



Smart decisions. Lasting value.™

# Welcome

**Financial Services  
Audit Committee Overview**

June 29, 2022

# Your moderator and presenters

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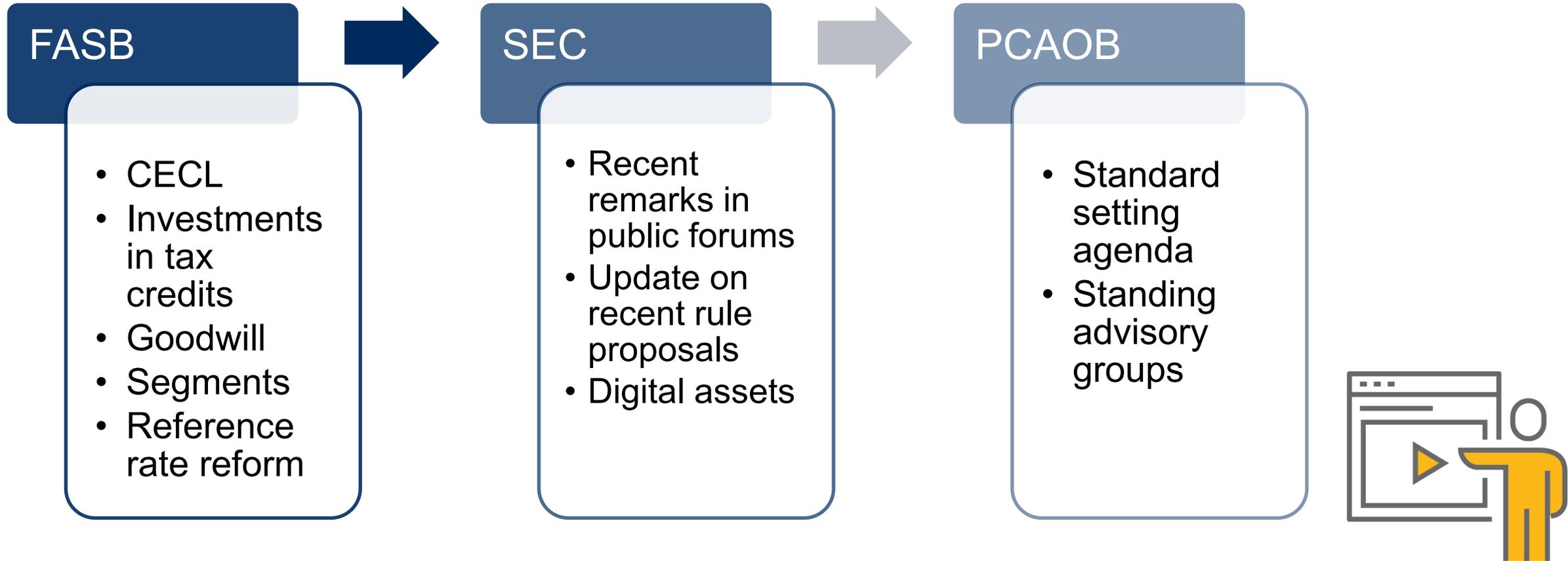
# Agenda

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- Financial reporting observations (*Sydney Garmong and Mark Shannon*)
  - Integrating ESG into business strategy (*Gregg Anderson and Alexa Stone*)
  - Q&A (*John Epperson*)



# **Financial reporting observations**

# Agenda





# From the FASB

## Three CECL Projects

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

ASU 2022-02 issued  
March 31, 2022

### Transition

- Prospective, option to early adoption for CECL adopters
- Effective
- Years beginning after Dec. 15, 2022

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

# ASU 2022-02: Loan modifications

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

# Comparison: Evaluating loan modifications

## TDR guidance

## Revised guidance

### Step 1

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

### Steps

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



If yes to both, disclose

### Step 2 – determine income statement impact

- Measure impairment

### Step – determine if have income statement impact

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

# ASU 2022-02: Gross write-offs



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

Condensed example from ASU 2016-13

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	-	-	-	-	-	-	-	-
<b>Current-period net writeoffs</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<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>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Commercial mortgage loans:</b>								
Current-period gross writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current-period recoveries	-	-	-	-	-	-	-	-
<b>Current-period net writeoffs</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

