



# 2025 WICPA FINANCIAL INSTITUTIONS CONFERENCE

YOUR SOURCE FOR KEY UPDATES & INSIGHTS ON TIMELY ISSUES

## HIGHLIGHTED TOPICS:



### ARTIFICIAL INTELLIGENCE: IMPACTS FOR COMMUNITY FINANCIAL INSTITUTIONS

Review the opportunities and risks  
of leveraging different types of AI  
in financial services



### ECONOMIC & FINANCIAL MARKETS OUTLOOK

Gain insights into forecasts on  
GDP, Fed policy, interest rates  
and investment opportunities in  
the fixed-income market



### AML IN FINTECH: COMPLIANCE & RISK MANAGEMENT ESSENTIALS

Explore the risks of fintech  
companies and their banking  
partners under the Bank Secrecy  
Act and anti-money laundering  
regulations

TUESDAY, MAY 13 | WICPA CPE LIVESTREAM ONLY

# 2025 WICPA FINANCIAL INSTITUTIONS CONFERENCE

## MATERIALS AT A GLANCE

The following materials are from the afternoon sessions of the 2025 WICPA Financial Institutions Conference held on Tuesday, May 13, including:

- Artificial Intelligence: Impacts for Community Financial Institutions
- ALM Hot Buttons & Strategies for Success
- Ethics & Decision Making

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ONLINE CPE OPPORTUNITIES AT [WICPA.ORG/CPECATALOG](https://www.wicpa.org/cpecatalog)**

# 2025 WICPA GOLF OUTING

**FRIDAY, SEPT. 19** – Ironwood Golf Course, Sussex



## 4-PERSON SCRAMBLE

\$95 per Golfer  
\$380 for Foursome

## REGISTRATION INCLUDES

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

## SCHEDULE

8:30 a.m.  
Check-In & Breakfast  
  
9:00 a.m.  
Practice Greens  
& Driving Range  
  
10:00 a.m.  
Shotgun Start  
  
4:00 p.m.  
Awards Reception,  
Prize Drawings & Appetizers

## HOLE & EVENT PRIZES

\$1,000+ in Drawing Prizes  
\$500+ in Individual Prizes  
\$500+ in Team Prizes  
\$500 Inside the Circle Contest

Scan the QR code or visit [wicpa.org/GolfOuting](https://wicpa.org/GolfOuting) to register.





# SAVE THE DATE!

## UPCOMING WICPA CONFERENCES & SPECIAL EVENTS



### CONFERENCES

WICPA conferences are your source for key updates and insights on timely issues. As a WICPA member, you can save up to \$150 on registration!

#### **Business & Industry Spring Conference**

Thursday, March 20  
Brookfield Conference Center & WICPA CPE Livestream

#### **Financial Institutions Conference**

Tuesday, May 13  
WICPA Office & WICPA CPE Livestream

#### **School District Audit Conference**

Thursday, May 29  
WICPA CPE Livestream Only

#### **Business & Industry Fall Conference**

Tuesday, Sept. 9  
Brookfield Conference Center & WICPA CPE Livestream

#### **Not-for-Profit Accounting Conference**

Tuesday, Sept. 16  
WICPA Office & WICPA CPE Livestream

#### **Tax Conference**

Monday, Nov. 10 - Tuesday, Nov. 11  
Brookfield Conference Center & WICPA CPE Livestream

#### **Accounting & Auditing Conference**

Thursday, Nov. 20  
WICPA Office & WICPA CPE Livestream

#### **Accounting Technology Conference**

Thursday, Dec. 4  
WICPA Office & WICPA CPE Livestream

### SPECIAL EVENTS

WICPA special events are unique opportunities to connect with fellow members and provide a great way to socialize and have fun!

#### **Member Recognition Banquet & Annual Business Meeting**

Friday, May 9  
Brookfield Conference Center

#### **New CPA Banquet**

Friday, June 13  
Brookfield Conference Center

#### **Golf Outing**

Friday, Sept. 19  
Ironwood Golf Course

#### **Bowling Night**

Thursday, April 30, 2026  
New Berlin Ale House

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[wicpa.org/Livestream](http://wicpa.org/Livestream)

[wicpa.org/OnDemand](http://wicpa.org/OnDemand)

Registration opens approximately eight weeks prior. For more details about each and to register, visit [wicpa.org/conferences](http://wicpa.org/conferences) and [wicpa.org/events](http://wicpa.org/events).



