



Smart decisions. Lasting value.™

# Welcome

**Industry Overview for  
Financial Services Companies'  
Audit Committee Members**

January 11, 2022

# Your Moderator and Presenters

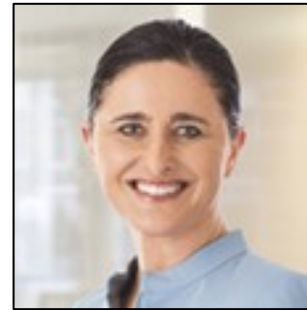
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# Agenda

- Financial reporting observations (*Sydney Garmong and Mark Shannon*)
  - From the FASB
  - Observations from the 2021 AICPA Banking Conference Dec. 1<sup>st</sup> Update
  - Observations from the 2021 AICPA National Conference on SEC and PCAOB Developments
  - More from the SEC
  - From the PCAOB
- Reimagining Internal Audit (*Dawnella Johnson*)
- Q&A (*Kara Baldwin*)



# **Financial reporting observations**



# From the FASB

Proposal issued with  
comments due Dec. 23



Recommendations on next steps  
expected in early 2021

Currently three projects on FASB's  
technical agenda:

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

# Troubled Debt Restructurings (TDRs)

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- Instead of evaluating modifications for TDRs, entities would determine if a modification is a new loan or a continuation of the existing loan.
  - Apply the guidance in 310-20-35-9 through 35-12, which includes understanding if the modification is “at least as favorable to the lender as the terms for comparable loans to other customers” (that is, market).
- If effect of a concession is not recognized in the ACL, entities should consider whether it is appropriate to recognize interest income if the net investment in a loan becomes greater than the payoff amount.
- Disclosures
  - Enhance disclosures for modifications due to financial difficulty
  - Magnitude of modification, statement effect of modifications, and default rates after modification

# Gross Write-offs ~~and Recoveries~~



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

Condensed example from ASU 2016-13

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



# From the FASB – goodwill developments

Dec. 2020  
tentative  
decisions

- Amortize goodwill straight-line
- Default amortization period of 10 years unless entity elects and justifies different period
- Different period would have a cap
- No reassessment of amortization period