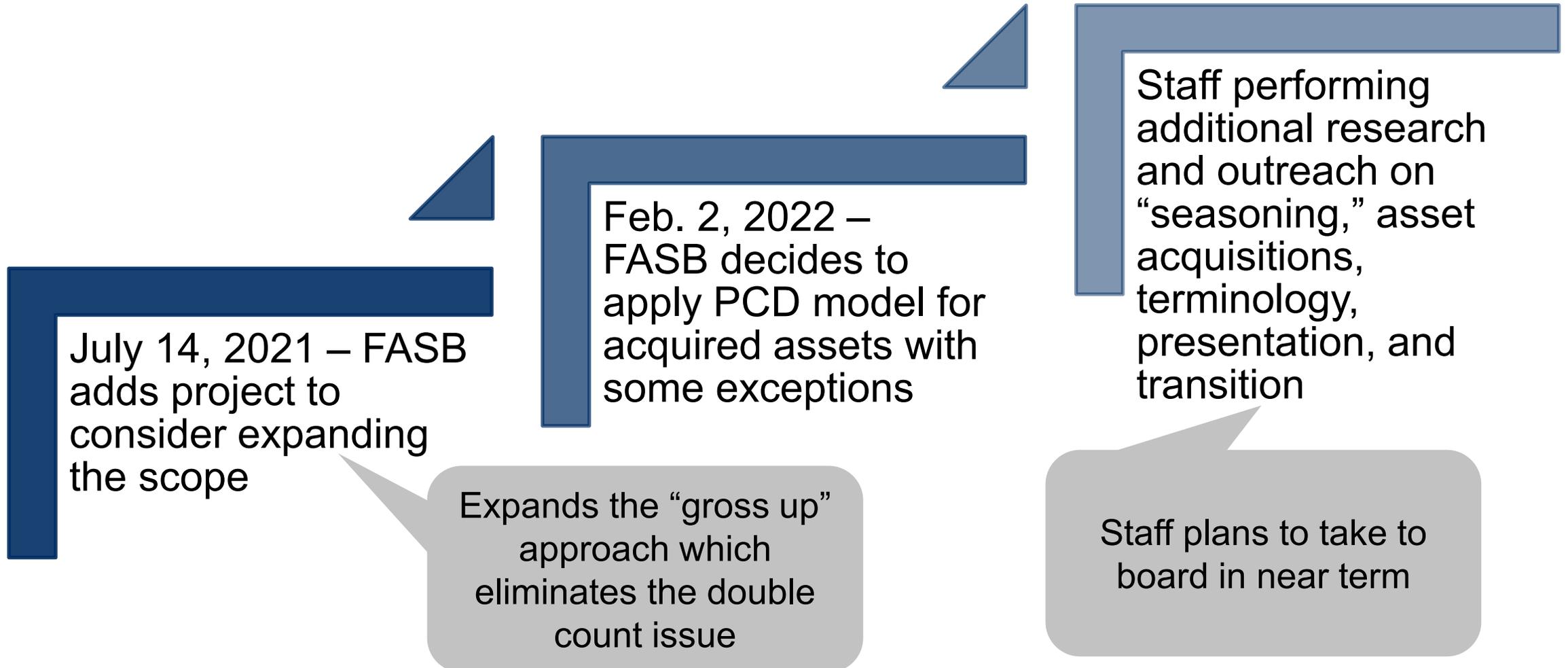


## Polling question #1

**For the TDR provisions of ASU 2022-02, we:**

- A. Early adopted 1Q22
- B. Plan to early adopt 2Q22
- C. Plan to early adopt 3Q22
- D. Plan to early adopt 4Q22
- E. Plan to adopt in 2023 when required
- F. N/A – auditor, regulator, etc.

# Project: Expanding the PCD model



# EITF project: Investments in tax credits

FASB's Emerging Issues Task Force (EITF) project added (Sept. 22)

EITF educational session (Nov. 11)

EITF meeting (March 24)

EITF meeting (June 16 – consensus for exposure reached)

To expand the proportional amortization method to investments in tax credits other than low-income housing tax credits (LIHTC), such as:

- New Markets Tax Credits (NMTC)
- Historic Rehabilitation Tax Credits (HTC)
- Renewable Energy Tax Credits (RETC)

EITF 21-A, "Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method"

# FASB project: Intangibles and Goodwill

## Amortize

- Amortize goodwill straight-line
- Default amortization period of 10 years unless entity elects and justifies different period, shorter or longer subject to cap of 25 years
- No reassessment of amortization period

## Impairment

- Triggering event basis (rather than annual requirement) performed no later than the end of the reporting period
- Would remain at the reporting unit level

## Intangibles

- Including certain intangible asset balances in goodwill
- Required to include contractual and noncontractual customer relationships in goodwill if they are not separable

May 4, 2022 – Board provided leaning to present amortization in same income statement line as impairment, not OCI

June 15, 2022 – project “paused”

# Project: Segments



Proposed  
ASU  
forthcoming

Principle requires disclosure of significant segment expense categories that are:

- Included in any profit and loss measures regularly provided to chief operating decision maker (CODM)

## Additional observations:

- Annual and interim disclosure
- Not required to reconcile expense categories to consolidated totals or map to income statement lines
- Incremental to expense disclosures currently required in ASC 280
- Disclose “other items” amount to total to profit and loss measure, including description of composition
- Disclosure nature of any substantial change in expense allocation and related impact on segment
- Restate prior period information to conform to current period expense categories, unless impracticable
- If disclose net interest revenue, disclose gross interest expense if meets requirements above

# Reference rate reform

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- ASU 2020-04/ASC 848
  - Originally to sunset Dec. 31, 2022
    - 12 months after planned cessation of LIBOR
- Exposure draft issued April 20
  - Extend to Dec. 31, 2024
    - 18 months after June 30, 2023
  - Add term Secured Overnight Financing Rates (SOFRs) as benchmark rates (in addition to Overnight Index Swap [OIS] SOFR)





# From the SEC

# Recent developments – from the top

## Confirmation of two new Commissioners

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

## Updated regulatory flexibility agenda posted

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

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

# Recent remarks in public forums

Acting Chief Accountant Paul Munter (June 8, 2022):

The Critical  
Importance of  
the General  
Standard of  
Auditor  
Independence  
and an Ethical  
Culture for the  
Accounting  
Profession

- General independence standard – Rule 2-01 of Regulation S-X
- OCA's approach to independence consultations
- Recurring consultation themes

# Recent remarks in public forums



Impact of current events on MD&A



SAB 74 disclosures



ESG matters



Consultation themes

# A closer look: SAB 121 – crypto assets



## Crowe observations include:

- Scope
- Impact
- Decision tree to determine if SAB 121's accounting and disclosure guidance applies

<https://www.crowe.com/insights/asset/n/new-sec-staff-guidance-spotlights-crypto-asset-risks>