# JOIN A CONFERENCE PLANNING COMMITTEE

## Participate in planning a WICPA conference and enjoy:

- ⌚ FREE registration\*  
(a \$300-\$400 value!)
- ⌚ Exclusive networking
- ⌚ Leadership skill development
- ⌚ Recognition for your WICPA involvement
- ⌚ Informal CPE credit

\* To receive free conference registration:

- attend one planning meeting ~ 2 hours
- select topics
- contact speakers
- introduce speakers at conferences

## 2025 CONFERENCES Accepting Volunteers

SEPT.  
9

BUSINESS &  
INDUSTRY FALL  
CONFERENCE

SEPT.  
16

NOT-FOR-PROFIT  
ACCOUNTING  
CONFERENCE

NOV.  
10-11

TAX  
CONFERENCE

NOV.  
20

ACCOUNTING &  
AUDITING  
CONFERENCE

For more information or to join, email [tammy@wicpa.org](mailto:tammy@wicpa.org).

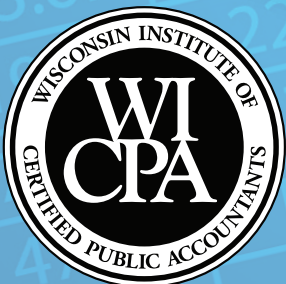


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- Add any non-WICPA CPE courses
- Print reports for any reporting period

**To get started, visit  
[wicpa.org/cpetracker](http://wicpa.org/cpetracker)**



1:10 – 2:10 p.m.

# Artificial Intelligence: Impacts for Community Financial Institutions

**Cortney Arnold**, *Community Development Director, Filene  
Research Institute*



MAY 2025

# Artificial Intelligence: Impacts for Community Financial Institutions



Cortney Arnold  
Community Development Director  
Filene Research Institute

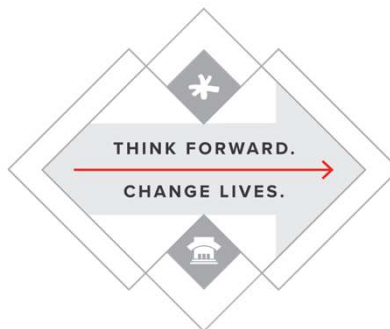
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ABOUT FILENE

## WHO WE ARE

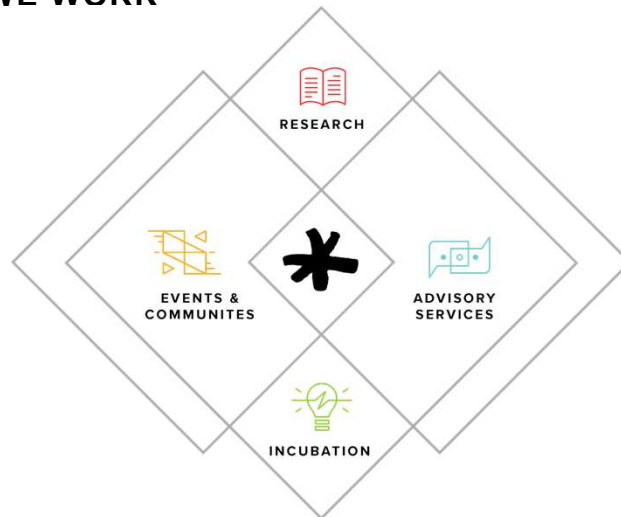
**FILENE RESEARCH INSTITUTE** strengthens organizations and the people they serve through innovative research and incubation.

We conduct research, pilot and test new ideas, build dynamic communities, and offer proven and sustainable solutions that create meaningful impact for credit unions and drive positive change for credit union members.



ABOUT FILENE

## HOW WE WORK



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Artificial Intelligence: Impacts for Community Financial Institutions

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WHAT'S ON DECK

## TODAY'S AGENDA

- 1 Understanding What AI Is and Is Not
- 2 Features, Abilities, and Threats of Generative AI
- 3 Use Cases for Generative AI for Financial Services

4


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# WHAT IS AI?

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WHAT IS AI?

## ARTIFICIAL INTELLIGENCE (AI)

- Exhibiting or simulating intelligent behavior (while not being intelligent).



Artificial Intelligence: Impacts for Community Financial Institutions

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WHAT IS AI?