Apr. 2021  
discussion

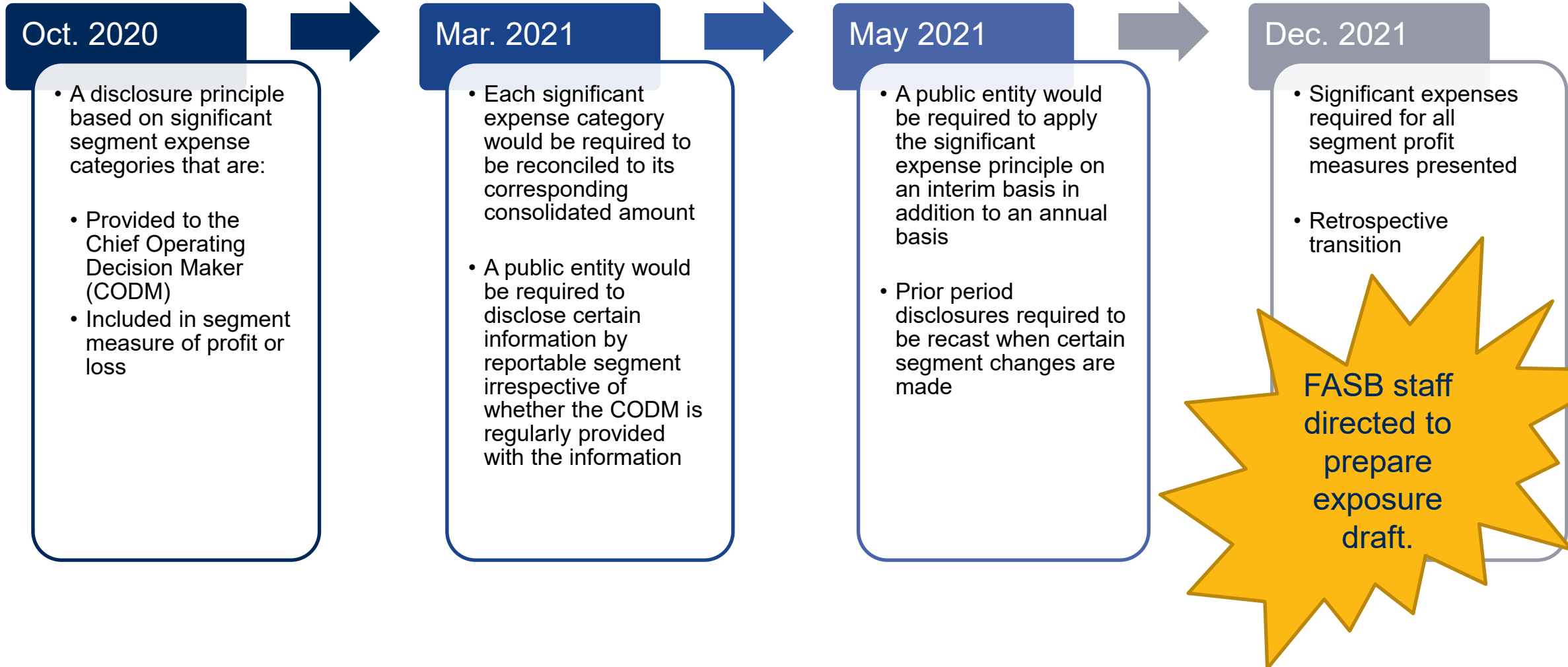
- Board directed staff to perform additional user outreach related to the types of intangibles that provide decision useful information and factors that might be used to estimate the useful life of goodwill (including management's estimated payback period)

June 2021  
discussion

- unit of account at which goodwill is tested for impairment
- frequency of goodwill impairment testing
- timing of goodwill impairment assessment

- Nov. 2021 meeting:
- Factors to consider for amortization period
  - When to reassess

# From the FASB – segment developments




# Other FASB projects of interest

## Investments in tax credits

- Project added Sept. 22 to Emerging Issues Task Force's (EITF) agenda
- To expand the proportional amortization method to investments in tax credits other than low-income housing tax credits (LIHTC)
- Examples:
  - New Markets Tax Credits (NMTC)
  - Historic Rehabilitation Tax Credits (HTC)
  - Renewable Energy Tax Credits (RETC)



Nov. 11, 2021 - EITF held an educational meeting on the topic. Minutes are available.



# Observations from the 2021 AICPA Banking Conference Update December 1, 2021

## FDIC Leadership

- Chair Jelena McWilliams

## Chief Accountants

- Jeffrey Geer, OCC
- Lara Lylozian, Fed
- Shannon Beattie, FDIC

## Economist

- Lindsey Piegza, Chief Economist, Stifel



# Observations from the 2021 AICPA Conference on SEC and PCAOB Developments Dec. 6-8, 2021

# 2021 AICPA Conference on SEC and PCAOB Developments - themes

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Stakeholder  
roles in  
fostering high-  
quality financial  
reporting

Environmental,  
social, and  
governance  
(ESG) matters

Adapting to  
continuous  
change

Landscape observations

## OCA's 2021 accomplishments and continuing role in the financial reporting ecosystem

- OCA's responsibilities and priorities
- Rulemaking (including climate risk disclosures)
- Accounting standard setting and implementation and application of accounting standards
- Independent audit oversight

## Key areas of focus for each stakeholder to produce high quality financial information for investors

- Accounting standard setters
- Preparers
- Auditors
- Audit Committees

Issued Dec. 6, 2021 - <https://www.sec.gov/news/statement/munter-oca-2021-12-06>



Eighth annual update - Issued November 2021

- Why do audit committee disclosures matter?
- Study examines areas of disclosure that audit committees can consider.
- Highlights cybersecurity disclosures.