# Public comments on recent rule proposals

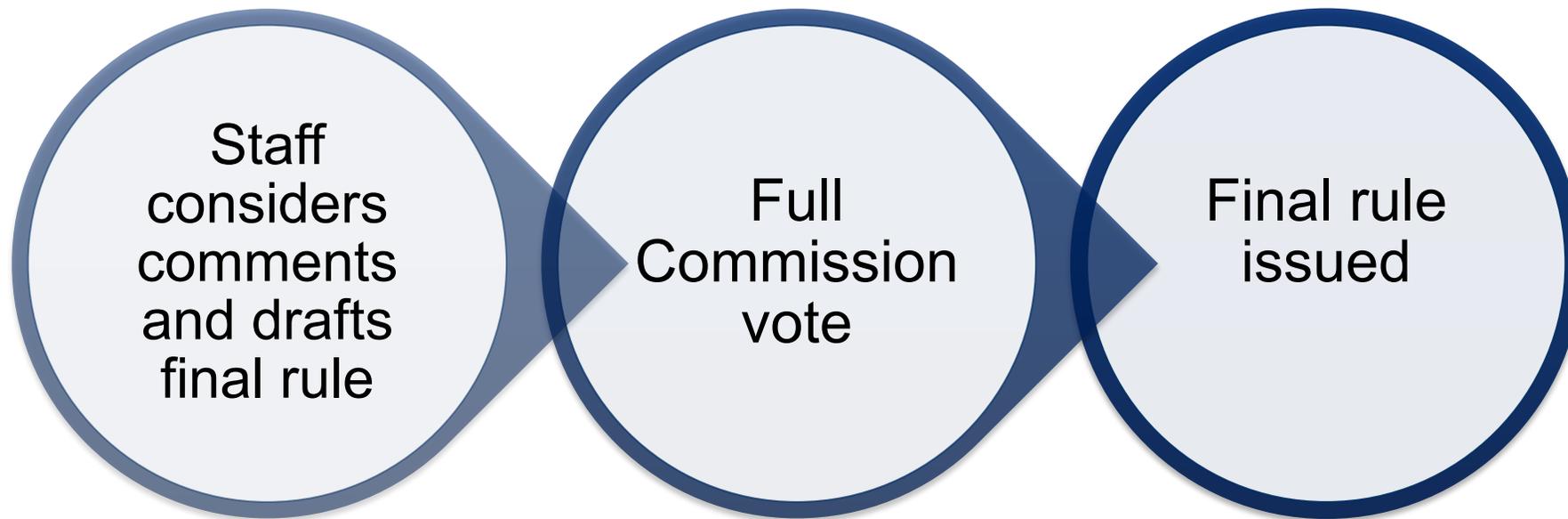
## Climate Change

- Very broad range of views
- Thousands of comment letters submitted
- Key comment topics:
  - Greenhouse gas (GHG) emissions disclosure
  - 1 percent footnote disclosure threshold
  - Transition

## Cybersecurity

- General support from most stakeholders (with suggestions for improvement)
- Concerns include:
  - Timing of disclosure
  - Aggregation of immaterial incidents
  - Definitions
  - Disclosure of Board expertise

# Rule proposals – what's next





# From the PCAOB

## Updated standard setting and research agendas

- Released May 4
- Standard setting agenda
  - Short-term projects through 2023
  - Mid-term projects
- Research projects
  - Data and technology
  - Audit evidence



<https://pcaobus.org/oversight/standards/standard-setting-research-projects>

# PCAOB developments



# **Integrating ESG into business strategy**

# Discussion topics

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- Why focus on ESG strategy today?
- What's the value of ESG strategy integration?
- How can organizations respond today?



## Polling question #2

**What is the level of your organization's integration of ESG into business strategy?**

- A. ESG is already integrated into business strategy
- B. There are plans in place to integrate within the next year
- C. Not yet integrated
- D. Not sure



# Why focus on ESG strategy today?

# What we mean when we say ESG

ESG covers hundreds of business practices and considerations:

## ENVIRONMENTAL



**How business operations impact the environment (and vice versa)**

- Natural resource management – energy, materials, and product compliance
- Impact of climate change including greenhouse gas (GHG) emissions and net-zero strategies

## SOCIAL



**How an organization's operations affect its people and communities**

- Social considerations, such as human rights due diligence, labor practices, and community investments
- Human capital management, including culture, training, and compensation

