2022 WICPA FINANCIAL INSTITUTIONS CONFERENCE

YOUR SOURCE FOR KEY UPDATES & INSIGHTS ON TIMELY ISSUES

TUESDAY, MAY 10

BROOKFIELD CONFERENCE CENTER
& WICPA CPE LIVESTREAM

2022 WICPA FINANCIAL INSTITUTIONS CONFERENCE

MATERIALS AT A GLANCE

The following materials are from the morning sessions of the 2022 WICPA Financial Institutions Conference held on Tuesday, May 10, including:

- 2022: Investing Beyond the Pandemic
- Accounting & Tax Legislation Update
- Impact of Digital Assets in the Community Bank Space

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INVESTMENT ADVISORS

17th Annual

Retirement Plan Investment Seminar

Brookfield Conference Center

FREE EVENT

Wed. June 15th

8:15 AM – 12:15 PM

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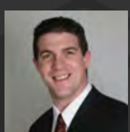
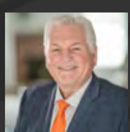
FIDUCIARY BEST PRACTICES | ECONOMIC UPDATE | MOTIVATION



Dave Sargent, CFA
Vice President, Fidelity Investments
Plan Sponsor Attitudes Survey

Emily Roland, CIMA
Co-Chief Investment Strategist, John Hancock Investment Management
Economic & Financial Markets Review



Steve Gilliland
Personal & Professional Development Expert, Steve Gilliland, Inc.
Detour: Developing the Mindset to Navigate Life's Turns

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For CPE credits, please call the CPE Department at 800-772-6939 or register thru the WICPA Website. / PD Credit program is valid for the SHRM-CPSM or SHRM-SCPSM / The use of the official HRCI seal confirms that this activity has met HR Certification Institute's® criteria for recertification credit pre-approval.

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2022 WICPA GOLF OUTING

FRIDAY, SEPT. 16 – Ironwood Golf Course, Sussex

SCHEDULE

8:30 a.m.
Registration & Breakfast

9:00 a.m.
Practice Greens
& Driving Range

10:00 a.m.
Shotgun Start

144 PERSON LIMIT

4-Person Scramble
$90 per Golfer
$360 for Foursome

HOLE & EVENT PRIZES

$500 Inside the Circle Contest
$500+ in Individual Awards
$500+ in Team Awards

REGISTRATION INCLUDES

18 Holes of Golf With Cart
Practice Greens & Driving Range
Continental Breakfast & Lunch
Beverage Vouchers
Hole & Event Prizes
Entry in the Raffle Drawings
Awards Reception & Appetizers

For more information and to register, visit wicpa.org/GolfOuting**.**

8:10 – 9:20 a.m.

2022: Investing Beyond the Pandemic

Jack Manley, *Vice President, Global Market Strategist, J.P. Morgan Asset Management*

MARKET INSIGHTS

2022: Investing Beyond the Pandemic

Market Insights
J.P. Morgan Asset Management
May 2022

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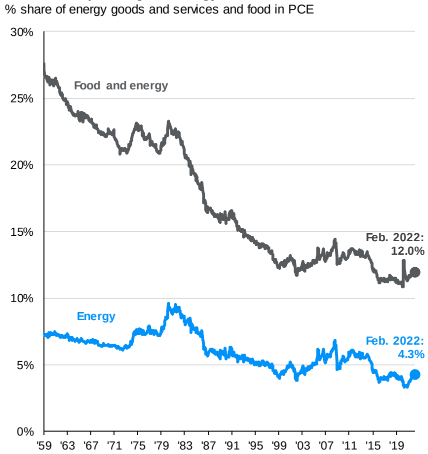
Commodity consumption and production

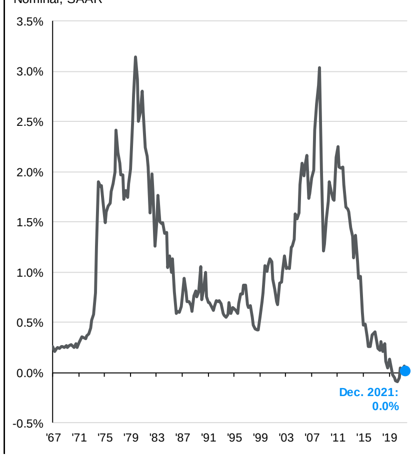
GTM | U.S. | 30

Economy

Consumer spending on energy and food
% share of energy goods and services and food in PCE



Net imports of oil as a share of GDP
Nominal, SAAR



Source: BEA, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of April 5, 2022.

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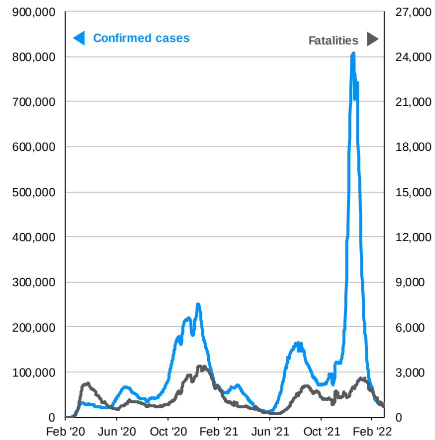
2

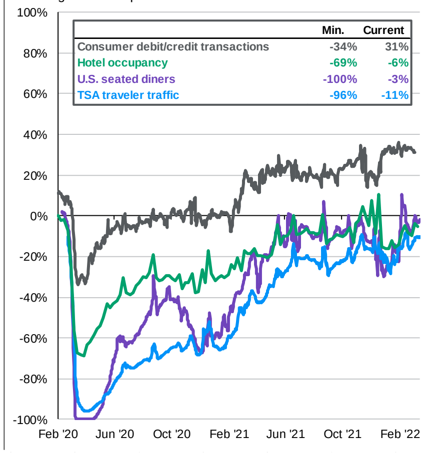
COVID-19 and high-frequency data

GTM | U.S. | 19

Change in confirmed cases and fatalities in the U.S.
7-day moving average



High-frequency data
% change from comparable week in 2019



Source: Centers for Disease Control and Prevention, Chase, OpenTable, Our World in Data, STR, Transportation Security Administration (TSA), J.P. Morgan Asset Management. Consumer debit/credit transactions, U.S. seated diners and TSA traveler traffic are 7-day moving averages. Consumer spending: This report uses rigorous security protocols for selected data sourced from Chase credit and debit card transactions to ensure all information is kept confidential and secure. All selected data are highly aggregated and all unique identifiable information—including names, account numbers, addresses, dates of birth and Social Security Numbers—is removed from the data before the report's author receives it.
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Economy

3

Inflation components

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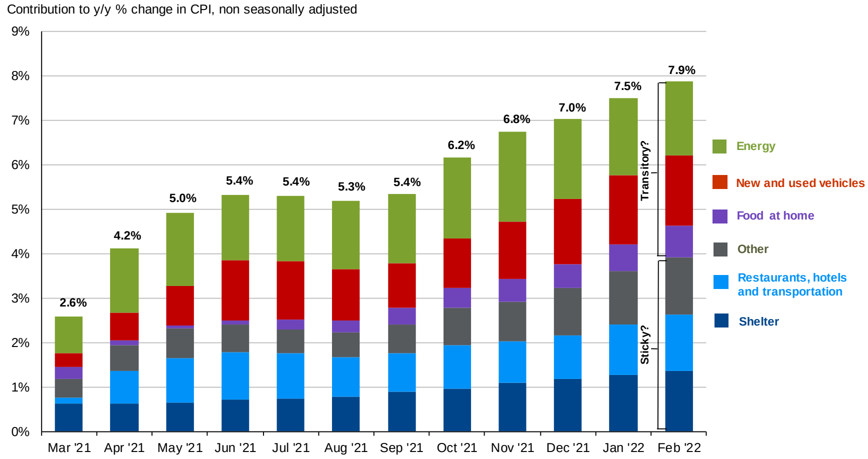
Contributors to headline inflation
Contribution to y/y % change in CPI, non seasonally adjusted



Source: BLS, J.P. Morgan Asset Management. Contributions mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations. "Shelter" includes owners equivalent rent and rent of primary residence. "Other" primarily reflects household furnishings, apparel and medical care services.
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Inflation

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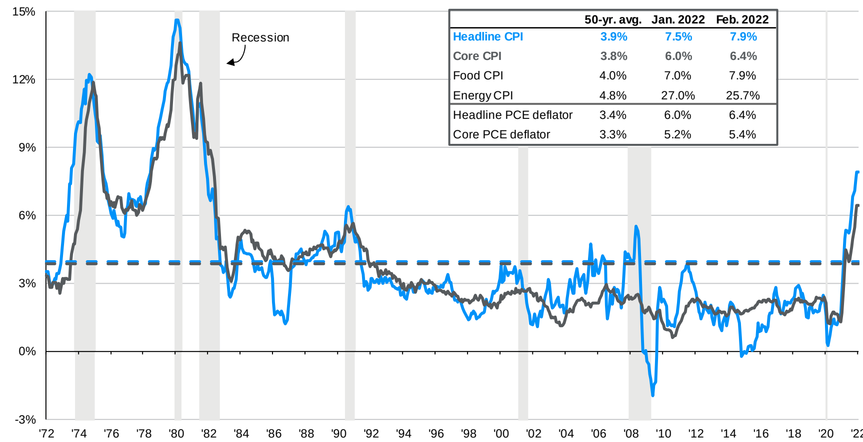
CPI and core CPI

% change vs. prior year, seasonally adjusted



	50-yr. avg.	Jan. 2022	Feb. 2022
Headline CPI	3.9%	7.5%	7.9%
Core CPI	3.8%	6.0%	6.4%
Food CPI	4.0%	7.0%	7.9%
Energy CPI	4.8%	27.0%	25.7%
Headline PCE deflator	3.4%	6.0%	6.4%
Core PCE deflator	3.3%	5.2%	5.4%

Source: BLS, FactSet, J.P. Morgan Asset Management.
CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.
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Economy

The Fed and interest rates

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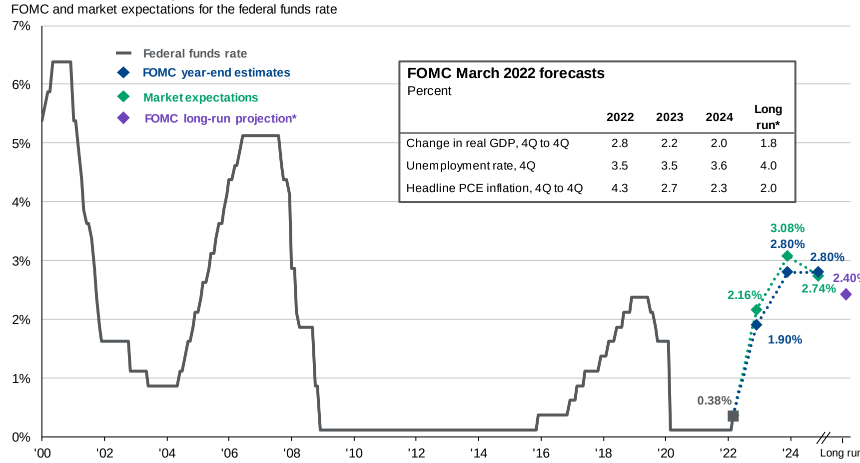
Federal funds rate expectations

FOMC and market expectations for the federal funds rate



FOMC March 2022 forecasts
Percent

	2022	2023	2024	Long run*
Change in real GDP, 4Q to 4Q	2.8	2.2	2.0	1.8
Unemployment rate, 4Q	3.5	3.5	3.6	4.0
Headline PCE inflation, 4Q to 4Q	4.3	2.7	2.3	2.0

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are based off of the respective Federal Funds Futures contracts for December expiry. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.
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Fixed Income