<https://www.thecaq.org/2021-barometer/>

# Acting Chief Accountant Statement on the Importance of High-Quality Independent Audits and Effective Audit Committee Oversight to High Quality Financial Reporting to Investors



## Independence responsibilities of audit committees, management, and audit firms

- Audit committees should assess management and the auditor's monitoring processes for corporate changes or other events that potentially affect auditor independence.

## Importance of Audit Committee oversight of the auditor

- Audit committee primary focus should be audit quality

Auditor independence, including shared responsibilities, was a recurring discussion topic at the AICPA SEC/PCAOB Conference.

Issued Oct. 26, 2021 - <https://www.sec.gov/news/statement/munter-audit-2021-10-26>

## Conference landscape

- Multiple specific ESG panels and ESG mentioned during majority of sessions

## International developments

- Formation of ISSB, including potential timeline for standard setting

## Remarks of SEC Acting Chief Accountant

- Potential timeline for SEC action and consideration of international developments

## Preparer perspectives

- Materiality
- Ownership of ESG reporting
- Involvement of Board of Directors

What should entities think about now?

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Consider what is material to stakeholders

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Understand where data is generated and how it is controlled

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If applicable, consider public company disclosure obligations

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Continue to educate and monitor for developments on the horizon



# More from the SEC

# SEC regulatory agenda – updated Dec. 13

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

## Near term forecasted action:

- Climate change disclosure
- Human capital management
- Rule 10b-5 (insider and company trading plans)
- Share repurchase disclosure modernization

Both proposed Dec. 15, 2021  
with 45-day comment period



## Forecasted action in calendar 2022

- Incentive based compensation arrangements and claw-back listing standards
- Shareholder proposals (Rule 14a-8)
- Special Purpose Acquisition Companies (SPACs)
- Cybersecurity risk governance
- Corporate board diversity

# Other recent staff statements and interpretive guidance



## Statement on LIBOR

- <https://www.sec.gov/news/statement/staff-statement-libor-transition-20211207>

## Staff Accounting Bulletin 120 – Spring Loaded Options

- <https://www.sec.gov/news/press-release/2021-246>

## Staff Legal Bulletin 14L – Shareholder Proposals

- <https://www.sec.gov/corpfin/staff-legal-bulletin-14l-shareholder-proposals>

## Shareholder proposal no- action letters

- <https://www.sec.gov/corpfin/announcement/announcement-14a-8-no-action-requests-20211213>



# From the PCAOB



# PCAOB developments

SEC approved 2022 budget on Dec. 15:  
<https://www.sec.gov/news/press-release/2021-260>

## Nov 8<sup>th</sup> – SEC announces appointment of new chairperson and board members to the PCAOB

- **Erica Y. Williams (Chairperson)** - current partner at Kirkland & Ellis and former Deputy Chief of Staff to three former SEC Chairs and Assistant Chief Litigation Counsel in the SEC's Division of Enforcement trial unit
- **Duane M. DesParte** – CPA, current board member and former chief accounting officer of Exelon Corporation
- **Christina Ho** – most recently Vice President of Government Analytics and Innovation at Elder Research and former Deputy Assistant Secretary for Financial Transparency & Accounting Policy at the U.S. Department of the Treasury
- **Kara M. Stein** – current distinguished policy fellow and lecturer in law at the University of Pennsylvania and former SEC commissioner
- **Anthony (Tony) C. Thompson** - currently serves as the Executive Director and Chief Administrative Officer of the Commodity Futures Trading Commission (CFTC) and former U.S. Air Force Colonel