## GOVERNANCE



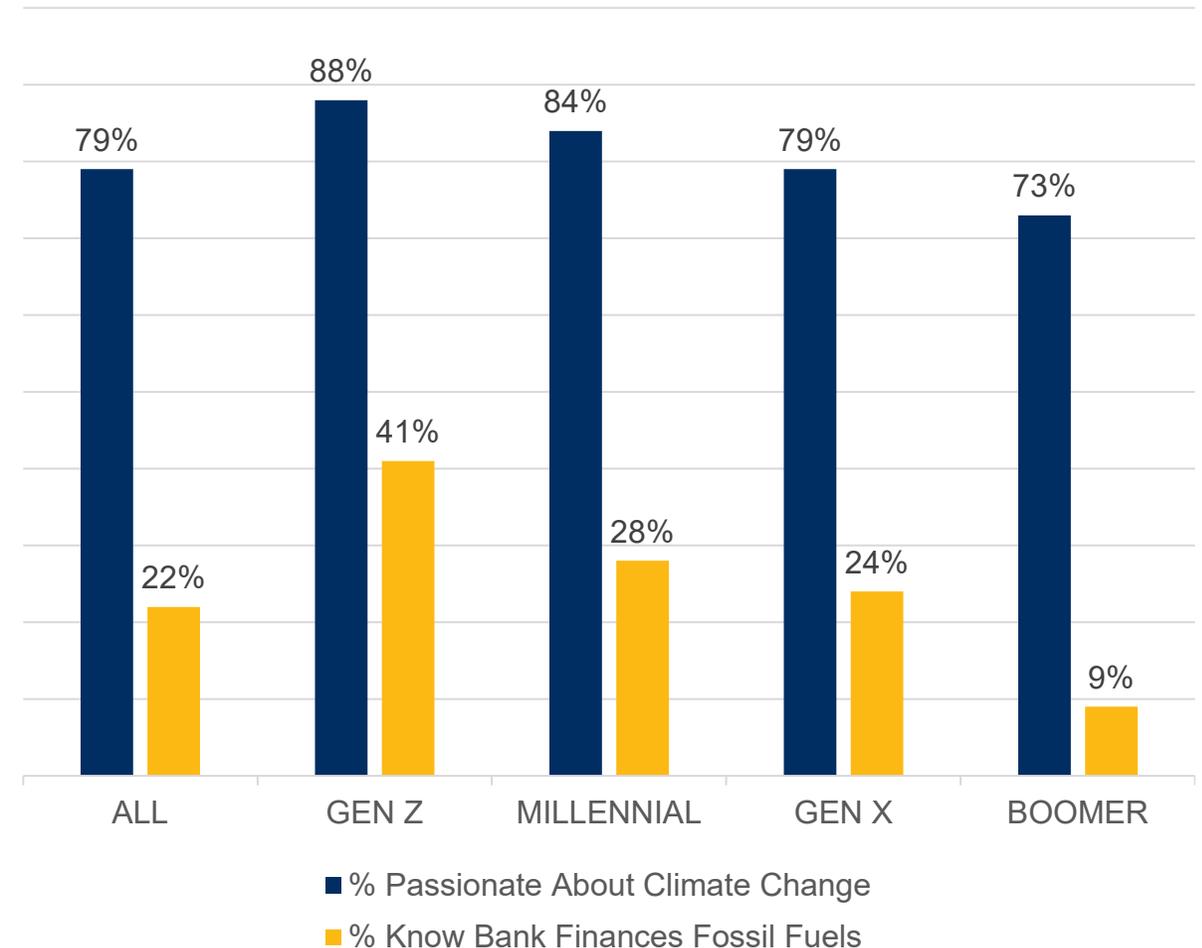
**How a company behaves and governs**

- Leadership, transparency, board diversity, and ethics
- Governance considerations, such as stakeholder engagement and anti-fraud policies

# Battle for customers

**Nearly 4 in 5 (79%) people in the U.S. report they are “passionate” about climate change. However, only 22% say they know whether their bank is financing fossil fuels.**

*Bank of the West’s Money Matters Report—Revealing the Sustainability Intention Gap*



# The war for talent

**96% of employees expect their company to pursue a sustainability agenda.**

*Mercer Global Talent Trends 2022: “The Rise of the Relatable Organization”*

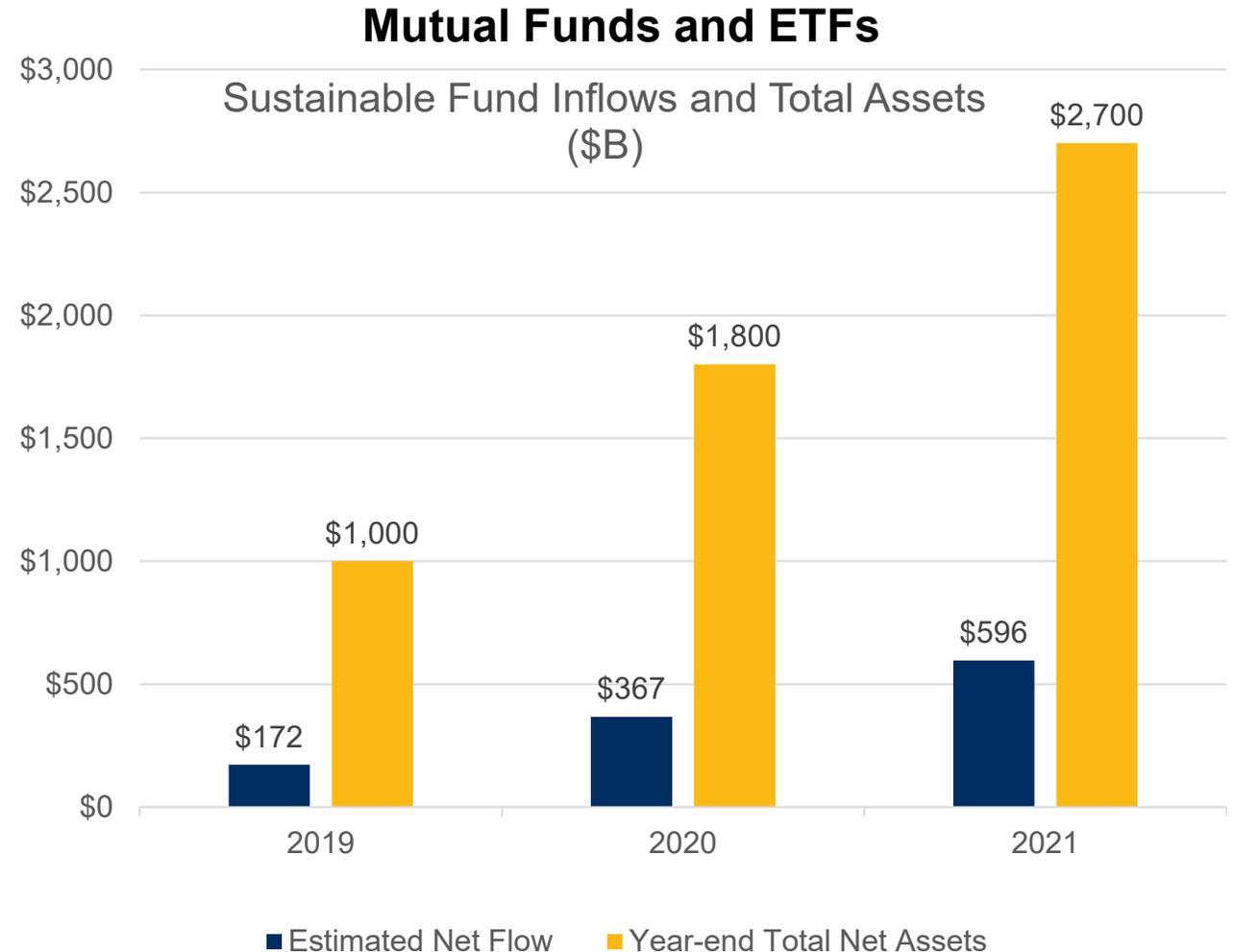
## The Good Work Framework, World Economic Forum

<b>Promote fair pay &amp; social justice</b>	<b>Provide flexibility &amp; protection</b>	<b>Deliver on health &amp; well-being</b>	<b>Drive diversity, equity &amp; inclusion</b>	<b>Foster employability &amp; learning culture</b>
<ul style="list-style-type: none"><li>• Ensure at least a living wage for all</li></ul>	<ul style="list-style-type: none"><li>• Enable all workers to benefit from flexibility, where possible and appropriate</li></ul>	<ul style="list-style-type: none"><li>• Safeguard total well-being at work</li></ul>	<ul style="list-style-type: none"><li>• Ensure that the workforce profile reflects the operating market</li></ul>	<ul style="list-style-type: none"><li>• Provide accessible upskilling and reskilling for the entire workforce</li></ul>

<https://www.mercer.com/content/dam/mercer/attachments/private/gl-2022-wef-good-work-standards.pdf>

# Asset management industry demand

Globally, the asset management industry earned \$1.8 billion in fees last year from their sustainable funds, up from almost \$1.1 billion in 2020, Morningstar reported.