Fixed Income

Interest rates and inflation

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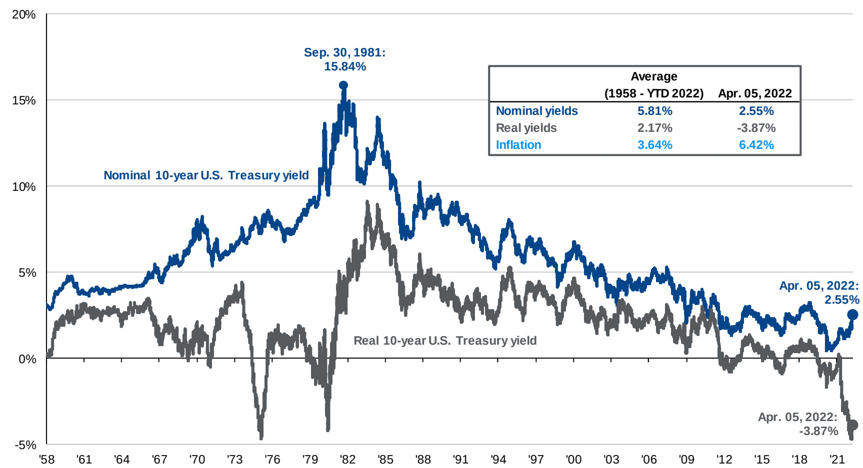
Nominal and real U.S. 10-year Treasury yields



Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month. For the current month, we use the prior month's core CPI figures until the latest data is available.
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Equities

S&P 500: Valuation dispersion

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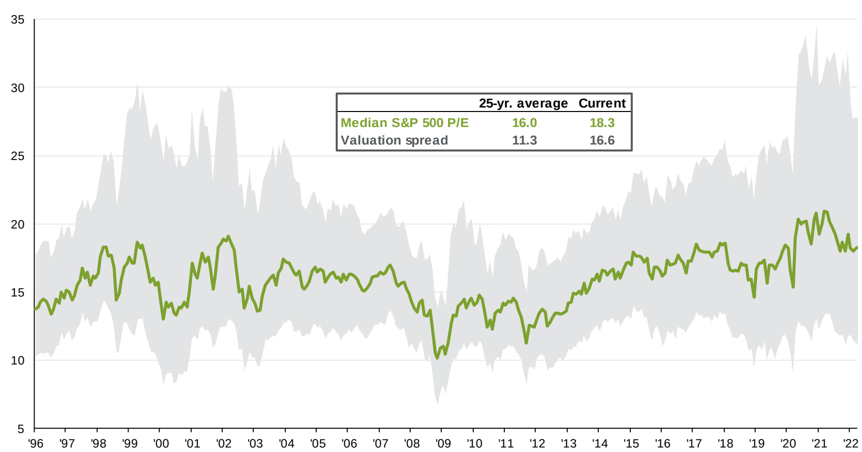
Valuation dispersion between the 20th and 80th percentile of S&P 500 stocks



Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.
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Sources of earnings per share growth

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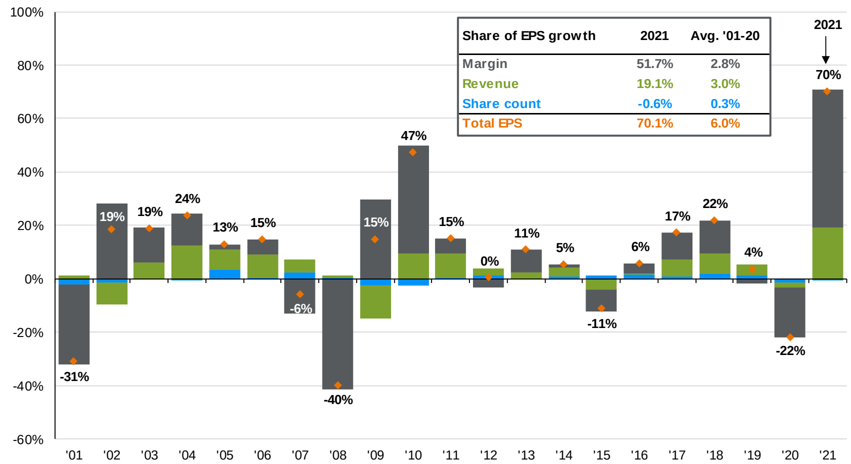
Equities

S&P 500 year-over-year operating EPS growth
Annual growth broken into revenue, changes in profit margin & changes in share count



Share of EPS growth	2021	Avg. '01-20
Margin	51.7%	2.8%
Revenue	19.1%	3.0%
Share count	-0.6%	0.3%
Total EPS	70.1%	6.0%

Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.
EPS levels are based on annual operating earnings per share. Percentages may not sum due to rounding. Past performance is not indicative of future returns.
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Value vs. Growth

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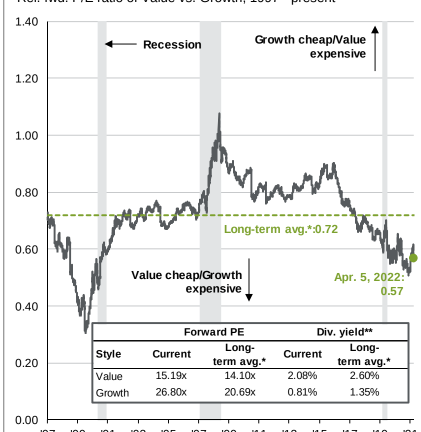
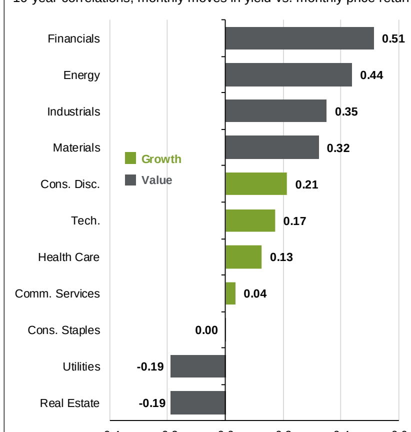
Equities

Value vs. Growth relative valuations
Rel. fwd. P/E ratio of Value vs. Growth, 1997 - present



	Forward PE		Div. yield**	
Style	Current	Long-term avg.*	Current	Long-term avg.*
Value	15.19x	14.10x	2.08%	2.60%
Growth	26.80x	20.69x	0.81%	1.35%

S&P 500 sector correlations to U.S. 10-yr. Treasury yield
10-year correlations, monthly moves in yield vs. monthly price returns



Source: FactSet, FTSE Russell, NBER, J.P. Morgan Asset Management.
(Left) Growth is represented by the Russell 1000 Growth Index and Value is represented by the Russell 1000 Value Index. *Long-term averages are calculated monthly since December 1997. **Dividend yield is calculated as the next 12-month consensus dividend divided by most recent price.
(Right) Correlations are calculated on a monthly basis over the last 120 months.
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International

Global economic activity momentum

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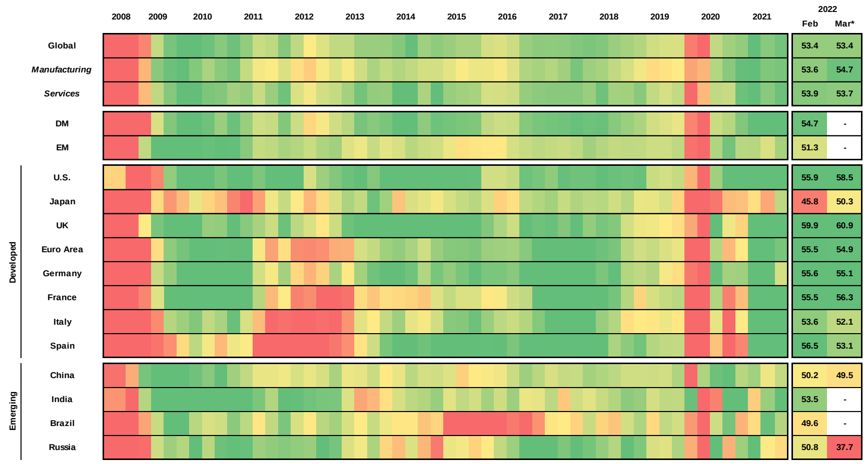
Global Composite (manufacturing & services combined) Purchasing Managers' Index, quarterly



Source: Markit, J.P. Morgan Asset Management.
The Composite PMI includes both manufacturing and services sub-indices. Heatmap colors are based on PMI relative to the 50 level, which indicates acceleration or deceleration of the sector, for the time period shown. Heatmap is based on quarterly averages, with the exception of the two most recent figures, which are single month readings. Data for the U.S. are back-tested and filled in from December 2007 to September 2009 due to lack of existing PMI figures. DM and EM represent developed markets and emerging markets, respectively. *March Global, Manufacturing, and Services PMIs are based on estimates from J.P. Morgan Asset Management.
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International

Global equity markets

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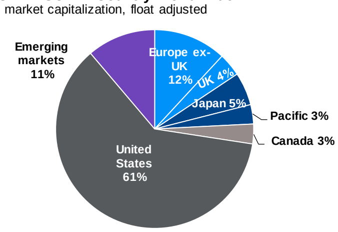
Returns	2022 YTD		2021		15-years	
	Local	USD	Local	USD	Ann.	Beta
Regions						
U.S. (S&P 500)	-	-4.7	-	28.7	10.7	0.90
AC World ex-U.S.	-3.0	-5.1	13.5	8.3	4.2	1.07
EAFE	-2.9	-6.0	19.2	11.8	4.1	1.04
Europe ex-UK	-7.2	-10.3	24.4	16.5	4.8	1.18
Emerging markets	-4.9	-5.7	0.1	-2.2	4.8	1.18
Selected Countries						
United Kingdom	6.2	3.0	19.6	18.5	2.3	1.02
France	-6.8	-10.4	29.7	20.6	4.7	1.22
Germany	-10.7	-14.2	13.9	5.9	4.7	1.31
Japan	-1.4	-7.9	13.8	2.0	3.4	0.72
China	-10.8	-11.2	-21.6	-21.6	5.8	1.10
India	2.8	1.4	28.9	26.7	6.7	1.26
Brazil	14.8	37.0	-11.2	-17.2	0.9	1.50
Russia	-	-	21.6	20.0	0.9	1.49

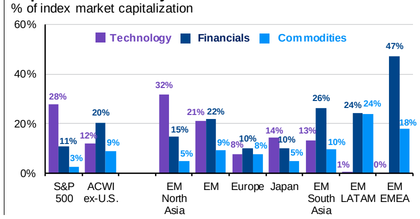
Weights in MSCI All Country World Index

% global market capitalization, float adjusted



Representation of key sectors in international markets

% of index market capitalization



Source: FactSet, Federal Reserve, MSCI, Standard & Poor's, J.P. Morgan Asset Management. All return values are MSCI Gross Index data. 15-year history based on USD returns. 15-year return and beta figures are calculated for the time period 12/31/2006 to 12/31/2021. Beta is for monthly returns relative to the MSCI AC World Index. Annualized volatility is calculated as the standard deviation of quarterly returns multiplied by the square root of 4. Chart is for illustrative purposes only. Please see disclosure page for index definitions. Past performance is not a reliable indicator of current and future results. EM North Asia includes China, Taiwan and South Korea. EM South Asia includes India, Indonesia, Malaysia, Pakistan, Philippines, Taiwan and Thailand.
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Investing Principles

Asset class returns

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2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	2007 - 2021	
																Ann.	Vol.
EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 41.3%	Comdty. 27.4%	Large Cap 10.6%	REITs 23.2%
Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Cash 0.0%	Small Cap 8.7%	EM Equity 22.9%
DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	Asset Alloc. -4.1%	REITs 7.5%	Small Cap 22.5%
Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	REITs -4.3%	High Yield 6.6%	Comdty. 19.1%
Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.5%	Large Cap -4.7%	Asset Alloc. 5.7%	DM Equity 18.9%
Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	EM Equity -5.7%	EM Equity 4.8%	Large Cap 16.9%
Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	DM Equity -6.0%	DM Equity 4.1%	High Yield 12.2%
High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	High Yield -6.1%	Fixed Income 4.1%	Asset Alloc. 11.7%
Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	Fixed Income -6.9%	Cash 0.8%	Fixed Income 3.3%
REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	EM Equity -2.2%	Small Cap -8.6%	Comdty. -2.6%	Cash 0.7%

Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Fixed Income: Bloomberg US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg US Aggregate, 5% in the Bloomberg 1-3m Treasury, 5% in the Bloomberg Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/2006 to 12/31/2021. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns.
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J.P. Morgan Asset Management – Index definitions

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All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

Equities:

The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip U.S. stocks.

