webinar to begin shortly

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Financial Services Group
Quarterly Accounting and Reporting Update

June 26, 2025

2-3 ET | 1-2 CT

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Quarterly Accounting and Reporting Update

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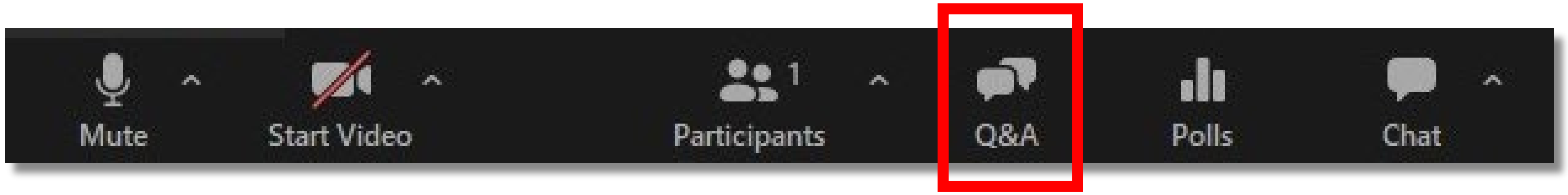
before we begin

Event Disclaimer

questions:

Submit questions via the Q&A box
Questions will be addressed throughout, or via email



cpe requirements:

Stay on for the duration of the webinar

Respond to all 4 polling questions

For technical difficulties with polling, please notify us via the Q&A box in Zoom

Complete and submit the survey following the webinar

today's speakers

Host

Presenters

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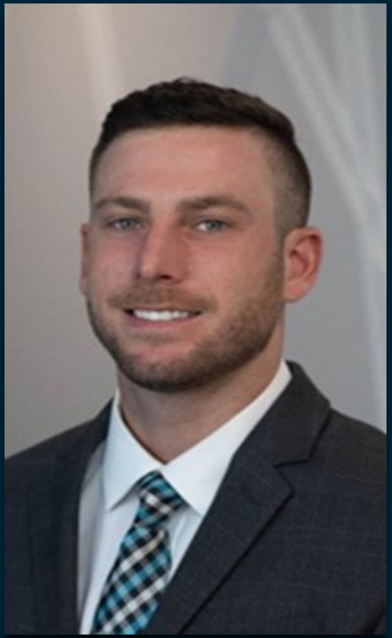
Nick Goode



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agenda:

1 CECL Updates

2 Hedge Accounting in a Volatile Market

3 Regulatory Environment Updates

polling question #1

CECL Updates

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Changes In Audit / Regulatory Focus

Regulatory Focus

- Evidence of monitoring / enhancements
- Changing economic conditions / credit risks
- Model validation frequency / scope
- Broader model risk management focus

Audit Focus

- Material accuracy of the ACL reserve
- Sensitivity of model to changing assumptions
- Controls around model updates / changes
- Model's ability to account for changing economic conditions
- Support for qualitative factors

Ongoing Model Management

Outcomes Analysis (backtesting/benchmarking)

Sensitivity analysis

Modeling changes

- Changes in methodology / model provider
- Use of bank-specific vs. peer-based data sets
- Further sub segmentation of broad loan pools
- Adjusting existing / implementing new qualitative factors
- More robust qualitative frameworks (anchoring / scaling)
- Updating key assumptions (prepayments, curtailments, remaining lives, forecasting periods, etc.)

General Discussion

Frequent Conversation Topics

- Adjusting segmentation (products and risk grades)
- Diversifying methodology elections
- Unique CRE concerns
- Economic uncertainty (tariffs)
- Unallocated reserves
- Validation frequency

The End of the CECL Double Count

When can the fun start?

June 2016
FASB issues **ASU 2016-13,** introducing the CECL model.

January 2020
CECL becomes effective for **SEC filers** (excluding smaller companies).

June 2023
FASB issues a **proposed ASU** to expand the gross-up approach to more purchased financial assets, not just PCD.

December 2024
Additional proposed ASU issued for private companies and not-for-profits.

April 2025
FASB **finalizes decisions:** retains current PCD accounting but expands gross-up approach to most acquired loans in business communications.