# Investor demand

Investors are pressuring companies to **get serious about ESG.**



Market expansion  
for ESG funds  
and ETFs



Voluntary standards  
available to help  
individuals and  
companies evaluate  
ESG



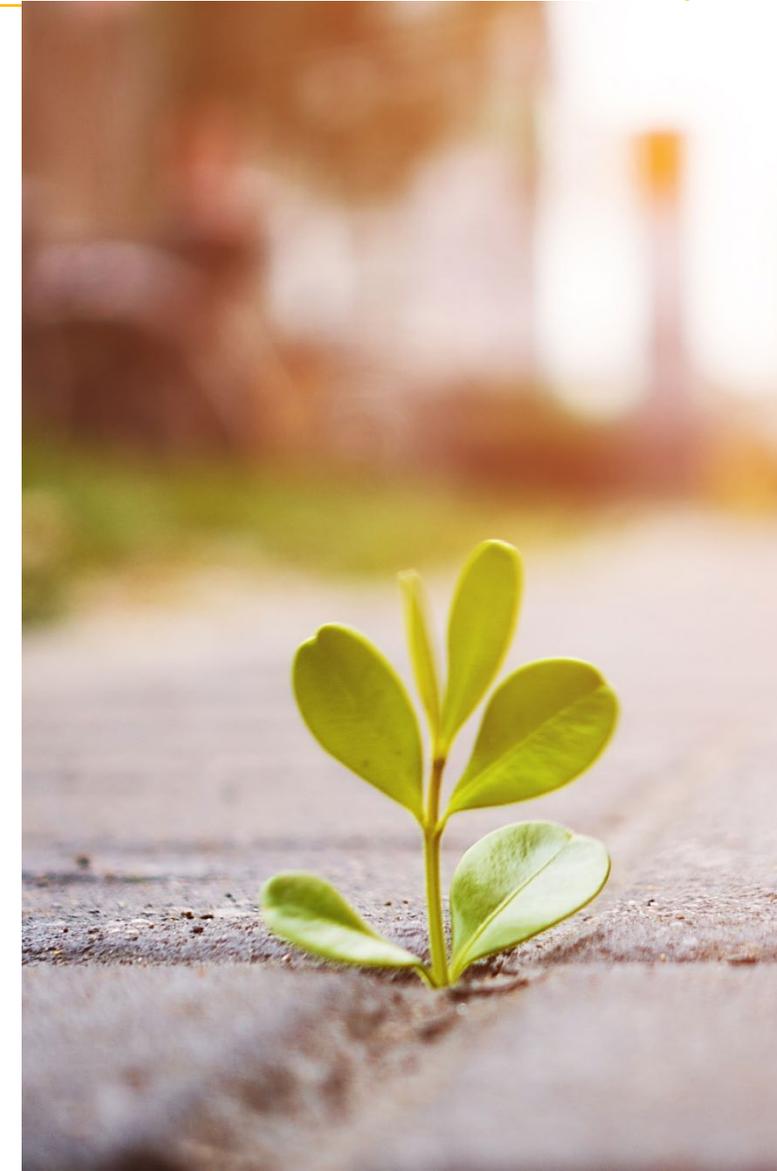
Investor demand  
for better and  
more consistent  
ESG disclosure

# Regulatory interests and pressure are **building**

- Emergence of new standards and regulations



- SEC Climate Disclosure Proposal
- Build Back Better framework
- Network for Greening the Financial System



# FDIC proposal

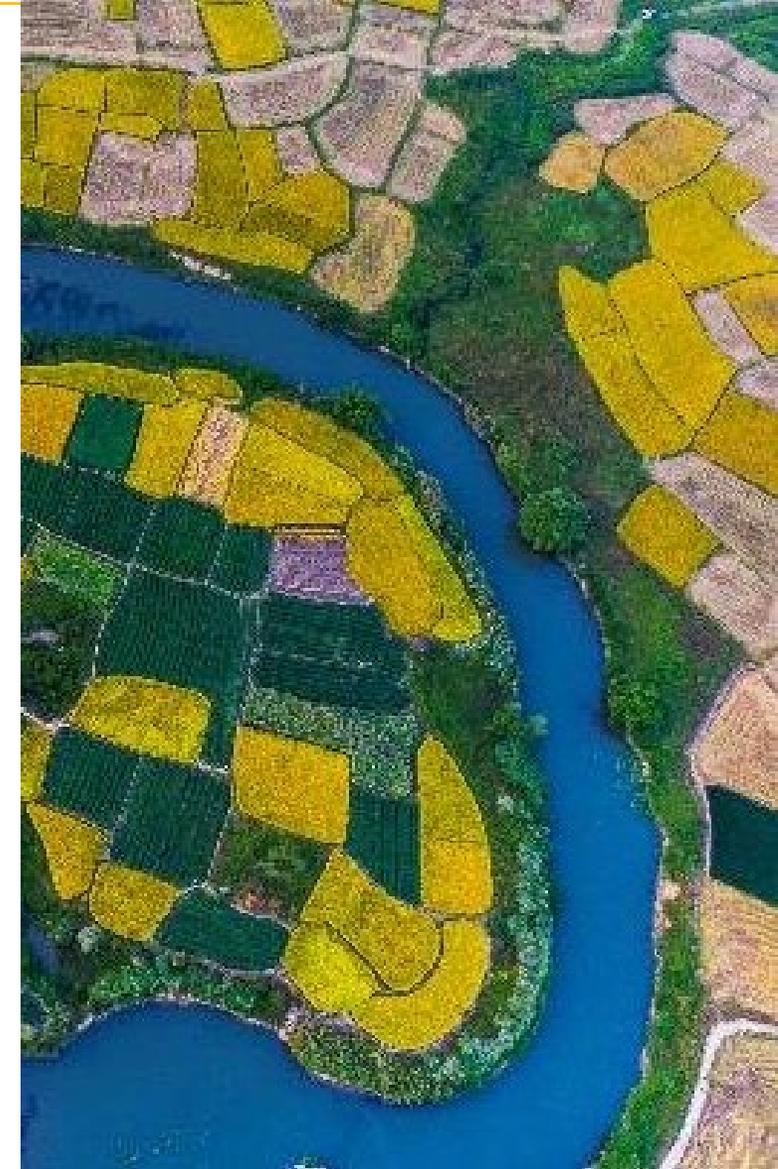
## FDIC Statement of Principles for Climate-Related Financial Risk Management