## WHAT COUNTS AS “AI” IS CHANGING



Artificial intelligence (AI) is an umbrella term encompassing a range of technologies that try to replicate human reasoning, learning, or decision-making. AI relies on algorithms that prioritize, classify, associate, and filter information.

### YESTERDAY'S AI

- Deductive and rule-bound.
- Little need to learn or reason on its own, because it does not encounter new situations that require adaptation.
- Think of pre-programmed software, such as a computer that plays chess.

### TODAY'S AI

- Inductive and open-ended.
- Learns and adapts through trial and error, probabilistic guesswork, and iterated pattern recognition as it incorporates new information from new situations.
- Think of a baby encountering the world for the first time.

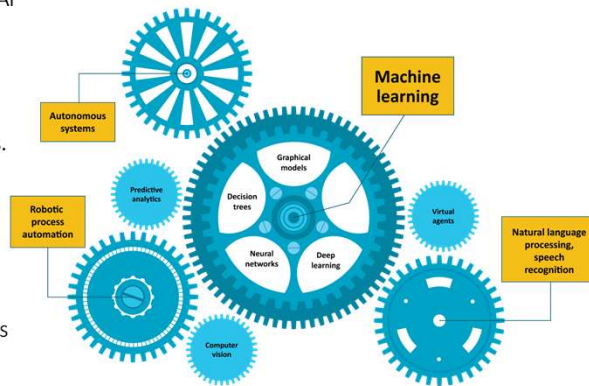
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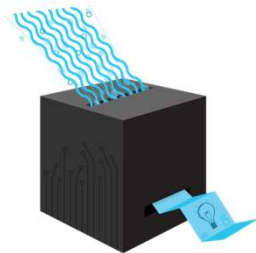
## THERE IS NO ONE AI TECHNOLOGY

- **ChatGPT:** a text-generative AI tool based on an underlying LLM that summarizes the English language (and other languages) in the form of statistical word distributions.
- **Generative AI:** machine-learning algorithms trained with vast datasets that have the capability to automate complex tasks
- **LLMs:** large language models that typically power the algorithms behind text-generative AI



## “ALGORITHMIC OPERATIONS ARE MORE HUMAN THAN WE HAVE BEEN LED TO BELIEVE.”<sup>1</sup>

### THE ASSUMPTION a neutral, non-human black box



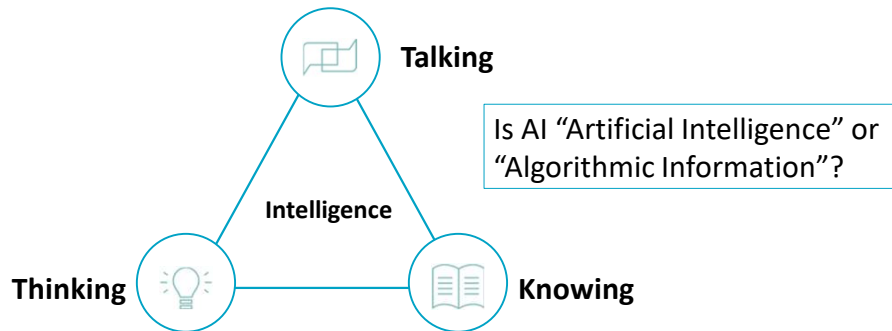
### THE REALITY decisions and opinions embedded in computer code and mathematics



<sup>1</sup> Seaven, 2018, "What Should an Anthropology of Algorithms Do?" Cultural Anthropology 53(3): 379-389, <https://culanth.org/anthropology-of-algorithms-dp>

WHAT IS AI?

## “INTELLIGENCE” ICEBERG



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## FEATURES, ABILITIES, AND THREATS OF GENERATIVE AI

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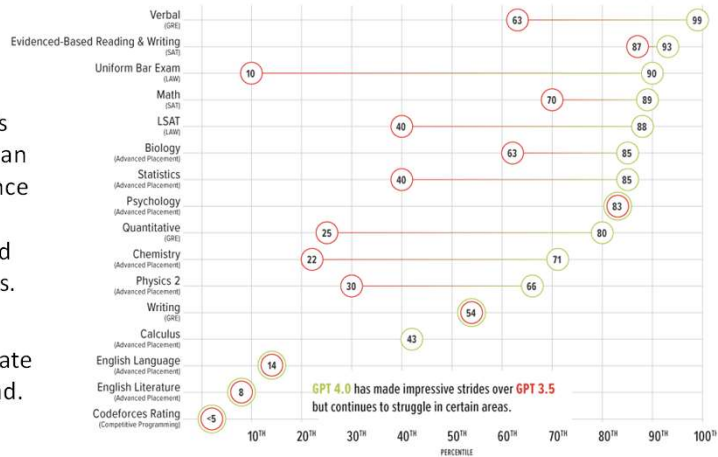
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## How Smart Is ChatGPT?