The MSCI ACWI (All Country World Index) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The MSCI EAFE Index(Europe, Australasia, Far East)is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The MSCI Europe Index is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe.

The MSCI Pacific Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the Pacific region.

The Russell 1000 Index® measures the performance of the 1,000 largest companies in the Russell 3000.

The Russell 1000 Growth Index® measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000 Value Index® measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000 Index® measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The Russell 2000 Growth Index® measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000 Value Index® measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 3000 Index® measures the performance of the 3,000 largest U.S. companies based on total market capitalization.

The Russell Midcap Index® measures the performance of the 800 smallest companies in the Russell 1000 Index.

The Russell Midcap Growth Index ® measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth index.

The Russell Midcap Value Index ® measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000 Value index.

The S&P 500 Index is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The S&P 500 Index focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

Fixed income:

The Bloomberg 1-3 Month U.S. Treasury Bill Index includes all publicly issued zero-coupon US Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have $250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non convertible.

The Bloomberg Global High Yield Index is a multi-currency flagship measure of the global high yield debt market. The index represents the union of the US High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices. The high yield and emerging markets sub-components are mutually exclusive. Until January 1, 2011, the index also included CMBS high yield securities.

The Bloomberg Municipal Index: consists of a broad selection of investment-grade general obligation and revenue bonds of maturities ranging from one year to 30 years. It is an unmanaged index representative of the tax-exempt bond market.

The Bloomberg US Dollar Floating Rate Note (FRN) Index provides a measure of the U.S. dollar denominated floating rate note market.

The Bloomberg US Corporate Investment Grade Index is an unmanaged index consisting of publicly issued US Corporate and specified foreign debentures and secured notes that are rated investment grade (Baa3/BBB or higher) by at least two ratings agencies, have at least one year to final maturity and have at least $250 million par amount outstanding. To qualify, bonds must be SEC-registered.

The Bloomberg US High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included.

The Bloomberg US Mortgage Backed Securities Index is an unmanaged index that measures the performance of investment grade fixed-rate mortgage backed pass-through securities of GNMA, FNMA and FHLMC.

The Bloomberg US TIPS Index consists of Inflation-Protection securities issued by the U.S. Treasury.

The J.P. Morgan Emerging Market Bond Global Index(EMBI)includes U.S. dollar denominated Brady bonds, Eurobonds, traded loans and local market debt instruments issued by sovereign and quasi-sovereign entities.

The J.P. Morgan Domestic High Yield Index is designed to mirror the investable universe of the U.S. dollar domestic high yield corporate debt market.

The J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI Broad Diversified)is an expansion of the J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI). The CEMBI is a market capitalization weighted index consisting of U.S. dollar denominated emerging market corporate bonds.

The J.P. Morgan Emerging Markets Bond Index Global Diversified (EMBI Global Diversified) tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds. The index limits the exposure of some of the larger countries.

The J.P. Morgan GBI EM Global Diversified tracks the performance of local currency debt issued by emerging market governments, whose debt is accessible by most of the international investor base.

The U.S. Treasury Index is a component of the U.S. Government index.

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J.P. Morgan Asset Management – Definitions

GTM | U.S. | 70

Other asset classes:

The **Alerian MLP Index** is a composite of the 50 most prominent energy Master Limited Partnerships (MLPs) that provides investors with an unbiased, comprehensive benchmark for the asset class.

The **Bloomberg Commodity Index** and related sub-indices are composed of futures contracts on physical commodities and represents twenty two separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel, and zinc

The **Cambridge Associates U.S. Global Buyout and Growth Index®** is based on data compiled from 1,768 global (U.S. & ex –U.S.) buyout and growth equity funds, including fully liquidated partnerships, formed between 1986 and 2013.

The **CS/Tremont Hedge Fund Index** is compiled by Credit Suisse Tremont Index, LLC. It is an asset-weighted hedge fund index and includes only funds, as opposed to separate accounts. The Index uses the Credit Suisse/Tremont database, which tracks over 4500 funds, and consists only of funds with a minimum of US$50 million under management, a 12-month track record, and audited financial statements. It is calculated and rebalanced on a monthly basis, and shown net of all performance fees and expenses. It is the exclusive property of Credit Suisse Tremont Index, LLC.

The **HFRI Monthly Indices (HFRI)** are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. The HFRI are broken down into 4 main strategies, each with multiple sub strategies. All single-manager HFRI Index constituents are included in the HFRI Fund Weighted Composite, which accounts for over 2200 funds listed on the internal HFR Database.

The **NAREIT EQUITY REIT Index** is designed to provide the most comprehensive assessment of overall industry performance, and includes all tax-qualified real estate investment trusts (REITs) that are listed on the NYSE, the American Stock Exchange or the NASDAQ National Market List.

The **NFI-ODCE**, short for NCREIF Fund Index -Open End Diversified Core Equity, is an index of investment returns reporting on both a historical and current basis the results of 33 open-end commingled funds pursuing a core investment strategy, some of which have performance histories dating back to the 1970s. The NFI-ODCE Index is capitalization-weighted and is reported gross of fees. Measurement is time-weighted.

Definitions:

Investing in **alternative assets** involves higher risks than traditional investments and is suitable only for sophisticated investors. Alternative investments involve greater risks than traditional investments and should not be deemed a complete investment program. They are not tax efficient and an investor should consult with his/her tax advisor prior to investing. Alternative investments have higher fees than traditional investments and they may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain. The value of the investment may fall as well as rise and investors may get back less than they invested.

Bonds are subject to interest rate risks. Bond prices generally fall when interest rates rise.

Investments in **commodities** may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Use of leveraged commodity-linked derivatives creates an opportunity for increased return but, at the same time, creates the possibility for greater loss.

Derivatives may be riskier than other types of investments because they may be more sensitive to changes in economic or market conditions than other types of investments and could result in losses that significantly exceed the original investment. The use of derivatives may not be successful, resulting in investment losses, and the cost of such strategies may reduce investment returns.

Distressed Restructuring Strategies employ an investment process focused on corporate fixed income instruments, primarily on corporate credit instruments of companies trading at significant discounts to their value at issuance or obliged (par value) at maturity as a result of either formal bankruptcy proceeding or financial market perception of near term proceedings.

Investments in **emerging markets** can be more volatile. The normal risks of investing in foreign countries are heightened when investing in emerging markets. In addition, the small size of securities markets and the low trading volume may lead to a lack of liquidity, which leads to increased volatility. Also, emerging markets may not provide adequate legal protection for private or foreign investment or private property.

The price of **equity** securities may rise, or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. These price movements may result from factors affecting individual companies, sectors or industries, or the securities market as a whole, such as changes in economic or political conditions. Equity securities are subject to "stock market risk" meaning that stock prices in general may decline over short or extended periods of time.

Equity market neutral strategies employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between securities, select securities for purchase and sale. Equity Market Neutral Strategies typically maintain characteristic net equity market exposure no greater than 10% long or short.

Global macro strategies trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity markets.

International investing involves a greater degree of risk and increased volatility. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. Some overseas markets may not be as politically and economically stable as the United States and other nations.

There is no guarantee that the use of **long and short positions** will succeed in limiting an investor's exposure to domestic stock market movements, capitalization, sector swings or other risk factors. Using long and short selling strategies may have higher portfolio turnover rates. Short selling involves certain risks, including additional costs associated with covering short positions and a possibility of unlimited loss on certain short sale positions.

Merger arbitrage strategies which employ an investment process primarily focused on opportunities in equity and equity related instruments of companies which are currently engaged in a corporate transaction.

Mid-capitalization investing typically carries more risk than investing in well-established "blue-chip" companies. Historically, mid-cap companies' stock has experienced a greater degree of market volatility than the average stock.

Price to forward earnings is a measure of the price-to-earnings ratio (P/E) using forecasted earnings. **Price to book value** compares a stock's market value to its book value. **Price to cash flow** is a measure of the market's expectations of a firm's future financial health. **Price to dividends** is the ratio of the price of a share on a stock exchange to the dividends per share paid in the previous year, used as a measure of a company's potential as an investment.

Real estate investments may be subject to a higher degree of market risk because of concentration in a specific industry, sector or geographical sector. Real estate investments may be subject to risks including, but not limited to, declines in the value of real estate, risks related to general and economic conditions, changes in the value of the underlying property owned by the trust and defaults by borrower.

Relative Value Strategies maintain positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities.

Small-capitalization investing typically carries more risk than investing in well-established "blue-chip" companies since smaller companies generally have a higher risk of failure. Historically, smaller companies' stock has experienced a greater degree of market volatility than the average stock.

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J.P. Morgan Asset Management – Risks & disclosures

GTM | U.S. | 71

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Unless otherwise stated, all data are as of April 5, 2022 or most recently available.

Guide to the Markets – U.S.

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9:35 – 10:50 a.m.

Accounting & Tax Legislation Update

Douglas Jenen, CPA, MST, *Partner, RSM US LLP*

Lydia Kopras, *Manager, Wipfli LLP*

Brett Schwantes, CPA, *Senior Manager, Wipfli LLP*

WICPA Financial Institutions Conference Accounting Update

May 10, 2022

WIPFLI

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Agenda – Accounting Update

- Leases
- Troubled Debt Restructurings
- Reference Rate Reform
- CECL
- Other standards

Legal Disclaimer

- The information included and discussed in this presentation is general in nature and should not be relied upon in providing accounting advice without independent research and analysis.
- Accounting standards are ever evolving. Current updates to information and analysis included and discussed in this presentation should be considered.
- This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, accounting advice. You should consult your own accounting advisor before engaging in any transaction.

Leases

- ASU 2016-02, *Leases*
  - Non-PBEs – Years beginning after December 15, 2021
- Adoption method
  - Modified retrospective (restatement of comparative periods)
  - Cumulative-effect adjustment as of the beginning of the period of adoption
    - Different disclosures for period of adoption vs. comparative period(s)
- Practical expedients are available
- Operating leases – Measured using remaining payments
- Finance (capital) leases – generally no change

Leases

- Initial direct costs, prepayments, and lease incentives are reclassified as part of the ROU asset (generally little to no impact on R/E)
- Financial institution preparation in 2022
  - Learn the new requirements
  - Complete an inventory of all leases and determine lease terms
  - Communicate with other key employees within your financial institution
  - Determine the effective date and method of adoption
  - Consider practical expedients that will be elected
  - Implement new controls and processes for leases
  - Consider the need for software

Leases

- New standards affecting leases:
  - ASU 2021-05, *Lessors—Certain Leases with Variable Lease Payments*
    - If a lease has variable lease payments that do not depend on a reference index or a rate, the lease would otherwise be classified as a sales-type or direct financing lease, and the lessor would otherwise recognize a day-one loss, the lease is classified as an operating lease (to avoid recognition of a day-one loss)
  - ASU 2021-09, *Discount Rate for Lessees That Are Not Public Business Entities*
    - The practical expedient available for non-public business entities to elect a risk-free rate as the discount rate for all leases can not be elected by class of underlying assets

Troubled Debt Restructurings (TDRs)

- Entities still accounting for the ALLL under incurred loss methodology, ***must*** report TDRs for 2022 (before adoption of CECL)
  - FASB April 2022 Board Meeting
    - TDR guidance designation and measurement is an integral part of the incurred loss methodology
  - ASC Topic 310-40
    - A TDR occurs when a Financial Institution restructures a debt and, for economic or legal reasons related to a borrower's **financial difficulties**, **grants a concession** to the borrower that it would not otherwise consider.