### General Principles

- A. Governance
- B. Policies, Procedures, and Limits
- C. Strategic Planning
- D. Risk Management
- E. Data, Risk Measurement, and Reporting
- F. Scenario Analysis

### Management of Risk Areas

- A. Credit Risk
- B. Liquidity Risk
- C. Other Financial Risk
- D. Operational Risk
- E. Legal/Compliance Risk
- F. Other Nonfinancial Risk



# Standards are **converging**

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- Value Reporting Foundation
  - Integrated Reporting Framework
  - SASB Standards – *consolidated into Value Reporting Foundation*
- Task Force on Climate-Related Financial Disclosures (TCFD)
- Global Reporting Initiative (GRI)
- International Financial Reporting Standards (IFRS)
  - Climate Disclosure Standards Board (CDSB) – *consolidated into IFRS*
  - International Sustainability Standards Board (ISSB) – *newly created and supported by the CDSB*
- World Economic Forum

# Confidence in the **data**

More ESG data is available than ever, making it easier for consumers to **match their banking with their values**.

Digitalization and mobile banking aren't the only issues that will disrupt the banking industry.

Bank for Good

Global Alliance for  
Banking on  
Values

Partnership for  
Carbon  
Accounting  
Financials

Data availability is high, but confidence in it is low. As the market matures, assurance might be on the horizon. And when data is not available, consumers will make their own assumptions.



# What's the value of ESG strategy integration?



## Polling question #3

### How would you describe your organization's strategic planning process?

- A. Ad Hoc: We develop a new strategy whenever needed, in response to our environment.
- B. Managed: We develop our strategy and measure our results on a periodic basis using a consistent methodology.
- C. Optimized: We develop our strategies by modeling various scenarios, measuring actual performance, and modifying our approach as we execute.

## **strategy** (noun)

An integrated set of choices that define how you will create a competitive advantage to drive sustainable, profitable growth

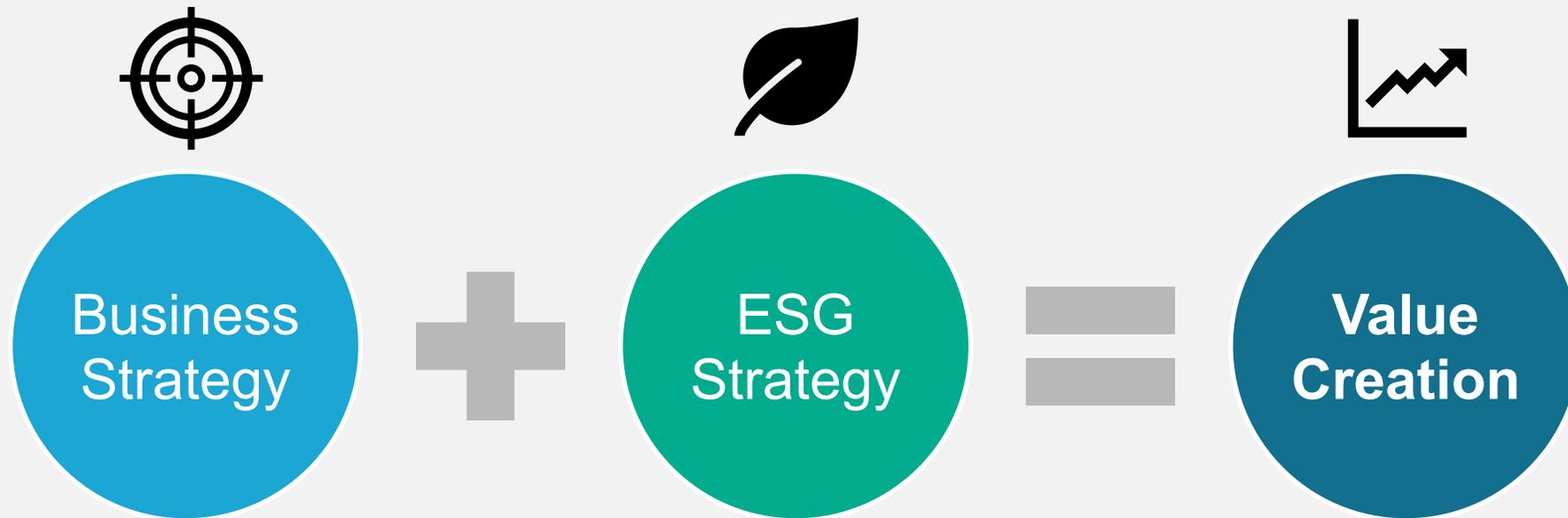
# Strategy with all stakeholders considered



Communicating how **ESG fits into your organization's business strategy** is **critical** when responding to investors, customers, employees, and regulators.