FEATURES, ABILITIES, AND THREATS OF GENERATIVE AI

- OpenAI's latest large language model, GPT-4, is capable of human level performance in many professional and academic exams.
- But it still struggles to create and comprehend.



Source: Visual Capitalist, OpenAI (2023)

## The AI revolution peaked in 2022-2023.

FEATURES, ABILITIES, AND THREATS OF GENERATIVE AI



- Technological “Gold Rush” and a pivotal period for AI advancements
- Adoption and engagement
- Key applications?
  - Marketing, sales, product development, service operations
  - Significant value delivery through generative AI, typically realized through efficiency gains

## The tipping point? AI that is **user-friendly**.

FEATURES, ABILITIES, AND THREATS OF GENERATIVE AI

- Although AI for chatbots, fraud detection, and other uses has been around for several years, DALL-E and ChatGPT in 2022 were game-changers, because they made gen AI widely accessible.
- Now we are all asking questions about applications ...
  - Boards: “What are we doing with AI?”
  - Leadership teams: “Don’t we need to do something with AI?”

### USER INPUT

“How do I calculate the correlation between the variables TextSentiment and ReviewScore in the attached database?”

[ChatGPT understands the question as one that requires computation]

### EXTERNAL INPUT

Functionalities provided by Python packages and basic code functions.

[ChatGPT opens an execution environment for Python, writes and runs the code, treating its outcome as additional input for its answer]

[ChatGPT shows the code used and integrates the results in its reply, translating them into natural language to best answer the user input request]

### CHATGPT OUTPUT

“To calculate the correlation between two variables in Python, we can use the `corrcoef()` function from the NumPy library.”

```
import numpy as np
import pandas as pd
#Load data from database into a pandas dataframe
df=pd.read_csv(FILE, usecols=['TextSentiment', 'ReviewScore'])
#Calculate correlation coefficient
map.corrcoef(df['TextSentiment'], df['ReviewScore'])[0,1]
```

“In this case, the correlation between TextSentiment and ReviewScore is 0.342.”

## AI Risks, Ethics, and Governance

FEATURES, ABILITIES, AND THREATS OF GENERATIVE AI




- There are no accepted regulatory or compliance frameworks for generative AI, yet
- Focus for financial services is increasingly on **EXPLAINABLE AI** to provide transparency in understanding AI outputs and AI-driven decisions
- Explainable AI should empower stakeholders to understand **not just intention but impact**

“So, while AI can allow credit unions to achieve great efficiencies and provide innovative services, we must tread carefully to ensure that our pursuit of technological advancement does not compromise our core values of fairness, transparency, and consumer protection.”

CHAIRMAN HARPER

## AI Risks, Ethics, and Governance

FEATURES, ABILITIES, AND THREATS OF GENERATIVE AI

 <b>AUTHORSHIP</b>	 <b>OWNERSHIP</b>	 <b>PRIVACY</b>
<p>The current trend seems to be to push authorship (and responsibility) onto the final user. So, while institutions can benefit from the wealth of easily generated content, the bigger question is whether they should let AI technologies be the voice of their institutions.</p> <p><small>Source: Hurland Manushi (2023).</small></p>	<p>Institutions using text AI services should expect information they input into their models to be shared by the AI service providers with unspecified third parties for business purposes.<sup>1</sup> Ownership of the output of TextGen AI is important, but it also pays to consider matters of privacy and ownership over the input a user enters into these models.</p>	<p>If your institution has a website, your organization's branding, social media activity, products list, and everything else you have listed have most likely been digested by one LLM or another. The only reasonable assumption is that everything freely available can be used, and probably has been used, to train TextGen AIs.</p>

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## What will AI become?