December 2025
Effective date for the new amendments (interim and annual periods beginning after this date).

Early Adoption is permitted any time before the effective date. Could be adopted as early as year-end 2025!

PCD vs. PFAs

	Current Guidance		Revised Approach
	Purchased Credit Deteriorated (PCD)	Non-Purchased Credit Deteriorated (Non-PCD)	Purchased Financial Assets (PFA)

Scope	• Loans which have experienced a “more than insignificant deterioration” in credit quality since origination
	    • Flexible definition
	    • Determined by company policy
	    • Inconsistent approaches
		• Loans not meeting Company policy for PCD	• “Seasoned” loan receivables ONLY
			• Excludes: credit cards, loan commitments, leases, forward contracts, trade account receivables, and HTM debt securities

Recognition	• **Gross-up Approach**
	    • Amortized Cost + Expected Credit Loss = Initial Recognition
	    • ACL recognized through Day 1 entries
	    • No Credit Loss Expense
		• Non-gross-up Approach
		    • Amortized Cost = Purchase Price (net of discounts)
		    • Day 2 Credit Loss Expense to establish ACL
			• **Gross-up Approach**
			    • Amortized Cost + Expected Credit Loss = Initial Recognition
			    • ACL recognized through Day 1 entries
			    • No Credit Loss Expense

Purchased Financial Assets

- No changes to PCD Accounting
  - Still apply existing PCD/Non-PCD determination
- No new disclosures
- Only changing assets subject to “PFA” model
  - Seasoned loan receivables ONLY
  - “Seasoned”
    - Acquired via business combination, or
    - Purchased > 90 days after origination with the purchaser having no involvement in origination

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PFAs: Recognition and Measurement

Initial Amortized Cost Basis

- Purchase price + initial ACL (measured at acquisition date)

Interest Income Recognition

- Apply the interest method to recognize as interest income noncredit discount (or premium)

Accrual Guidance

- Existing non-accrual guidance applies
- No requirement to demonstrate a reasonable expectation of collection to recognize interest income

Recovery Cap guidance

- ACL for seasoned assets will **not** be subject to a recovery cap

Same as PCD

Different for PFAs

Why this matters for acquirers

- Lower goodwill recognition
- Positive impact on regulatory capital
- More consistent treatment of acquired loans
- Simplified accounting

When will the final rule be issued?

June 2016
FASB issues **ASU 2016-13,** introducing the CECL model.

January 2020
CECL becomes effective for **SEC filers** (excluding smaller companies).

FASB is
propose
expand
approach to more purchased financial assets, not just PCD

Additional proposed ASU issued for private companies and not-for-profits.

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Stay up to date with status updates!

Hedge Accounting in a Volatile Market

Nick Goode, CPA
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Learning Objectives

Understanding of ASC 815 Hedge Accounting

Differences between cash flow method and fair value method

Overview of the required Financial Statement Disclosures

Quick overview of the Portfolio Layer Method

Hedge Instruments

Interest Rate Swaps

Futures Contracts

Options (Caps, Floors, and Collars)

Hedge Accounting

FASB ABC 815

All derivatives are reported on the balance sheet at fair value (asset or liability)

Cash Flow Hedge

Effective portion of the gain/loss recorded in OCI and later classified in earnings when recognized

Fair Value Hedge

Carrying value is adjusted through earnings

Portfolio Layer Method ("Last-of-Layer" Method)

Fair value hedge accounting strategy that allows entities to hedge a portion of a closed portfolio of financial assets

Cash Flow Hedge

- Designed to mitigate the risk of cash flow fluctuations.
- When a hedge is designated and qualifies as a cash flow hedge, the accounting aims to **defer the derivative's impact** in earnings until the period when the hedged cash flows occur.
- Under ASC 815, the effective portion of the hedge's gain or loss is initially recorded in OCI.
- When the forecasted transaction is realized the accumulated gain/loss is reclassified into earnings.
- If any portion is ineffective, it is recognized in earnings.