# Value in ESG strategy integration



# Value through the lens of integrated thinking

- Integrated thinking focuses the whole organization on the mutually reinforcing endeavor of **value creation for the enterprise** and **value creation for key stakeholders**.
- It balances short-term performance needs with a longer-term approach to value creation and preservation.

– *Value Reporting Foundation, Integrated Thinking Principles*



## Integrating Reporting Framework - Integrated Thinking Principles:

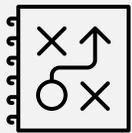




How can organizations respond today?

# Grounded in purpose

Your ESG story must be grounded on **authentic purpose**.



A strong and **sustainable strategy** needs to flow from **your organization's purpose**.



With an authentic purpose articulated, you'll have a north star that helps you **set priorities** and **align your strategy**.



Strategy should be set with the **enterprise, employees,** and **customers in mind**.

# Strong governance and strategy framework

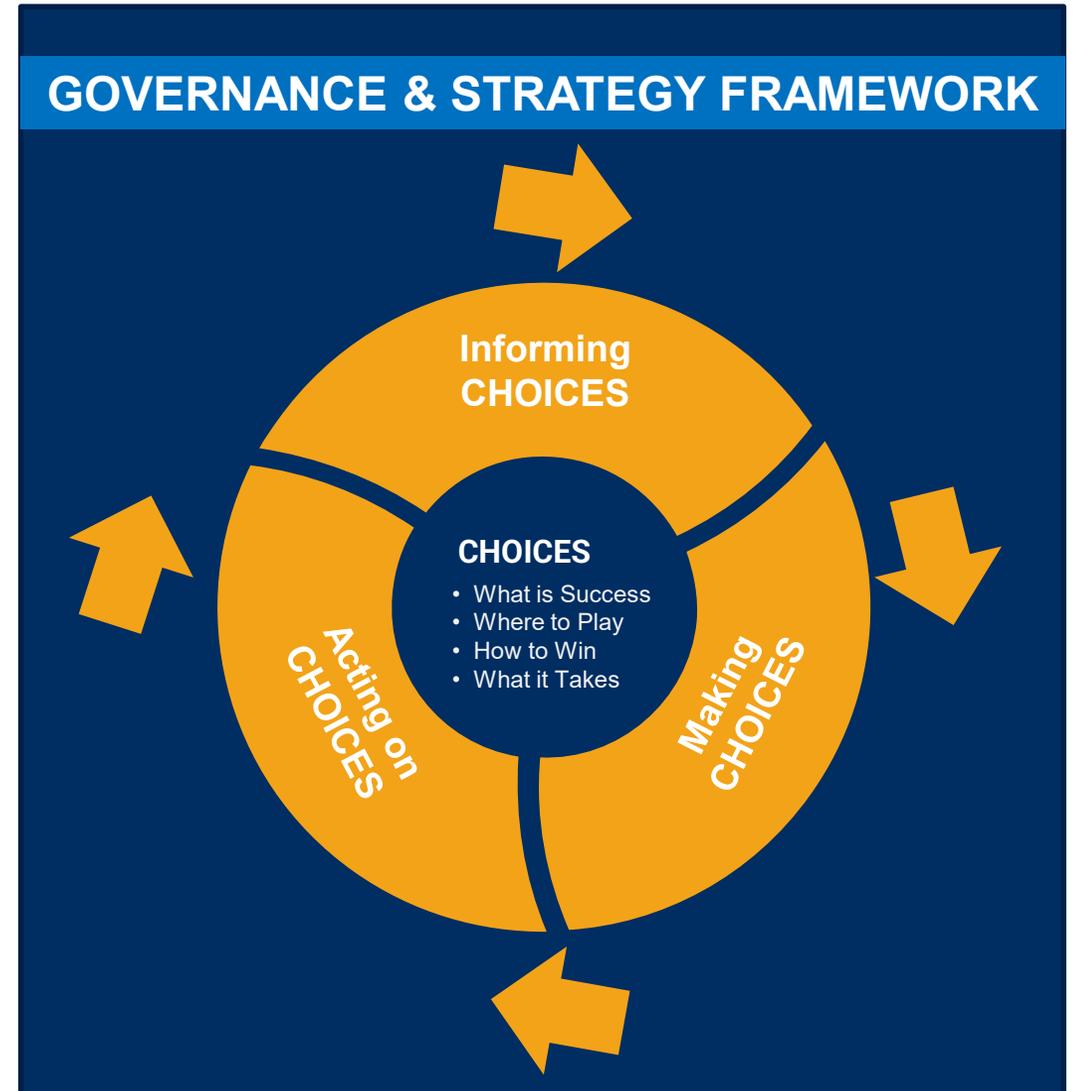
Strategy requires **defined roles and responsibilities** and an **ongoing cadence**, it's not just an annual event.

Establishment of governance structure:

- Board ownership
- Management leadership
- Data and reporting

Continuous process of:

- Informing choices
- Making choices
- Acting on choices



# Incorporating ESG into your **ERM** framework



The ERM function collaborates with the organization to identify risks and opportunities. Risks are disclosed to investors and other interested stakeholders in a company's legal risk filings, annual report, and sustainability reports.

# Five steps to incorporating ESG into your ERM framework

1. Facilitate a discussion between specialists within your organization:
  - C-Suite
  - Financial Reporting
  - Sustainability Reporting
  - Legal and Compliance
  - Strategy
  - Enterprise Risk Management



2. Set out clear definitions of the following:
  - Stakeholders
  - Value
  - Materiality
  - Opportunity and risk
  - Impact, likelihood, and speed of onset
  - Appetite and tolerance

# Five steps to incorporating ESG into your ERM framework

3. Document a shared understanding of strategy, objectives, and boundaries.



4. Identify cultural challenges and potentially misaligned incentives.



5. Identify opportunities for internal collaboration. Individuals from different teams across the company can and should work together to advance the company's sustainability efforts.