FEATURES, ABILITIES, AND THREATS OF GENERATIVE AI

### THE PERSONAL ASSISTANT



### THE PARROT



### THE COPILOT



### THE PARTY TRICK



### THE ORACLE



### THE MONSTER



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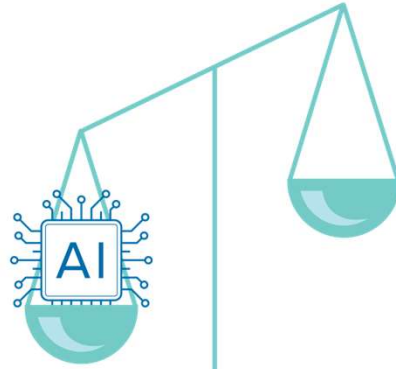
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## The Imperative of AI Ethics in Financial Institutions

FEATURES, ABILITIES, AND THREATS OF GENERATIVE AI

- Introduction to the critical importance of AI ethics in the integration within financial systems.
- Core principles of AI ethics: adherence to legal, moral, and societal standards.
- The essential role of leaders in ensuring AI fosters fairness, accountability, and privacy.



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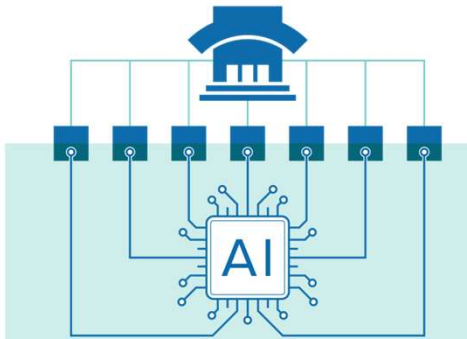
## WHAT CAN FINANCIAL SERVICES DO WITH AI IN 2025?

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## What Can Financial Services Do With AI in 2025?

1. Get Organized
2. Start Listening
3. Empower Your Employees
4. Access Your Knowledge
5. Explore Use Cases
6. Collaborate With Others
7. Create Customer/User Value



## Get Organized

- 1 • Every initiative benefits from a champion and a committed group.
- 2
- 3 • AI cannot be a bolt-on agenda item.
- 4 • Create processes for working together as an organization (e.g. committee).
- 5 • Identify and categorize your existing tools similar to AI.
  - RPA
  - Machine Learning
- 6
- 7 • Build on the work you've been doing

*"AI is the new automation."*



## Start Listening

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- Many of your employees are already using ChatGPT.
- Form a listening group — Why are these tools helpful?
- Create a *working* policy document around ChatGPT usage (good vs. bad).
- Iterate on the policy and *learn* from your employees.
- Start curating and sharing these ideas for AI use cases (**ideation sessions**).

## Empower Your Employees

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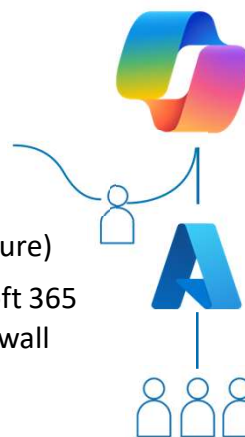
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- Explore use of Microsoft CoPilot

*("Your organization has given you the ability to use Microsoft Copilot with Commercial Data Protection.")*

- How does it work? Azure OpenAI Service (secure)
- Employees use the LLM to work with Microsoft 365 (Word, Excel, etc) and your data behind a firewall



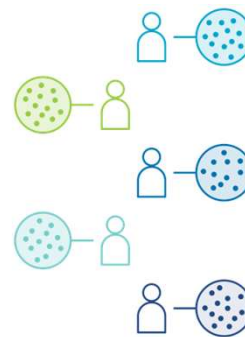
## Access Your Knowledge

- 1 • “knowledge bases” are often an open-ended collection of files.
- 2 • What is your “search engine”? (e.g. for contact center)
- 3 • AI can be used to access shared knowledge more easily.
- 4 • ChatGPT is a large language model trained on the internet.
- 5 • Retrieval Augmented Generation (RAG) is AI trained more narrowly.
- 6 • Use AI to make your knowledge base *relevant and accessible*.
- 7



## Explore Use Cases

- 1 • AI is technology. It must be applied to the right business problem.
- 2 • **Example:** Contact Center Overload
- 3 • What can an LLM do for your organization?
  - 4 – Empower your **members** to self-service (virtual assistant).
  - 5 – Empower your **employees** to serve your members (virtual assistant).
  - 6 – Empower your **leaders** to identify frictions and address them.
- 7 • LLMs facilitate *people interacting with information*.