Cash Flow Accounting

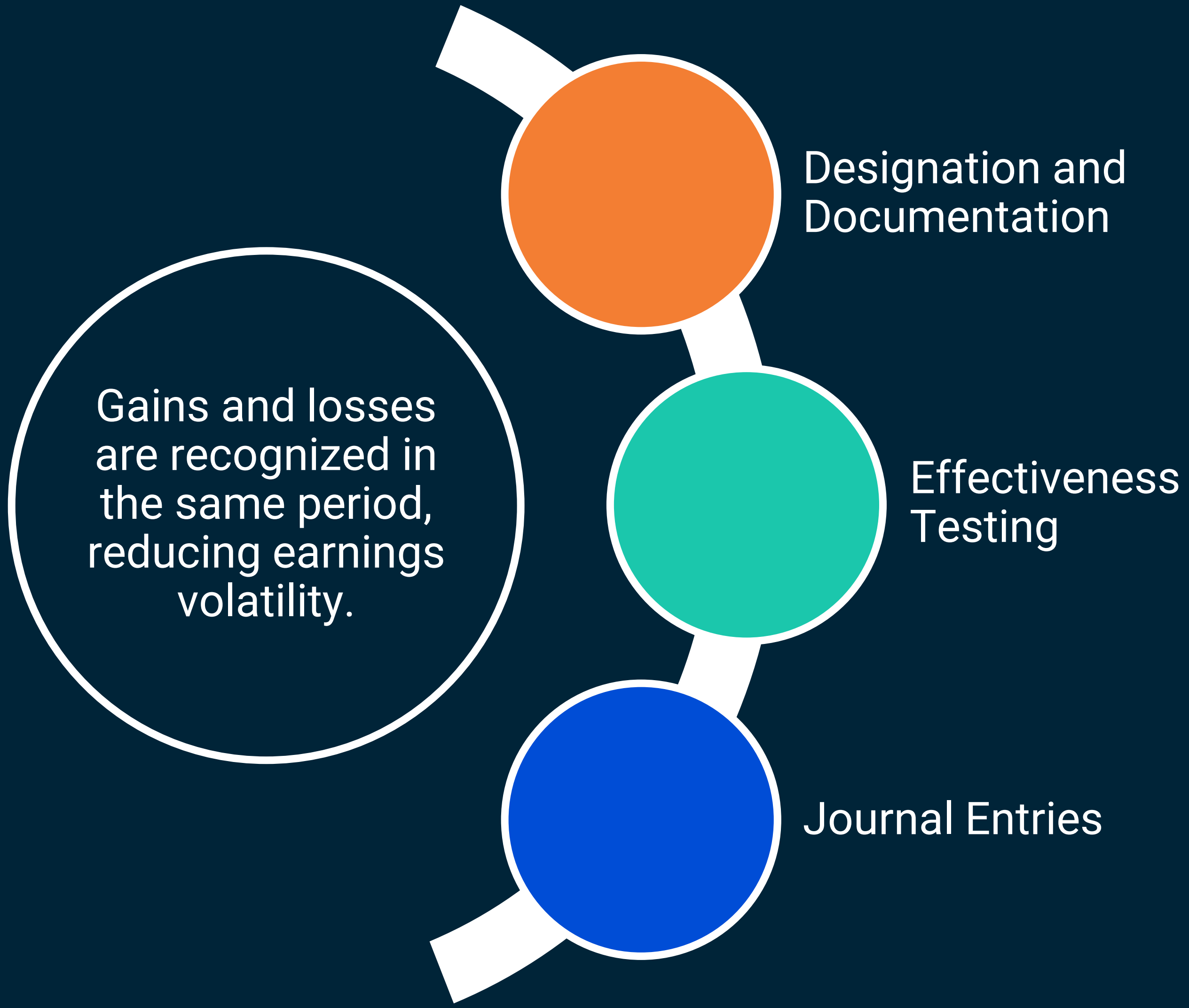
Benefits

- Avoid earnings volatility
- More stable operating results from period to period.
- Cash Flow Management

Challenges

- The hedge forecast must be “Probable” to happen under U.S. GAAP
- Formal Documentation at inception and ongoing monitoring of hedge effectiveness