ASU 2022-02 Troubled Debt Restructurings and Vintage Disclosures

- TDRs: Eliminates TDR accounting model for creditors that have adopted CECL
  - Loan modifications will be accounted for under general loan modification guidance in Subtopic 310-20
  - New disclosure requirements for certain loan modifications
- Vintage Disclosures: Public business entities will be required to disclose the current-period gross write-offs by vintage (year of origination)
  - Relates to loans and leases in the scope of Topic 326-20

ASU 2022-02 Effective Dates

- Effective date: reporting periods after December 15, 2022
  - For entities that have adopted CECL
  - Applied prospectively
    - Option to apply the elimination of the TDR accounting model on a modified retrospective basis
  - Early adoption permitted (for CECL adopters)
    - Option to early adopt TDR changes but wait for the effective date to adopt Vintage Disclosure requirements, or vice versa

ASU 2022-02 Modifications

- Modifications made to debtors experiencing financial difficulty, including one or more of the following:
  - Principal forgiveness
  - Interest rate reduction
  - Other-than-significant payment delays
  - Term extensions

ASU 2022-02 New disclosure requirements

- Loan modifications made to debtors experiencing financial difficulty:
  - By class, types of modifications used, amortized cost basis and %

Loan Modifications Made to Borrowers Experiencing Financial Difficulty

	Interest Rate Reduction	
	Amortized Cost Basis at 12/31/20X1	**% of Total Class of Financing Receivable**
Loan Type		
Real Estate—Commercial	$ 40,000	2.0%
Real Estate—Residential	-	0.0
Consumer	10,000	0.2
Total	**$ 50,000**	

ASU 2022-02 New disclosure requirements

- Loan modifications made to debtors experiencing financial difficulty:
  - By class, the financial effect by type of modification

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty:

Interest Rate Reduction	
Loan Type	**Financial Effect**
Real Estate—Commercial	Reduced weighted-average contractual interest rate from 6% to 3%.
Real Estate—Residential	Reduced weighted-average contractual interest rate from 8% to 5%.
Consumer	Reduced weighted-average contractual interest rate from 4% to 1.5%.

ASU 2022-02 New disclosure requirements

- Loan modifications made to debtors experiencing financial difficulty:
  - By class, receivable performance in 12 months after modification date

	Amortized Cost Basis of Modified Financing Receivables That Subsequently Defaulted				
	Interest Rate Reduction	Term Extension	Principal Forgiveness	Combination-Term Extension and Principal Forgiveness	Combination-Term Extension and Interest Rate Reduction
Loan Type					
Real Estate—Commercial	$ 1,500	$ -	$ -	$ -	$ -
Real Estate—Residential	-	-	-	-	-
Consumer	500	1,000	-	-	-
Total	**$ 2,000**	**$ 1,000**	**$ -**	**$ -**	**$ -**

ASU 2022-02 New disclosure requirements

- Loan modifications made to debtors experiencing financial difficulty:
  - By portfolio segment, qualitative information about how those modifications and the debtors' subsequent performance are factored into determining the allowance for credit losses.
- Loan modifications with a payment default in the last 12 months:
  - By class, the type of contractual change that the modification provided
  - By class, the amount defaulted
  - By portfolio segment, qualitative information about how those defaults are factored into determining the allowance for credit losses.

LIBOR Transition

- Final date ICE will publish LIBOR rates:
  - December 31, 2021, for most LIBOR rates
  - June 30, 2023, for the most common US LIBOR rates
    - Overnight, 1-month, 3-month, 6-month, 12-month
- Regulatory expectations
  - SR 21-7- potentially unsafe and unsound practice if still issuing at LIBOR
- Alternative rates
- ASC 848 relief

Reference Rate Reform

- ASU 2020-04, *Reference Rate Reform* (ASC 848)
  - Effective immediately for everyone
  - Optional expedients and exceptions for applying US GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met
  - Applied to any eligible contract or hedging relationships as needed
    - ASU 2021-01 extends eligibility to derivatives affected by discounting transition
  - Sunset date – December 31, 2022 (tentative FASB decision to defer until December 31, 2024)

Reference Rate Reform

- Planning for LIBOR transition:
  - Review existing contracts and agreements for the use of LIBOR
    - E.g., Loans, securities, derivatives, debt, leases
    - Does any fallback language already exist?
  - Identify a new reference rate
    - E.g., Secured Overnight Funding Rate (SOFR)
  - Educate key team members regarding differences between the indices
  - Establish a date for the transition
  - Develop and execute a plan to transition

CECL Reminders

- Effective for annual periods beginning after December 15, 2022, and interim periods within those annual periods
- Applies to all financial assets measured at amortized cost (e.g.:)
  - Securities held to maturity
  - Sales-type and direct financing leases (lessors)
  - Off-balance sheet credit exposure
- Securities available for sale subject to a different impairment model
- Financial assets acquired with credit deterioration

CECL Reminders

- Some of the challenges for adopters:
  - Getting data
  - Preparation, revising, and refining
  - Forecasting
  - New disclosures
  - Expectations regarding securities held to maturity and other assets
- FASB is looking at possibly applying the PCD model to some or all performing loans in a business combination

Other standards to be aware of…

- ASU 2017-04, *Simplifying the Test for Goodwill Impairment*
- ASU 2019-12, *Simplifying the Accounting for Income Taxes*
- ASU 2020-06, *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*
- ASU 2021-04, *Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options*
- ASU 2021-06, (Amendments related to SEC Final Rule Release No. 33-10835, *Update of Statistical Disclosures for Bank and Savings and Loan Registrants*)

Other standards to be aware of…

- ASU 2021-07, *Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards*
- ASU 2021-10, *Disclosures by Business Entities about Government Assistance*
- ASU 2022-01, *Fair Value Hedging—Portfolio Layer Method*

Effective Dates

Standard	SEC filers	PBEs	Non PBEs
ASU 2016-02 *Leases*			Years beginning after December 15, 2021
ASU 2016-13 *Measurement of Credit Losses on Financial Instruments*		Years beginning after December 15, 2022	Years beginning after December 15, 2022
ASU 2017-04 *Simplifying the Test for Goodwill Impairment*		Years beginning after December 15, 2022	Years beginning after December 15, 2022
ASU 2019-12 *Simplifying the Accounting for Income Taxes*			Years beginning after December 15, 2021
ASU 2020-04 *Reference rate reform*	Contract changes from March 12, 2020 through 2022	Contract changes from March 12, 2020 through 2022	Contract changes from March 12, 2020 through 2022
ASU 2020-06 *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*	Years beginning after December 15, 2021	Years beginning after December 15, 2023	Years beginning after December 15, 2023

Effective Dates

Standard	SEC filers	PBEs	Non PBEs
ASU 2021-10, *Disclosures by Business Entities about Government Assistance*	Years beginning after December 15, 2021	Years beginning after December 15, 2021	Years beginning after December 15, 2021
ASU 2022-01 *Fair Value Hedging—Portfolio Value Method*	Years beginning after December 15, 2022	Years beginning after December 15, 2022	Years beginning after December 15, 2023
ASU 2022-02 *Troubled Debt Restructurings and Vintage Disclosures*	Years beginning after December 15, 2022	Years beginning after December 15, 2022	Years beginning after December 15, 2022

Questions?

Tax Update for Financial Institutions

Wisconsin Institute of CPAs

May 10, 2022

Doug Jenen, Partner – RSM US LLP

Your presenter

Doug Jenen

Tax Partner

Financial Institutions Group – RSM US LLP

Chicago, IL

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Agenda

Topic	Minutes
Introduction	2
Current Tax Landscape / Washington D. C. Commentary	9
Updates on Recent Tax Legislation	9
Miscellaneous Tax Updates	5
State Tax Update	5

CURRENT TAX LANDSCAPE / WASHINGTON D.C. COMMENTARY

FY 2023 Budget and General Explanations of the Proposals ("Greenbook")

- In March of 2022, The White House released their FY 2023 Budget and General Explanations of the Administration's Fiscal Year 2023 Revenue Proposals – also known as "The Greenbook".
- The Greenbook can be seen as a signal of the priorities of an administration, as well as a bit of a wish list – but is not actual proposed tax legislation.
- The FY 2023 Greenbook takes things a step further by estimating revenue using a baseline assumption that almost all revenue provisions in the House-passed version of the Build Back Better Act (BBBA) are in effect. The BBBA has been stalled since late December and while a sign of life has popped up every once in a while, the clock is ticking for Democrat members of the House and Senate who are running for re-election.
- At this time, the consensus is that the odds of the BBBA and the various revenue proposals within this Greenbook being enacted this year are low. A revised Senate version of the BBBA would need support of all 50 Democratic Senators and almost all House Democrats to be enacted.

Greenbook proposals of interest

Based on our analysis of the proposals, below represent some items of interest for a financial institution and its shareholders:

- Increase to the Corporate tax rate from 21% to 28% for tax years beginning after December 31, 2022.
- The Biden Administration reiterated its desire to increase the top marginal individual income tax rate for high-income earners as well as tax capital gain income for high-income earners at ordinary rates.
- New this year, though, is a minimum tax on the wealthiest taxpayers. The Treasury proposed in the Greenbook a minimum 20% tax on certain wealthy individual taxpayers' total income, which includes unrealized capital gains. Taxpayers subject to this minimum tax would lose the benefit of deferring taxation on appreciated assets until such asset is disposed of and would lose the benefit of the basis step-up for appreciated assets held at death. The minimum tax would apply to taxpayers with wealth of an amount greater than $100 million.

Greenbook proposals of interest (Cont'd)

- General proposal to extend the statute of limitations on IRS identified listed transactions from 3 to 6 years
- Generally, expands the mandatory e-filing requirements for "complex" business entities. In addition, certain tax forms such as form 8886 (e.g. Captive Insurance Companies), Reportable Transaction Disclosure Statement and Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, to be e-filed.
- Would require payees of any reportable payments to furnish their Taxpayer Identification Numbers (TINs) under penalty of perjury. The proposal would be effective for payments made after December 31, 2022. The purpose is to reduce the burden on the IRS for TIN matching discrepancies.

RSM

Build Back Better Act ("BBBA") proposed legislation - summary

- New corporate 15% minimum tax on adjusted financial statement income of certain large corporations with three-year average pre-tax net income in excess of $1B (on the consolidated financial statement).
- A 1% corporate excise tax on the value of stock repurchased by publicly-traded US corporations.
- A surcharge on high income individuals, estate and trusts (5% of modified AGI in excess of $10 million and an additional tax of 3% in excess of $25MM)
- Increase in the individual deduction for state & local taxes (on individual 1040s) from $10,000 to $80,000 for the 2021-2030 period, $10,000 for 2031, after which it would expire.
- Modifications to IRC 163(j) interest expense limitations for partnerships and S Corporations – a new "aggregation" approach
- Expansion of 3.8% NIIT to NII derived in the ordinary course of business ($400,000/$500,000)
- Delay of required R&D credit cost capitalization by 4 years (to tax years beginning after 12/31/25 instead of 12/31/21)

RSM

BBBA – stock repurchases

- "Stock" is not defined currently in the bill. Thus, for now we must assume that this includes all stock (i.e. common, preferred, etc.)
- "Established Securities Market" is broadly defined and generally includes (see IRC 7704(b)(1))
  - A national securities exchange (under section 6 of the Securities Exchange Act of 1934)
  - A national securities exchange exempt from registration due to low volume of trades
  - A foreign securities exchange which satisfies regulatory requirements in the local jurisdiction similar to the 1934 Act
  - A regional or local exchange
  - An interdealer quotation system that regularly disseminates firm buy or sell quotations by identified brokers or dealers
- "Repurchase" may include leveraged buyout transactions and / or other constructive redemptions
- The tax is assessed on the "Fair Market Value" of the stock repurchased. However, no guidance has been provided as to when such FMV should be determined
  - Note – the bill does not address IRC 83(b) transactions when the amount paid for stock is different than FMV; how to treat "boot" in an IRC 368(a) transaction, or provide for an exception for acquisition of stock in a "split-off" under IRC 355

