodology is suitable based on the institution's size and complexity.

Other items of relevance for credit unions

Recent fraud schemes and prevention

Panelists said that fraud in financial institutions is increasing and that appropriate lines of defense are more important than ever. The panel cited reports that the dollar amount of losses incurred due to fraud has increased since the pandemic. Fraud is impossible to prevent entirely, but institutions set themselves up for disaster if their policies are too lax. Credit unions should assess their policies and determine what prevention controls are in place while balancing how much member inconvenience is necessary to protect members.

The cost of fraud can include not just direct monetary losses but also reputational damage and loss of member trust, brand value, and even employee morale due to burnout or turnover. Some credit unions now use extensive data to determine whether they should lend money to a member. Loss analysis can help protect that data by determining where process improvements can be made, with considerations such as whether a loss due to fraud occurred because of human error, whether procedures were followed, and whether procedures should be revisited or coaching added?

Conference observation: It is important for credit unions to find ways to balance the member experience with fraud controls. One such way could be through enhancement of detection controls.

Collateral assignment split dollar

Collateral assignment split dollar has been a topic at the conference for many years, and this year was no different. According to an accounting session, current accounting requires that if a loan to an executive is nonrecourse and the cash surrender value (CSV) is less than the loan amount, the loan is written down to CSV. If the loan to the executive is with recourse, credit unions need to consider the underlying collateral, if any; the ability of the executive to repay; and the credit union's intent to seek collection. Credit unions and auditors were reminded that policies cannot be combined or offset.

Credit union-owned life insurance

Another accounting issue observed over the past year is credit union-owned life insurance restructuring transactions where significant surrender enhancements are present. While these transactions might result in an increase to the stated CSV upon restructuring based on the associated surrender enhancements, the panelists emphasized the need for credit unions to carefully evaluate the unique facts and circumstances to ensure the transaction is properly accounted for under U.S. GAAP and call report instructions.

Crowe observation: Credit unions exploring similar restructuring transactions should consult with their auditor and/or primary regulator on the accounting conclusions reached. Generally, credit unions should be skeptical of a transaction that lacks economic substance and results in immediate income recognition.

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Other topics

Other conference sessions included these topics:

- Accounting and auditing issues
- Balance sheet management
- Mergers and acquisitions
- Auditing standards updates
- Regulatory compliance
- Profitability

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