Fair Value Hedge



Fair Value Hedge | Journal Entries

Enter into a pay-variable, receive fixed-interest rate swap

1. Adjust the bond to fair value:		
Dr Unrealized Loss on Bond (P&L)	$5,000	
Cr Investment in Bond (Asset)		$5,000
2. Adjust the swap to fair value		
Dr Derivative Asset	$5,000	
Cr Unrealized gain on the swap (P&L)		$5,000
3. Record Bond Interest income		
Dr Cash	$10,000	
Cr Interest Income		$10,000
4. Record swap settlement payment received		
Dr Cash	$1,000	
Cr Interest Income		$1,000

Fair Value Hedge Accounting

Benefits

- Improved Risk Management Transparency
- Regulatory and Investor Confidence

Challenges

- Documentation Requirements
- Operational Burden
- Audit Scrutiny

Portfolio Layer Method

- Formerly know as the “last-of-layer” method
- Allows a company to designate a portion of a closed portfolio of financial assets as the hedged item in a fair value hedge
- Keys to the Portfolio Layer Method
- ASU 2022-01

Financial Statement Disclosures

- Risk Management Strategy
- Hedging instruments and Hedged Items
- Effectiveness Assessment
- Location and amount of gains/losses in income statement and/or OCI
- Basis Adjustments for fair value hedges
- Amount of hedge ineffectiveness if recognized

Financial Statement Disclosures | Example

Line Item in the Statement of Financial Position in Which the Hedged Item is Included	Carrying Amount of the Hedged Assets		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets	
(Dollars in thousands)	December 31, 2024	December 31, 2023	December 31, 2024	December 31, 2023
Loans held for investment[1]	$ 283,558	$ 1,320,449	$ (15,815) [2]	$ (29,551)
Total	$ 283,558	$ 1,320,449	$ (15,815)	$ (29,551)

[1] These amounts were included in the amortized cost basis of closed portfolios of loans held for investment used to designate hedging relationships in which the hedged item is the stated amount of assets in the closed portfolios anticipated to be outstanding for the designated hedge period. At December 31, 2024 and 2023, the amortized cost basis of the closed portfolios used in these hedging relationships was $990.6 million and 3.25 billion, respectively; the cumulative basis adjustments associated with these hedging relationships was $(16.4) million and $(29.6) million, respectively; and the amounts of the designated hedged items were $300.0 million and $1.35 billion, respectively.

[2] At December 31, 2024, the balance included $628,000 hedging adjustment on discontinued hedging relationships.

The following tables summarize the Company's derivative instruments included in "other assets" and "other liabilities" in the consolidated statements of financial condition as of the dates indicated:

	December 31, 2024			
	Derivative Assets		Derivative Liabilities	
(Dollars in thousands)	Notional	Fair Value	Notional	Fair Value
Derivative instruments designated as hedging instruments:				
Fair value hedge - interest rate swap contracts	$ 300,000	$ 17,108	$ —	$ —
Total derivative designated as hedging instruments	300,000	17,108	—	—

The following table presents the effect of fair value hedge accounting on the consolidated statements of income:

		For the Year Ended December 31,		
(Dollars in thousands)	Location of Gain (Loss) Recognized in Income on Derivative Instruments	2024	2023	2022
Gain (loss) on fair value hedging relationships:				
Hedged items - loans	Interest Income	$ 13,109	$ 32,375	$ (56,328)
Interest rate swap contracts	Interest Income	12,541	5,721	68,322

https://www.sec.gov/ix?doc=/Archives/edgar/data/0001028918/000102891825000014/ppbi-20241231.htm#fact-identifier-3452

polling question #2

Regulatory Environment Updates

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Repeal of Deposit Overdraft Ruling

Source: Federal Reserve's Survey of Household Economics and Decisionmaking

Survey Year	Would cover a $400 emergency expense completely using cash or its equivalent (percent)
2021	68
2022	63
2023	63
2024	63

Background of Repeal

Established by Consumer Finance Protection Bureau (CFPB)