BBBA – IRC 163(j) - aggregation

- The current approach for both partnerships & S Corporations allows for a computation of the limitation on interest expense deductions at the entity level. Once interest expense is limited, only excess interest income in future years from such respective K-1 would be netted with the interest expense limited in prior years
- The BBBA proposes significant changes to IRC 163(j) limitations – the limitation would now be aggregated at the individual level. Thus, all interest expense, interest income, and ATI information would flow through to the individual and would be netted together to compute the interest expense limitation on an individual's return
- The small business exception is presumed to apply at the partner / individual level, but the rules as currently proposed are not clear
- It is unclear how the various states would apply these new rules
- Further guidance was provided on transition rules with respect to partners / individuals who have previously been allocated excess business interest expense – this interest would be treated as paid or accrued in tax years beginning after December 31, 2022

BBBA – other provisions

- R&D expenditures – currently, R&D costs must be capitalized and amortized over a five-year period (using the midpoint of the tax year in which the R&D costs were paid or incurred as a starting point) for tax years beginning after December 31, 2021. This bill proposes to delay this by four years.
- IRC 1411 tax on net investment income ("NII") of 3.8% - currently, there is an additional tax on individuals, estates, and trust invested in a trade or business which is a passive activity which generates "net investment income". For individuals, the 3.8% tax is assessed on the lesser of net investment income or the excess of modified AGI over $250K (joint) or $200K (separate). The proposed changes would:
  - Assess the additional 3.8% tax on individuals regardless of whether they materially participate in the trade or business (where such income is not already subject to FICA or SECA tax)
  - The tax would apply to the greater of "specified net income" or net investment income. Specified income is the sum of gross income from interest, dividends, annuities, royalties, rents, other gross income derived from a trade or business and the net gain from the disposal of property
  - The income threshold would be increased to $500K (joint) and $400K (separate), subject to a phase in approach
  - Provides clarification on determining net investment income
  - Would be effective for tax years after December 31, 2021

RSM

BBBA – other provisions

- IRC 461(l) excess loss limitations –
  - Under the TCJA (2017), noncorporate taxpayers (partnerships/S Corporations) could only deduct a maximum $250,000 of excess business losses ($500,000 for joint returns) on their individual tax returns, with limits subject to inflation.
  - Section 2304(a) of the CARES Act retroactively suspended this rule for tax years beginning in 2018 through 2020. Form 461 will not exist for the 2020 tax year but will be used again starting in the 2021 tax year
  - For any tax years beginning after December 31, 2020, and before January 1, 2027, excess business losses will not be allowed (Sec. 461(l)(1)(B)). Note – this was previously extended one year under the American Rescue Plan Act of 2021
  - The proposed "Build Back Better" legislation would make the limitation permanent and would also provide for a "retesting" of the losses each year which could significantly limit the utilization of such losses prospectively
- New surcharge on high-net-worth individuals
  - The proposed "Build Back Better" legislation would impose a new 5% income tax surcharge on individuals, estates, and non-grantor trusts with modified AGI over $10MM (single, head or household, or married) and $200,000 for estates and trusts.
  - An additional (new) 3% income tax on modified AGI in excess of $25MM (single, head or household, or married) and $500,000 for estates and trusts.
  - Modified AGI is AGI adjusted for deductions for investment interest or business interest
  - This proposal would be effective for tax years beginning after December 31, 2021
  - This may create issues for S Corporations making proportionate tax distributions for quarterly tax estimate purposes

RSM

UPDATES ON RECENT TAX LEGISLATION

RSM

"Taxpayer Certainty and Disaster Tax Relief Act" – tax update

Signed into law on December 28, 2020:

- Extended the Work Opportunity Tax Credit for five years (through 12/31/25)
  - The WOTC is a federal income tax credit ranging from $2,400 to $9,600 for each qualified newly hired employee. Qualified employees generally include members of families receiving benefits under the Temporary Assistance to Needy Families program, designated community residents, vocational rehabilitation referrals, qualified ex-felons, qualified summer youth employees, qualified food and nutrition recipients, qualified Supplemental Security Income recipients, long-term family assistance recipients, qualified veterans, and qualified long term unemployment benefit recipients.
- Extended the New Markets Tax Credit for five years (through 12/31/25)
  - The NMTC program was created to encourage investment in low-income communities (LICs) and grow businesses, create jobs and sustain healthy local economies through federal tax incentives. The New Markets Tax Credit (NMTC) program was extended through 2025 with a $5 billion annual appropriation as part of the Consolidated Appropriations Act, 2021, signed by President Trump on December 28, 2020. Before the extension, the NMTC was set to expire at the end of 2020.
- Other updates to be discussed later in this presentation:
  - Meals & Entertainment deduction changes
  - Changes to the Employee Retention Credit and FFCRA family and sick leave credits
  - Charitable contribution limitation (for C Corps) – extended to 2021

RSM

“American Rescue Plan Act” – tax update

Signed into law on March 11, 2021:

- Changed and expanded the definition of “covered employees” under IRC 162(m)
  - Section 162(m) generally limits the deductibility of compensation paid by a publicly held corporation to "Covered Employees" to $1 million per year
  - Under ARPA, the term "Covered Employees" has been expanded from at least five officers to at least 10 officers and employees (seemingly whether officers or not). This expands the current group of the three highest paid officers and the CEO and CFO
  - The new group of five will be covered employees for the years they are in the highly compensated group, but the law does not include them in the forever-covered provision that applies to the other officers
  - This provision takes effect for tax years beginning after December 31, 2026
- Extended the excess business loss limitations (under IRC 461(l)) through 2026
- Other updates to be discussed later in this presentation:
  - Changes to the Employee Retention Credits
  - Changes to the FFCRA family and sick leave credits

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“Infrastructure Investment and Jobs Act” – tax update

Signed into law on November 15, 2021:

- Ends the employee retention credit early – only wages paid before October 1, 2021 will apply (previously applied to wages through 12/31/21)
- Crypto provisions added:
  - Includes a new definition of “digital assets” as “any digital representation of value which is recorded on a cryptographically secured distributed ledger or any similar technology as specified by the Secretary.” This may expand the current IRS definition of “virtual currency” to include items such as airline miles and loyalty points
  - Modified section 6045 to clarify that brokers of digital assets, such as centralized exchanges and possibly decentralized finance (“DeFi”) platforms, will need to report trades to their customers on some sort of Form 1099. Sec. 6045(c)(1) definition of "broker" is expanded to include anyone who for consideration effectuates "transfers of digital assets on behalf of another person."
  - Includes an amendment to treat a digital asset in the same way as cash payments under section 6050I. This means that a person engaging in a trade or business receiving a digital asset payment in excess of $10,000 must report the transaction on Form 8300 for those receiving digital asset payments during the course of their trade or business

RSM

Executive Summary - refresher

The Tax Cuts and Jobs Act (“TCJA”), The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and the Families First Coronavirus Response Act (FFCRA), all enacted in prior years, provided for several benefits to financial institutions. For both the 2021/2022 tax compliance seasons, we’d like to highlight some lingering tax provisions of interest to financial institutions:

- The 80% NOL carry-forward limitation is back for 2021
- Charitable contribution “25%” rule extended to 2021
- IRC 163(j) TCJA “30%” of ATI rule is back in 2021; ATI computations changed in 2022
- The Qualified Improvement Property “Retail Glitch” fix – still in play for 2021/2022
- Payroll tax credit opportunities are still available in 2021
- Payroll tax deferral – deduction timing reminder
- IRC 174 research & development expensing changes - 2022

Federal Net Operating Losses

- The CARES Act:
  - Allowed for any net operating losses (NOLs) arising in calendar tax years 2018, 2019, and 2020 to be carried back to each of the previous five years.
  - Repealed the 80% limitation on losses incurred in calendar years 2018, 2019, and 2020
  - Provided for an election to waive the carry-back for NOLs incurred in calendar tax years 2018 or 2019
  - Note - Individuals (e.g., S Corporation shareholders) were not provided with a 5 year carry-back on their individual returns.
- Update for 2021:
  - The 80% limitation on utilization of NOL carry-forwards, temporarily suspended by the Cares Act, was reinstated for 2021 (and forward)
  - Losses generated in 2021 (and forward) will continue to have no expiration period

Charitable Contributions & IRC 163(j)

- Charitable Contributions: The CARES Act originally provided for a temporary increase in charitable contribution limitation percentage for C Corporations
  - Donations made in 2020 would be limited to 25% of taxable income (instead of 10%) assuming the appropriate election was made for each donation
- IRC 163(j) Interest Expense Limitations: The CARES Act provided for certain changes to interest expense limitations under IRC 163(j) for 2020
  - Favorable increase to the inclusion of Adjusted Taxable Income (“ATI”) from 30 to 50% in the computation of interest expense limitations
  - Favorable changes to the definition of “interest expense”
  - Generally, not applicable to the banking industry
- Update for 2021:
  - Charitable contribution limitation at 25% extended to 2021 (if election made)
  - IRC 163(j) temporary “50% of ATI” rule reverts to 30% of ATI (under the TCJA) for 2021
- Update for 2022:
  - Add-back of Depreciation & Amortization expenses no longer allowed in the computation of ATI for 2022

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Employee Retention Credit - CARES Act

- The ERC is a refundable payroll tax credit claimed quarterly on Form 941
- The partial or total government-ordered shutdown or the applicable decline in gross receipts tests still apply (decreased to 20% from 50% in 2021)
- The definition of a “large employer” changed from 100 to 500 employees in 2021
- For wages paid between March 13 and December 31, 2020, employers who qualify may claim a credit for 50% of wages paid, capped at $10,000 per employee annually. The limitation on taxpayers who obtained PPP loans was retroactively removed (however, wages used for PPP loan forgiveness cannot be used for the ERC credit)
- For wages paid between January 1, 2021 and June 30, 2021, the available credit was increased to 70% of wages paid, generally capped at $7,000 per employee per quarter. This was extended through Q3 of ‘21
- The statute of limitations was extended from 3 to 5 years for any credits claimed in Q3 of ’21. Wages used in Q3 of ‘21 for (i) PPP loan forgiveness, (ii) the shuttered venue operators grant or (iii) the restaurant revitalization grant cannot also be used for ERTC purposes.
- Note – generally the IRS requires an amended return for the respective year the 941 is amended.

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Family & Sick Leave Credits (FFCRA)

- The FFCRA was passed in March of 2020 and imposed paid leave requirements on employers with fewer than 500 employees. Employees impacted by certain COVID-19 events were eligible for paid sick leave and paid family leave from April 1, 2020 through December 31, 2020. Employers providing this paid leave were entitled to payroll tax credits on their 2020 Forms 941
- The Consolidated Appropriations Act passed in December of 2020 allowed employers to voluntarily provide paid sick leave and paid family leave to employees from January 1, 2021 to March 31, 2021, under the same terms as applied to 2020. Under the new Act, paid leave can be provided on a voluntary basis from April 1, 2021 through Sept. 30, 2021. Eligible employers can claim payroll tax credits on their 2021 Forms 941 for the applicable quarters.
- Although the new Act incorporates many provisions from the FFCRA, there are some differences. For example, employees can receive paid leave if they are seeking or awaiting the results of a COVID-19 medical diagnosis or test due to exposure to the virus or because their employer has requested the diagnosis or test. In addition, paid leave can be provided to employees obtaining immunizations related to COVID-19 or recovering from any injury, disability, illness or condition related to such immunizations.

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Payroll tax deferral - CARES Act

- Due to the CARES Act, all employers can defer for up to two years the deposit and payment of their share of the social security tax on employee wages. Amounts normally due between March 27, 2020 and December 31, 2020, can be deferred with 50 percent required to be paid by December 31, 2021, and the remaining 50 percent by December 31, 2022. The deferral only applies to employer social security taxes and does not apply to employer Medicare taxes or tax withholdings from employees. Self-employed individuals are also eligible to defer 50 percent of the social security tax imposed on their net earnings from self-employment.
- Generally, for tax purposes this deferred payroll would be deductible in the year paid – 50% in 2021 and 50% in 2022. The Bank should have a deferred tax asset for the deferred payroll if it took advantage of this program.