<https://www.sec.gov/news/press-release/2021-228>

# Reimagining Internal Audit

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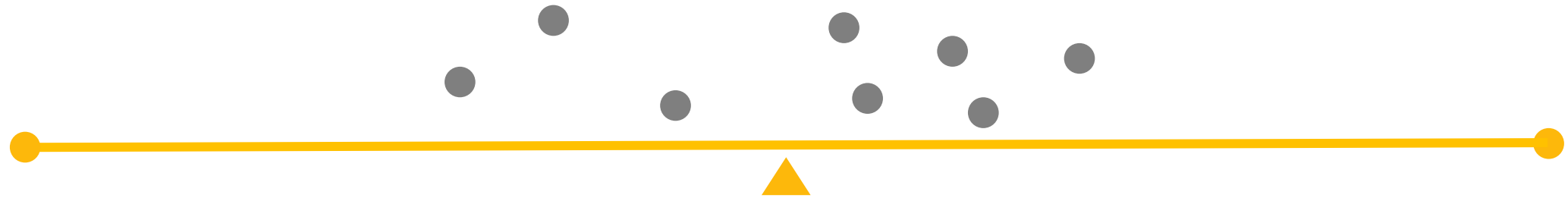
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**There's an opportunity  
to do something more...even in banking.**

# What it means to reimagine Internal Audit.

Imagine transforming outcomes so internal audit clients now say, **"My life will be better tomorrow."**

# There's an opportunity to do something more



## Assurance

- Providing feedback about risk posture
- Usually in the current state, business-as-usual context

## Advisory

- Vetting new ideas and opportunities
- Providing pre-launch, real-time feedback



## Polling question

### **Where do you see your Internal Audit effort allocated between assurance and advisory?**

- A. Mostly assurance (85%+) with incidental advisory
- B. High assurance (70% - 84%) but more serious about advisory
- C. Closer to even balance between assurance and advisory
- D. More advisory than assurance
- E. Don't know



# 6 Tenets of a Reimagined Internal Audit

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Stay strategic.

Start from **near-zero**.

Leverage data.

Leverage technology.

Increase empathy.

Look ahead.

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Internal Audit should align with the strategic goals and priorities of your organization.

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Internal Audit should align with the strategic goals and priorities of your organization.

A few questions to test this tenet:

- How aligned is the audit effort to the company's top strategic priorities?
- Is Internal Audit giving feedback on what can prevent these strategic priorities from happening?

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To use Internal Audit as a strategic weapon, Internal Audit should be building a new, agile audit plan each year.

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A few questions to test this tenet:

- How much of the audit effort is focused on emerging issues vs. business-as-usual?
- Is this year's audit plan what last year's projection said it would be?
- Have we adjusted – or should we adjust – anything in the plan for the changing landscape?
- How many audits had an audit program from last year to follow?

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Where data analysis provides incredible value:

- risk assessment and scoping
- sampling
- large population evaluations (anomaly detection)

Challenges for data:

- data availability and integrity
- manual controls

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Where technology is especially valuable:

- assurance activities that need to happen repeatedly (i.e., our non-negotiables)
- assurance activities that use standardized information

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The best way to solve our clients' problems? Put ourselves in their shoes.

When we approach clients in a human-centered way – when we empathize and listen carefully – we are in a better position to provide recommendations that make their job easier.

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Easier work – with less complication – often

- streamlines process,
- reduces risk,
- builds trust.

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Clients need to look ahead in their own business areas.  
Internal Audit should walk with them.

Internal Audit can provide a different set of eyes and an informed perspective that helps clients prepare for the future more effectively.

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How this might show up:

- ongoing conversations about business trends (risks, opportunities, regulations)
- forward-looking advisory projects
- ad-hoc dialogue

# What does a reimagined Internal Audit look like?

It's unique to every single company.

Take a moment to imagine...

At the end of an audit...

**Someone smiles and says, "Thank you."**

**Someone reaches out to say, "Do you have a minute?"**

**Someone says, "Internal Audit helped us so much."**

**This future isn't  
out of reach.**





# Questions?

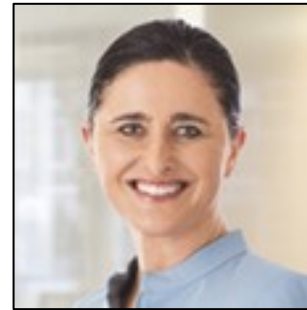
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