Overdraft limit requires banks with at least $10 billion in assets to cap overdraft fees at $5 unless they establish a cap that covers actual costs/losses or treat overdraft protection as a loan covered by the Truth in Lending Act

Final determination: **Repealed** as believed it inhibited financial institutions from providing adequate overdraft coverage and deposit supply

January 2024
CFPB proposes rule to limit overdraft fees

December 2024
CFPB finalizes overdraft rule

March 2025
House and Senate passed Congressional Review Act Resolutions

May 2025
President Trump signs repeal resolution into law

Seeing both perspectives…

Supporting Repeal

- Midnight ruling
- Leave more Americans unbanked and limited access to credit
- Lack of credit could be irreversibly damaging to some
- Federal price regulation

Against Repeal

- Consumer on average* charged $35 per overdraft transaction (*FDIC and CFPB)
- Protects consumers in a turbulent time with inflation and market uncertainty
- Would save Americans $5 billion a year
- Preserves community banks and specifically targets larger banks with greater profits

Key Takeaways

- June 3, 2025- House of Representatives approved 70% funding cut to CFPB
- Expect declines in personnel
- Potential roll back of other provisions/enforcements?

Staff Accounting Bulletin ("SAB") 122- Crypto Assets

- Published January 23, 2025 by SEC to rescind SAB 121 which required an entity to recognize a liability and corresponding asset for its obligation to safeguard crypto assets.

- Challenges of SAB 121
  - Disclosure hurdles
  - Gross up impacting capital ratios
  - Fair value

- 122 Requirements/ Key Takeaways
  - Full retrospective application of SAB 122 is required for annual periods beginning after <u>December 31, 2024</u>, with <u>early adoption</u> permitted on interim/annual filings after <u>January 30, 2025</u>.
  - Reassess any loss events
  - *"continue to consider existing requirements to provide disclosures that allow investors to understand an entity's obligation to safeguard crypto-assets held for others"*

Looking forward

- SAB 123?

JPMorgan CEO Jamie Dimon says the bank will let clients buy bitcoin

PUBLISHED MON, MAY 19 2025•1:20 PM EDT | UPDATED MON, MAY 19 2025•5:22 PM EDT

SAB 121 and Done: SEC Issues SAB 122 to Rescind Guidance on Safeguarding Crypto Assets

Hester Peirce @HesterPeirce · Follow

Bye, bye SAB 121! It's not been fun: SEC.gov | Staff Accounting Bulletin No. 122

4:56 PM · Jan 23, 2025

CryptoWeekly @WeeklyCrypto · Jan 25

The U.S. SEC has announced **SAB 122**, replacing **SAB 121**, which previously discouraged banks when it came to offering Bitcoin custody services.

This change allows banks and financial institutions in the U.S. to offer crypto services without facing significant regulatory challenges.

polling question #3

HUMPS Act of 2025

- Halting Uncertain Methods and Practices in Supervision Act
- Passed House Financial Services Committee May 21, 2025
- Directs Financial Institutions Examination Council to revise CAMELS rating system
- Eliminating/reforming "Management Component"

"The CAMELS rating system has a real impact on how banks operate—but right now, it gives regulators too much room to apply double standards. This bill ensures that supervisory ratings are based on transparent, quantifiable metrics, not political bias or personal opinion…"
-Congressman Scott Fitzgerald

C	Capital adequacy
A	Asset quality
M	Management
E	Earnings
L	Liquidity
S	Sensitivity to market risk

polling question #4

replay link:

A replay link will be emailed to you in the coming weeks. A copy of the slides presented today will also be made available at that time.

feedback welcomed:

We welcome and appreciate your feedback with the goal of always getting better.

upcoming events & insights:

Please visit elliottdavis.com/insights to view upcoming webinars, events, and additional insights.

upcoming events

Cut Through the Complexity: Streamline Your Control Environment

Thursday | July 24, 2025 | 2:00pm EST

BSA and Regulatory Compliance Roundtable

Thursday | August 14, 2025 | 2:00pm EST

FSG Quarterly Accounting and Financial Reporting Update

Thursday | September 25, 2025 | 2:00pm EST

Register at: https://www.elliottdavis.com/events

thank you