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IRC 174 – R&D and Software Development Costs - 2022

- Calendar year companies are now required to capitalize certain research and experimental expenditures under section 174. The capitalization requirement, included as part of the Tax Cuts and Jobs Act (TCJA), is effective for tax years beginning after December 31, 2021.
- Section 174 requires that companies capitalize and amortize domestic research and experimental expenditures over five years and foreign expenditures over 15 years.
- In addition to requiring capitalization, the TCJA also codified that self-developed software costs are now section 174 expenditures.
  - Prior to the TJCA, the IRS had indicated in Rev. Proc. 2000-50 that such costs so closely resembled research and experimental costs to warrant similar treatment but had not specifically required companies to treat such costs section 174 costs.
- Federal legislation has previously been proposed and may be considered in the future to either delay the onset of, or fully repeal, the new section 174 capitalization rules.
- While there has been ample time since the enactment of TCJA for most states to fully conform to the treatment of R&D expenses under section 174 for the 2022 tax year, there are some states that still do not conform to these provisions of the TCJA (e.g., California and Wisconsin).

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MISCELLANEOUS TAX PROVISIONS

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Meals & Entertainment Changes

- Congress provided a temporary exception to the 50% the business deduction for certain business meals under the Taxpayer Certainty and Disaster Relief Act of 2020 (the Act).
- This temporarily allows for a 100% deduction for business meals if the food or beverages are provided by restaurants after December 31, 2020 and before January 1, 2023
- Under the general rules provided in section 274 and subsequent IRS guidance, taxpayers may deduct 50% of a business meal if:
  - The expense is an ordinary and necessary expense under section 162(a) paid or incurred during the taxable year in carrying on any trade or business;
  - The expense is not lavish or extravagant under the circumstances;
  - The taxpayer, or an employee of the taxpayer, is present at the furnishing of the food or beverages;
  - The food and beverages are provided to a current or potential business customer, client, consultant or similar business contact; and
  - In the case of food and beverages provided during or at an entertainment activity, the food and beverages are purchased separately from the entertainment, or the cost of the food and beverages is stated separately from the cost of the entertainment on one or more bills, invoices or receipts. The entertainment disallowance rule may not be circumvented through inflating the amount charged for food and beverages.

Meals & Entertainment Changes

- The temporary change in the law allows business meal amounts to be tax deductible so long as the business owner (or an employee of the business) is present when the food or beverages are provided and the expense is not lavish or extravagant under the circumstance.
- Notice 2021-25, issued in April of 2021:
  - The term ‘restaurant’ is defined as a business that prepares and sells food or beverages to retail customers for immediate consumption, regardless of whether the food or beverages are consumed on the business’s premises.
  - Grocery stores, specialty food stores, stores that sell alcohol, drug stores, convenience stores and vending machines may provide meals that can be eaten immediately, but they do not qualify as ‘restaurants’ because they *primarily* sell food that is pre-packaged and not for immediate consumption. The 50% deduction limitation under section 274 will continue to apply when a taxpayer purchases food or beverages from these locations.
  - On-premises cafeterias operating under section 119 or section 132(e)(2) may not be treated as restaurants, even if operated by contractors.
  - The term ‘present’ was not defined. Facts and circumstances would have to be evaluated.
- Notice 2021-63, issued in November of 2021, clarified that the meal portion of an employee’s per diem is in fact includable in the 100% deduction exception for meals provided by a restaurant.

Shareholder Basis – New Form 7203

- In January of 2022, the IRS released the final draft Form 7203 (S Corporation Stock and Debt Basis Limitation) for the 2021 tax return filing season.
- Generally S corporation shareholders in 2021 may be required to include this new Form 7203 as attachment to their personal tax return (Form 1040) to figure the potential limitations of their share of the S corporation's deductions, credits, and other items that can be deducted on their individual returns. We say "may" because it is only required to be attached in certain situations. A Form 7203 is required to be filed by S corporation shareholders who:
  - Are claiming a deduction for their share of an aggregate loss from an S corporation (including an aggregate loss not allowed last year because of basis limitations),
  - Received a non-dividend distribution from an S corporation,
  - Disposed of stock in an S corporation (whether or not gain is recognized), or
  - Received a loan repayment from an S corporation.
- While this tax form may be new for 2021, the requirement to track your individual basis in your stock and to (potentially) disclose this information to the IRS (i.e., see Schedule E) was implemented originally in 2018. The IRS has simply formalized the reporting of this information in 2021 into a new tax form.

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Transition from LIBOR (to other variable rate indices)

- On January 4, 2022, the Treasury released final regulations under 1.1001-6 which provide a broad safe harbor which generally exempts the modification of debt instruments and derivatives solely to modify the LIBOR reference rate from the debt modification rules. These regulations apply to modifications of contracts on or after March 7, 2022 but can apply prior to that date if all related parties agree to apply such regulations.
- The final regulations removed the fair market value safe harbor approach in the previously proposed regulations to make it easier to determine if the replacement rate is a qualified rate. Instead, the Final Regulations include a list of excluded modifications that will not constitute "covered modifications."
- Under the final regulations, a covered modification of the contract is generally a modification that:
  - replaces an operative rate that refers to a "discontinued IBOR" (discussed below) with a "qualified rate" (discussed below) and, if applicable, adds an obligation for one party to make a "qualified one-time payment" (discussed below);The FMV of the modified instrument must be relatively close (w/in 25 basis points) to the instrument immediately prior to the modification
  - includes a qualified rate as a fallback to an operative rate that refers to a discontinued IBOR;
  - replaces a fallback rate that refers to a discontinued IBOR with a qualified rate;
  - includes any associated modifications with respect to those modifications of the operative rate or fallback provisions; or
  - is a modification incorporating the recommended ISDA or ARRC fallback provisions described in section 4.02 of Revenue Procedure 2020-44.[3]
- Assuming a modified contract meets the new provisions of the final regulations, banks would have comfort that they would not have a debt modification tax event as a result of any debt modifications related to LIBOR

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STATE UPDATE

Wisconsin Tax Update – miscellaneous

- Wisconsin announced that its nexus relief program for employees temporarily working in Wisconsin (from out of state employers) due to Covid-19 ended as of December 31, 2021. Thus, in 2022, the state will no longer consider an out-of-state employer exempt from nexus if an out-of-state employee is physically located and working from a Wisconsin location. See Wisconsin Department of Revenue Tax Bulletin #215.
- On February 18, 2021, Wisconsin enacted legislation which updated conformity to the Internal Revenue Code
  - Generally conformed the Wisconsin income tax law to the Federal IRC as of December 31, 2020 for tax years beginning after December 31, 2020, which certain exceptions. Wisconsin has not conformed to certain IRC amendments enacted after December 31, 2020 (i.e., the CARES Act)
  - Wisconsin extended the deadline for reporting to the Wisconsin Department of Revenue any changes or corrections made to returns filed with the IRS from 90 to 180 days
  - Wisconsin allowed for conformity with IRS deduction for expenses paid with PPP loan proceeds, even if PPP loan was forgiven
  - S Corporations making the entity level tax election now allowed capital loss deductions up to $500 (where previously only allowed for partnerships)

Wisconsin Tax Update – miscellaneous

- Wisconsin continues to allow for conformity with IRC section 179 expensing but has not adopted federal bonus depreciation provisions
- Wisconsin has NOT conformed to the new Federal 100% deduction of business meals purchased from restaurants allowed under the Taxpayer Certainty and Disaster Tax Relief Act of 2020 (see also IRS Notice 2021-25)
- Research Credits – 2021 Wisconsin Act 58 allowed for an increase to the refundable portion of the research credit from 10% to 15% for tax years beginning on or after January 1, 2021
- IRC 174 research & development costs – generally, research and development and software development costs incurred after December 31, 2021 must be capitalized and amortized over 5 years. Wisconsin has not currently conformed to these Federal rules enacted in 2017 with the Tax Cuts and Jobs Act and thus such costs can still be immediately expensed.

Wisconsin Update – Unclaimed Property – 2021 Wisconsin Act 87

Unclaimed Property Changes – Enacted November 7, 2021

- Provides for additional defined terms, including loyalty cards, gift cards, and stored-value cards and updated the definition of “property” to exclude these cards from such definition. The definition of “money” was updated to include Digital Assets / Virtual Currency (if it can be converted to US currency).
- Dormancy Period Changes of note for a Bank:
  - Money orders and similar instruments decreased from 7 years to 5 years
  - Tax-deferred retirement accounts decreased from 5 years to 3 years
  - Exempt Property
- Exempt Property – definition changes
  - Payments, credits, and other transactions of record between two businesses
  - Gift cards, stored-value cards, loyalty cards (if no dormancy charges & never expire).
- Other Changes
  - Various rules on how to remit notice to apparent owners
  - Holder reporting obligations
  - Updates to late filing interest & penalties
  - Updated the statute of limitations for filing and record retention requirements (from 5 to 10 years)
  - Provided for an Amnesty program (which runs through February 23, 2023)

Illinois Tax Update – miscellaneous

- For tax years ending on or after December 31, 2021 and before December 31, 2024 (i.e., calendar years 2021-2023), utilization of Illinois net loss deductions may not exceed $100,000.
- The carry-over period of any net loss deduction that has not expired as of November 16, 2021, has been extended from 12 years to 20 years under Public Act 102-0669 (enacted on 11/16/2021). The net loss carry-over period for tax years ending on or after December 31, 2021 was changed to 20 years.
- S Corporation Banks may take advantage of a new "Pass Through Entity" (PTE) tax election starting in 2021 under Public Act 102-0658 through tax years ending before January 1, 2026.
  - An electing taxpayer must remit income taxes due on behalf of all shareholders at a rate of 4.95%
  - Shareholders would receive their distributive share of the taxes remitted on their behalf in the form of a tax credit on their respective Schedule K-1-P
  - Entities who elect to pay PTE tax are generally required to make estimated tax payments during 2022. For tax years ending before December 31, 2022, any late estimated payment penalties related to an election to pay PTE tax will be waived
- For tax years ending on or after December 31, 2021, Public Act 102-0016 amended Section 203 of the Illinois Income Tax Act to decouple Illinois from the federal 100% bonus depreciation.

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General State Update – state conformity

Banks with national lending/leasing platforms should continue to consider the following:

- IRC conformity dates
- State decoupling from Federal provisions
- Treatment of disregarded entities
- Separate / Combined / Consolidated return changes
- Tax elections & Accounting Methods
- NOL carry-back / carry-forward rules
- Financial statement impact
- Regulatory filing / Call Report impact
- Wayfair case & changing apportionment regime
- Location of employees

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State Update – State Pass Through Entity ("PTE") changes

- Several states (27+, including both IL and WI) have adopted PTE provisions to address the $10,000 limitation of state & local tax deductions at the shareholder/partner level
- The IRS issued Notice 2020-75 which confirmed that an S Corporation bank may deduct state taxes paid on behalf of the owners on the corporate return
- Currently, the SALT cap is in effect through 2025, but could be modified/extended by Congress
- Various provisions exist at the state level to either allow the tax as a credit for the owners or as a subtraction from the income taxed at the entity level
- S Corporation banks should consider whether the new entity level tax is material enough to record income tax expense and/or tax effect deferred taxes
- Most states provide for an annual election
- Taxpayers must consider whether the "home state" would provide for a credit paid to other states for such PTE tax paid on the shareholder's behalf

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11 – 11:50 a.m.

Impact of Digital Assets in the Community Bank Space

John Behringer, CPA, MBA, *Partner & National Financial Institutions Sector Leader, RSM US LLP*

THE POWER OF BEING UNDERSTOOD

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IMPACT OF DIGITAL ASSETS IN THE COMMUNITY BANK SPACE

Wisconsin Institute of CPAs Financial Institutions Conference

May 10, 2022

With you today

John Behringer

Partner

John is a Risk Consulting Partner with over 20 years of public accounting experience that serves as the National Financial Institutions Sector Leader for RSM and as the Risk Consulting Financial Services practice leader.

Nicholas Hahn

Partner

Nicholas is committed to working with the financial institutions industry practice and has over 15 years of public accounting experience working specifically with commercial and community financial institutions, both privately and publicly held.