## Polling question #4

**What type(s) of ESG leadership positions or groups exist at your organization today? (Choose all that apply.)**

- A. Chief ESG or Sustainability Officer
- B. ESG or Sustainability Steering Committee
- C. Cross-functional ESG teams
- D. Working Groups (CSR, Climate Change, DE&I, Social Impact)
- E. Other
- F. None

# Your organization can contribute to “saving the world” – without trying to do everything at once.

Take stock of what you’re doing and start creating an ESG narrative now – cross-functional teams.

Banks that succeed in this area integrate ESG into an overall strategy that’s part of their core business. They’re playing a long game.

Enhance data governance efforts to enable ESG performance tracking and data gathering.



# Considerations for boards from the CAQ

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1. Is ESG an essential part of the bank's culture and strategy? Does your bank socialize ESG at all levels?
2. Has the company identified all relevant or material risks associated with ESG reporting?
3. Does management have the necessary information to assess ESG-related risks, and on what cadence should ESG information be provided to the board?
4. Does the company have the appropriate internal controls, policies, and personnel in place to accurately track and disclose ESG information?
5. Do one or more board committees have explicit oversight responsibility for ESG, and what role do other committees and the full board play in ESG oversight (e.g., governance committee involvement in overseeing related factors, audit committee involvement in assessing the appropriateness of management's risk assessment of this information)?
6. Where and how is the information currently being reported? Is this in line with where investors expect to see it?

# Thought leadership

- **ESG: The Growing Challenge and Opportunity (May 2021)**  
<https://www.crowe.com/uk/insights/esg-the-growing-challenge-and-opportunity>
- **Driving Sustainability and Growth: Learning from Formula E's Success (June 2021)**  
<https://www.crowe.com/global/insights/art-of-smart/driving-sustainability-and-growth-learning-from-formula-es-success>
- **Six Steps to Create a Culture of Sustainability: Tips from Formula E (June 2021)**  
<https://www.crowe.com/global/insights/art-of-smart/six-steps-to-create-a-culture-of-sustainability-tips-from-formula-e>
- **Insights to guide your ESG strategy (November 2021)**  
<https://www.crowe.com/insights/insights-to-help-guide-your-esg-strategy>
- **Identifying efficiencies in your ESG strategy (December 2021)**  
<https://www.crowe.com/insights/asset/i/identifying-efficiencies-in-your-esg-strategy-recording>
- **ESG news in the new year (February 2022)**  
<https://www.crowe.com/insights/asset/e/esg-news-in-the-new-year-webinar-recording>
- **Crowe Forbes articles:**
  - How To Leverage Strengths When Building An ESG Program (January 2022)
  - ESG Program Maturity: Four Stages (January 2022)
  - 4 Reasons ESG Means 'Green' To Private Equity (January 2022)
  - 5 Things Decision Makers Need To Know About ESG In The New Year (January 2022)<https://www.forbes.com/sites/crowe/2/?sh=189fe8144ead>
- **Breaking down the SEC's climate disclosure proposal (May 2022)**  
<https://www.crowe.com/insights/asset/b/breaking-down-the-secs-climate-disclosure-proposal-recording>

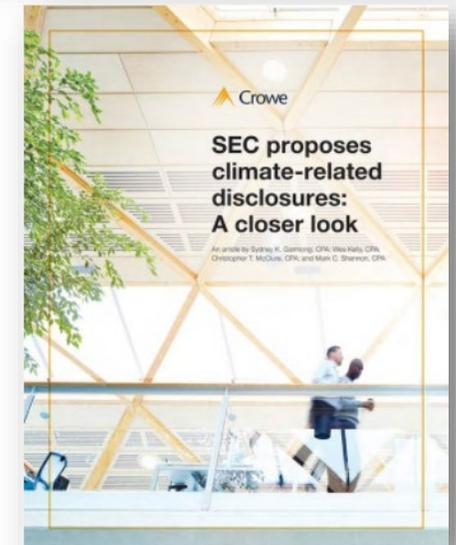
## Featured insights



WEBINAR

### ESG news in the new year

On Feb. 9, 2022 Chris McClure, Gregg Anderson, and Sonia Barros from Sidley presented "ESG news in the new year".



# Additional ESG resources



## CAQ and AICPA

- **“ESG Reporting and Attestation: A Roadmap for Audit Practitioners” (February 2021)**
  - <https://www.thecaq.org/esg-reporting-and-attestation-a-roadmap-for-audit-practitioners/>
- **“Key Actions for Establishing Effective Governance Over ESG Reporting” (April 2021)**
  - [https://www.thecaq.org/wp-content/uploads/2021/04/caq\\_key-actions-for-establishing-effective-governance-over-esg-reporting\\_2021-04.pdf](https://www.thecaq.org/wp-content/uploads/2021/04/caq_key-actions-for-establishing-effective-governance-over-esg-reporting_2021-04.pdf)
- **“S&P 100 and ESG Reporting” (April 2021)**
  - <https://www.thecaq.org/sp-100-and-esg-reporting/>

## IIA

- **“Internal Audit Plays Critical, Collaborative Role in ESG Reporting” (February 2022)**
  - <https://www.theiia.org/en/content/communications/2022/february/internal-audit-plays-critical-collaborative-role-in-esg-reporting-1/>
- **“The ESG Landscape Part 1” (February 2022)**
  - <https://www.theiia.org/en/content/articles/global-knowledge-brief/2022/february/the-esg-landscape-part-1/>
- **“The ESG Risk Landscape Part 2: Implementation, Reporting, and Internal Audit’s Role” (March 2022)**
  - <https://www.theiia.org/en/content/articles/global-knowledge-brief/2022/february/the-esg-risk-landscape-part-2-implementation-reporting-and-internal-audits-role/>
- **“The ESG Risk Landscape, Part 3: Evaluating ESG Risk” (March 2022)**
  - <https://www.theiia.org/en/content/articles/global-knowledge-brief/2022/march/global-knowledge-brief-the-esg-risk-landscape-part-3-evaluating-esg-risk/>

# Questions?



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