Financial Services

Learning Objectives

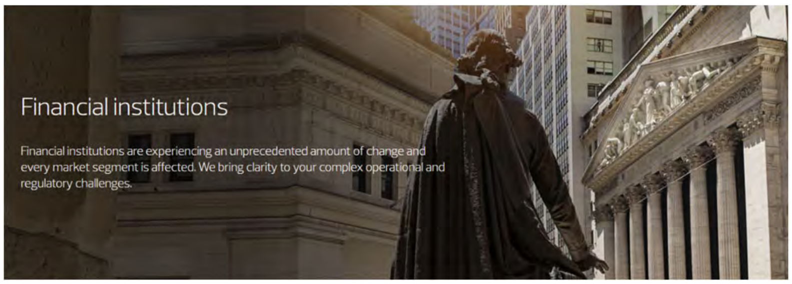
By the end of this course, you will be able to:

- Describe the current state of innovation in banking
- Explain what a bank is and is not able to do with digital assets
- Understand the key considerations for a community bank as it contemplates a digital asset strategy

Financial Services

Agenda & Discussion Points

- Fintech and Banking
- Where We Are Headed
- Diving into Digital Assets
- Developments Fueling the Convergence of Digital Assets and Banking



Financial Services

Fintech and Banking

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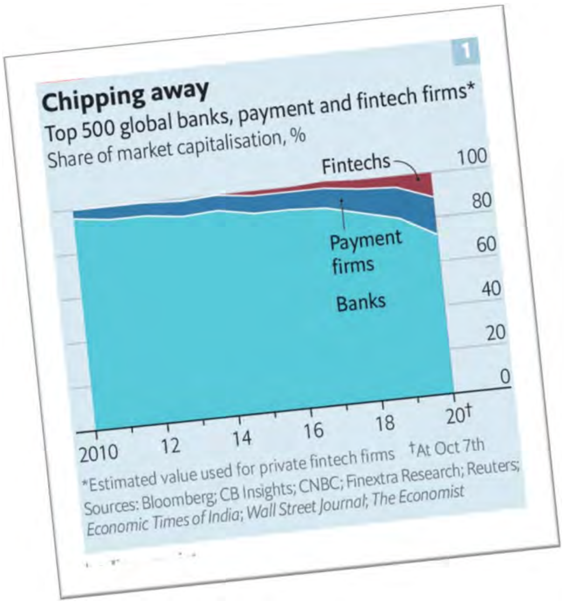
Digital Banking is Here and it is Growing Fast

RSM



PayPal stripe Square

robinhood venmo chime

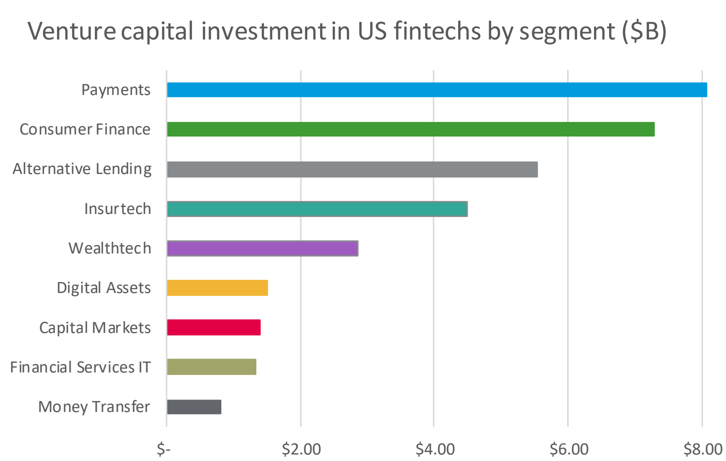
SoFi bitpay

In the middle of the digital rush, payment processors, neo-banks, and commerce platforms are becoming marketplaces where users can buy a wide range of financial products made in-house or by third parties.

Financial Services

2020 Venture Capital Investment in Fintech

RSM



Source: PitchBook, RSM US

* As of December 31, 2020

- Fintech 14% of all VC investment
- ~73% went to later stage companies
- Even with all the uncertainty the pandemic brought on investment in fintech was 17% higher compared to 2019

Financial Services

COVID-19 Accelerated Digital Banking

Banks accelerate new branch strategies in increasingly digital post-COVID world

Source: S&P Global Market Intelligence 7/15/20

M&T BANK

Digital banking enrollment up 40% from 60 days prior to pandemic.

F.N.B. CORP.

40% increase in mobile deposits in last two weeks of March compared to year-ago period.

SOUTH STATE CORP.

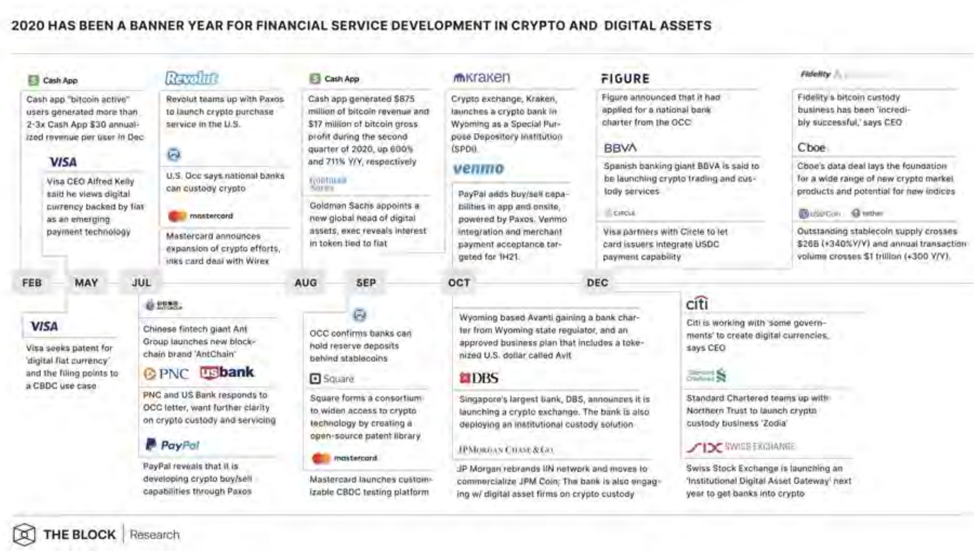
65% increase in mobile deposits, 90% more digital deposits during March 2020 than March 2019.

CITIZENS FINANCIAL GROUP INC.

Logins to digital and mobile platforms since mid-March up 25% compared to last year, while branch transactions are down 20% for the same period.

Financial Services

Established Brands are Leading the Way



Financial Services

What is Driving Innovation in Financial Services?

- Lower barriers to entry because of new customer access methods (e.g., mobile phone replacing the retail bank branch)
- Affordable infrastructure – analytics, artificial intelligence, cloud computing, and social technologies
- Changing consumer behavior and expectation from financial service providers
- New currencies and credit systems

Financial Services

Where We Are Headed

Financial Services

Looking Forward

Banking is no longer somewhere you go, it’s something you do.

While concerns around declining margins and credit quality will persist, banks must also evaluate their technology investments. Here are some key areas to focus on:

- *Technology that streamlines the back-office:* Simply reducing headcount solves one issue in cost management but not all, which is why making strategic investments in streamlining and innovating back-office processes and operations becomes critical to long-term success.
- *Technology that improves top-line revenues:* Top-line revenue does not grow simply by making investments in back-office technologies, which is why consideration must be given to solutions that maximize efforts to grow revenues. These include leveraging data to make decisions and improving the customer experience that will allow a bank to grow in a less branch-reliant environment.
- *Technology that promotes a new working environment:* As many banks pivoted to a remote environment, the adoption of these technologies will lead to a radically different working environment that will make remote or alternative working arrangements an option.

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Leveraging Digital Assets & Cryptocurrency

Press and commentary about digital assets varies drastically from supremely enthusiastic to emphatic pessimism. As such, it is important for bankers to be aware of meaningful and factual trends in the field.

How can banks best use digital assets and blockchain technology while mitigating risks and appropriately addressing the challenges associated with them?

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Diving into Digital Assets

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What are Digital Assets?

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- **Digital assets are affectively a mechanism by which to transfer value on the internet, without the ability to create duplicates of that value**
- Blockchain solved the classic “double-spend” problem
- Example
  - Mp3 files and Napster
  - One can create as many copies of that Mp3 file as desired and send each copy to a friend, this is referred to as a “double spend”
- On the Internet today, every piece of information is not digitally unique, there are countless copies of everything each individually maintained by businesses/governments/etc.
- On a Blockchain, every piece of information is digitally unique, instead of sending around copies, access is permitted to the single version of that information
  - Improves security, privacy, transparency, and efficiency

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Bitcoin

- Bitcoin was launched in 2009, in response to the financial crisis, by an anonymous individual or entity named Satoshi Nakamoto
- Bitcoin, and other digital assets, have no physical representation and are effectively computer files stored on a blockchain that are accessed through a "digital wallet" on an app or computer
- Bitcoin is a form of electronic money that is decentralized and independent of banks, where monetary policy is algorithmically set at the onset of its launch
- Given its widespread popularity and success, bitcoin has inspired a host of other projects looking to utilize a blockchain for its secure ability to create, store, and trade digital value
- Casually referred to as "digital gold" due to its provably scarce supply

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Bitcoin (cont.)

- Digital assets are bought and sold like stocks and commodities, exchanged for other digital assets, issued to raise money, used to improve the automation of traditional instruments, issued to engage communities, used to purchase goods, used as a service for access to or governance of platforms, and received for providing a utility

- **But…**
  - They aren't (yet) entirely regulated
  - Most countries do not deem it as a financial instrument (depends)
  - Some government entities are accepting it as payment
  - The SEC has said in the past: if it looks like a duck, quacks like a duck, and has the genetic makeup of a duck, it is, indeed, a duck (in reference to the Howey Test*)
  - The IRS considers it property, subject to capital gains with nuances
    - * **A transaction is an investment contract if there is an expectation of profits from the investment based on the efforts of others**

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General Digital Asset Categories

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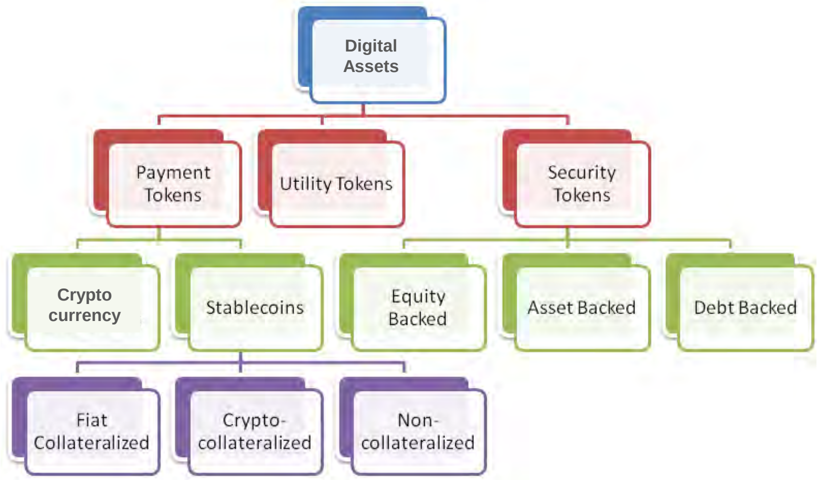

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Digital Asset Nicknames

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- Digital assets are referred to using various terms including:
  - Virtual currencies
  - Digital currencies
  - Cryptocurrencies
  - Cryptoassets
  - Virtual assets

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What is a Stablecoin?

- Stablecoins are digital assets that are usually pegged to another stable asset, such as a fiat currency
- Can be traded and used globally on a blockchain
- Not tied to a central bank
- Has low to zero valuation volatility

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Why Do Stablecoins Matter?

- Digital assets are speculative markets with intense price fluctuations
- Extreme volatility prevents most digital assets from serving as a mean of exchange, unit of account, and a store of value
- Traditional markets use hedging as a strategy to reduce risk and protect against volatility
- Stablecoins are a useful digital asset-hedging solution and help digital assets act as something more akin to the traditional definition of "money"
- Stablecoins are seen as a catalyst for decentralized systems to enter the mainstream

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Stablecoin Use Cases

- Payments – Allows businesses to accept digital asset payments while avoiding volatility
- Borrowing and lending
- Remittances
- Salaries, rents, and other recurring payments
- Trading – Enables more digital assets to trade with a proxy of USD and enables arbitrage opportunities
- Store of value for short or long term hedging

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Fiat/Commodity-Collateralized Stablecoins

- Each stablecoin represents an IOU redeemable for one dollar
- Users deposit dollars into a reserve bank account and are issued stablecoins backed by the USD. When they convert the stablecoins back into USD, the stablecoins are destroyed/recycled
- Most fiat-collateralized stablecoins are audited by accounting firms on a continuous basis to ensure that the reserve balance is greater than or equal to the outstanding number of stablecoins

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Fiat/Commodity-Collateralized Stablecoins

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- Requires a centralized party to operate
- Requires users to trust that the custodian actually has the fiat currency in its reserves
  - Periodic audits or open transparency may be necessary to maintain faith in the stablecoin

Pros	Cons
100% price stable	Centralized
Easiest to implement	Slow liquidation into fiat
No collateral is held on a blockchain	Should have regular audits for transparency
	Heavily regulated

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Notable Stablecoins

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- Fiat/commodity-collateralized
  - Tether – USD backed (supposedly)
  - USDC – USD backed by Circle and a consortium of partners including Coinbase.
  - GUSD – USD backed by Gemini exchange
  - Paxos Standard – USD backed by Paxos/ItBit and used in partnership with Paypal/Venmo

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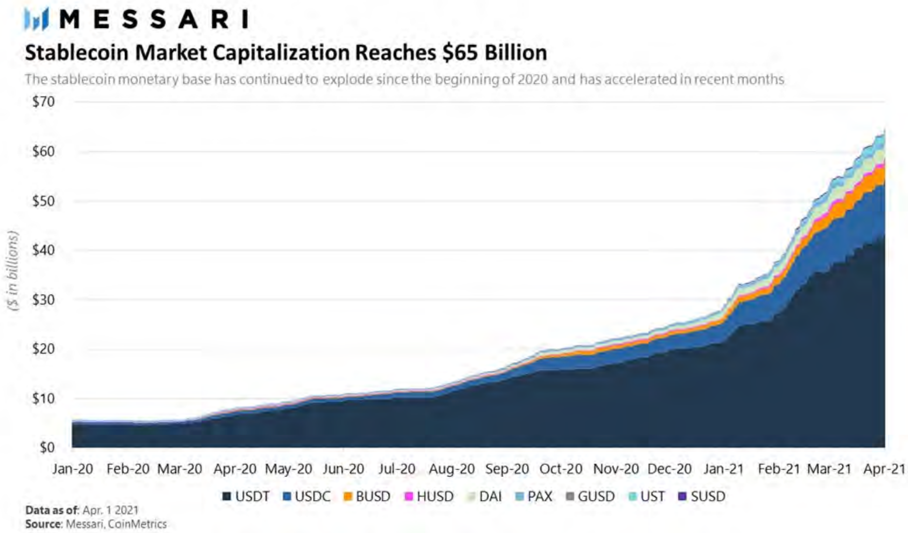
Stablecoin Growth



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Developments Fueling Convergence of Digital Assets and Banking

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The OCC Empowers U.S. Financial Institutions

On July 22, 2020, the OCC published an interpretive letter **authorizing national banks** and federal savings associations regulated by the agency **to custody digital assets**.

On January 4, 2021 the OCC published another interpretive letter **authorizing national banks** and federal savings associations regulated by the agency **to use public blockchains and dollar-backed stablecoin as settlement infrastructure.**

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What Does This Mean for Banking?

The use of digital assets by banks is disruptive but it isn't as simple as "we will hold your bitcoin for you."

- Digital assets will be more mainstream with institutional adoption and growing Millennial/Gen Z demand
- U.S. banks will issue "programmable" U.S. dollars, which will disrupt legacy payment systems including Paypal, Venmo, etc.
- To maximize the value of their software, Fintechs will increasingly use bank charters to directly clear their transactions
- Banks will need become API-based digital banks to compete with Fintechs. This is resulting in a fundamental disruption of their core banking technology (i.e. Fiserv, FIS, Jack Henry)

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30

Key Considerations for Community Banks

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INTRODUCTION TO US REGULATORY GUIDANCE ON DIGITAL ASSETS

The regulatory bodies establishing policies today include the Office of the Comptroller of the Currency ("OCC"), the Federal Deposit Insurance Corporation ("FDIC"), those established by bureaus and offices of the United States Treasury Department, which includes both the Office of Foreign Asset Control ("OFAC") and the Financial Crimes Enforcement Network ("FinCEN"), the Financial Action Task Force ("FATF"), the Basel Committee on Banking Supervision ("Basel Committee"), and other agencies.

In July of 2019 the SEC and FINRA begin to lay the groundwork for custody of digital assets in a joint statement on broker-dealer custody of digital asset securities.

STATEMENTS OF NOTE	CRITICAL FOOTNOTE
Among its core protections for customers, Rule 15c3-3 requires a broker-dealer to physically hold customers' fully paid and excess margin securities or maintain them free of lien at a good control location.	See paragraphs (b) and (c) of Rule 15c3-3. An entity's designation as a good control location is based, in part, on its ability to maintain exclusive control over customer securities. See, e.g., paragraph (c)(5) of Rule 15c3-3 (deeming a "bank" as defined in Section 3(a)(6) of the Exchange Act to be a good control location so long as, among other things, the bank has acknowledged that customer securities "are not subject to any right, charge, security interest, lien or claim of any kind in favor of a bank or any person claiming through the bank" and the securities are in the custody or control of the bank).

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FEDERAL REGULATORS GUIDANCE TO U.S. FINANCIAL INSTITUTIONS

In just the past two (2) years, the OCC has issued multiple pieces of guidance related specifically to a national bank's authority to engage in cryptocurrency related activities. These interpretive letters, described herein, relate to varying digital asset related activity that may be undertaken by a national bank.

While state banks and other types of financial institutions may not be directly regulated by the OCC, they have emerged as the lead agency for regulatory guidance for digital asset activity. Other agencies such as the FBR, FDIC, and various state financial regulatory bodies seem to be aligning with the OCC's interpretive guidance as part of a larger interagency stance.

Additionally, the FRB, OCC, and FDIC issued a joint statement on "crypto-assets," defined by the agencies as "any digital asset implemented using cryptographic techniques." The statement indicates that during 2022 the agencies intend to provide i) clarity on whether certain crypto-assets-related activities are legally permissible for banking organizations, and ii) expectations for **safety and soundness, consumer protection, and compliance** with existing laws and regulations related to:

- Crypto-asset safekeeping and traditional custody services
- Ancillary custody services
- Facilitation of customer purchases and sales of crypto-assets
- Loans collateralized by crypto-assets
- Issuance and distribution of stablecoins
- Activities involving the holding of crypto-assets on balance sheet.

The agencies indicate they will also evaluate the application of bank capital and liquidity standards to crypto-assets for activities involving U.S. banking organizations.

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THE OCC INTEPRETIVE LETTERS

The four (4) interpretive letters issued by the OCC between July 2020 and November 2021 (IL 1170, 1172, 1174, and 1179) set the table for permissible banking activities for US financial institutions. While they still lack a great deal of clarity, they establish several critical digital asset safekeeping and transactional activities as banking activities.

- Interpretive Letter 1170 addresses cryptocurrency custody services.
- Interpretive Letter 1172 addresses dollar deposits serving as reserves backing stablecoins.
- Interpretive Letter 1174 addresses distributed ledgers and stablecoins in payment activities.
- Interpretive Letter 1179 addresses the requirement of written non-objection for banks seeking to engage in digital asset activities.

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OCC INTEPRETIVE LETTER 1170

The OCC issued Interpretive Letter 1170 in July 2020 to **address the authority of a national bank to provide cryptocurrency custody services for customers**. For the reasons that are discussed within the interpretive letter, the OCC concluded that national banks may provide these services on behalf of customers, including the holding of the unique cryptographic keys that are associated with cryptocurrency. The letter also reaffirmed that OCC's position that national banks may provide permissible banking services to any lawful business they choose, including cryptocurrency businesses, so long as they effectively manage the risks and comply with applicable law.

OCC INTEPRETIVE LETTER 1172

The OCC issued Interpretive Letter 1172 in September 2020 to **address the authority of a national bank to hold deposits that serves as reserves for certain stablecoins.** As described within the letter, stablecoin issuers may desire to place assets in a reserve account with a national bank to provide assurance that the issuer has sufficient assets backing the stablecoin in situations where there is a hosted wallet. The OCC concluded that that a national bank may hold such stablecoin reserves as a service to bank customers. The letter, however, did not address the authority to support stablecoin transactions involving un-hosted wallets. Additionally, the letter only addressed the use of stablecoin backed on a 1:1 basis by a single fiat currency where the bank verifies at least daily that the reserve account balances are always equal or greater than the number of the issuer's outstanding stablecoins.

OCC INTEPRETIVE LETTER 1174

The OCC issued Interpretive Letter 1174 in January 2021 to **address the permissibility of certain payment-related activities that involve the use of new technologies, including the use of independent node verification networks and stablecoins to engage in and facilitate payment activities.** The OCC determined that national banks and Federal savings associations may use new technologies, including independent node networks and stablecoins to perform permissible banking functions such as payment activities.

OCC INTEPRETIVE LETTER 1179

The OCC later published Interpretive Letter 1179 in November 2021 **clarifying the activities addressed in OCC Interpretive Letters 1170, 1172, and 1174.** This letter was essentially a review of the previously issued guidance. More specifically, the letter that addressed those activities noted as permissible in previous letters remain permissible as long as a national bank maintains adequate risk management frameworks to allow the bank to operate in a safe and sound manner.

In a separate release, the OCC issued Interpretive Letter 1179 to clarify that a national bank or federal savings association (collectively, Bank) seeking to engage in certain cryptocurrency, digital ledger, or stablecoin activities (as previously covered by Interpretive Letters 1170, 1172, and 1174) must first:

- Notify the OCC in writing of its intention to engage in the activity, and
- Receive the OCC's written notification of supervisory non-objection.

To receive supervisory non-objection, the Bank must demonstrate, to the satisfaction of its supervisory office, that it has risk management systems and controls in place to conduct the activity in compliance with all applicable laws and in a safe and sound manner. To address compliance, the Bank must demonstrate, in writing, an understanding of any compliance obligations related to the specific activities under consideration, including applicable requirements under the federal securities laws, the Bank Secrecy Act, anti-money laundering, the Commodity Exchange Act, and consumer protection laws.
Banks currently engaged in cryptocurrency, distributed ledger, or stablecoin activities (i.e., as of November 23, 2021) are not required to obtain supervisory non-objection.

SAFETY AND SOUNDNESS BEST PRACTICE CHECKLIST

- ✓ Educate directors, officers, and key employees of the bank
- ✓ Develop a product-based readiness assessment, focusing on enterprise-wide risk
- ✓ Establish and enhance internal risk policies, procedures, and controls with respect to proposed digital asset products/services
- ✓ Establish clear narrative documentations and product diagrams for internal and external review
- ✓ Develop an enhanced focus on third-party fintech vendors and partners that touch digital assets
- ✓ Identify and engage an appropriate technology stack for operating proposed digital asset products/services
- ✓ Produce actionable and relevant digital asset information and board reporting considering constantly evolving compliance obligations for businesses that handle digital assets.
- ✓ Enhance internal audit operations to encompass digital asset activities
- ✓ Enhance BSA/AML staff to ensure that the bank has a qualified team to manage digital asset activities
- ✓ Notify primary regulatory of intent to launch digital asset products and services

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THANK YOU FOR YOUR TIME AND ATTENTION