USE CASES

## AgentIQ

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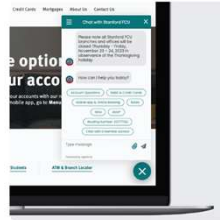
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### Stanford roll-out

Web chat with self-service



Member services integrated within Q2



Conversational SMS



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USE CASES

## AI is a Discipline

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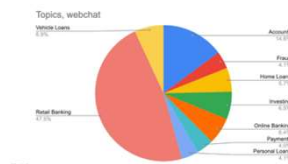
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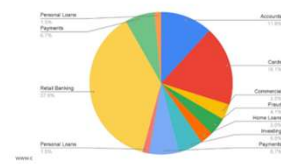
### Adoption, unauthenticated

- No active marketing
- Available on website
- Stan now handles **88% of all conversations**



### Adoption, authenticated

- No active marketing
- Available within mobile and OLB
- Stan now handles **52% of all conversations**



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## GenAI Transcript Review

1 This is an example of GenAI for **operations** (a credit union team)

2 Transcripts from your contact/call center are worth **gold**

- 3 • *Why is the person reaching out?*
- 4 • *What was the issue?*
- 5 • *How was it resolved?*

5 GenAI can help you answer all these questions

6 **Note:** This isn't a chatbot. It's about becoming **data-driven**.  
7 Better than NPS?

## Collaborate with Others

- 1 • There are many vendors providing AI solutions
  - 2 – Virtual Assistants/Knowledge Base (*Eltropy, Glia, Posh, Senso*)
- 3 • Widen your view to consider other predictive modeling tools:
  - 4 – Actionable Recommendations (*Exagens, VerticeAI*)
  - 5 – Lending (*ZestAI*)
- 6 • Explore what you can do through vendor partnerships.
- 7 • And explore **collaboration with other likeminded organizations** around AI!



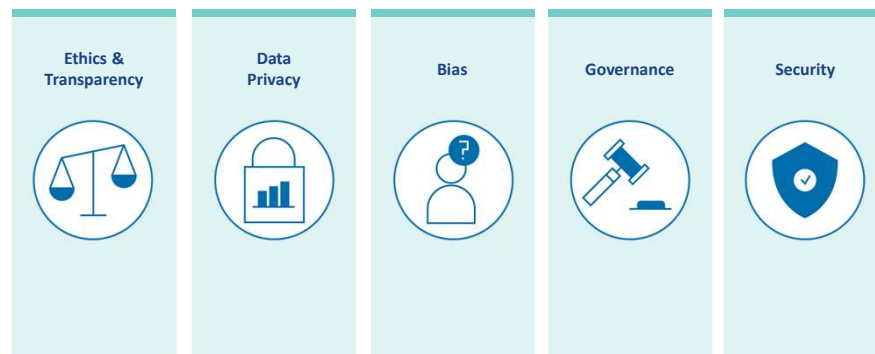
## Create Customer Value

- 1 • AI is a tool to *empower* customers/users not “deflect” them.
- 2
- 3 • This is not just back-office efficiency.
- 4 • How can we empower customers/users to achieve *financial well-being*?
- 5
- 6 • AI (predictive analytics) tailors services to the person.
- 7 • **Personalization** is the **future of financial services**.



## Building an AI Policy that Works

The proper implementation of an AI policy will not only drive innovation but also ensure that AI technology is used responsibly and in alignment with organizational mission and goals.



## Actionable Steps for AI Integration in Credit Unions

### DEVELOP A COMPREHENSIVE AI STRATEGY

- Define the AI strategy specific to your organizational needs and goals.
- Identify starting points and assess the risk of different approaches.
- Emphasize the importance of a thoughtful strategy that includes where to start.

### ESTABLISH AI ETHICS WITH BOARD INVOLVEMENT

- Engage your board in developing a code of ethics for AI usage.
- This proactive measure allows the organization to navigate AI use cases with a pre-approved list of opportunities, rather than reacting to market pressures.

### BALANCE RISK AND INNOVATION

- Address the risk-averse nature that may hinder AI adoption.
- Encourage a balanced approach to AI use, cautioning against draconian measures that fully ban AI, emphasizing the importance of not missing out on valuable innovation.

### CONCLUSION

## Key Points

Adapting to AI: Do or Die

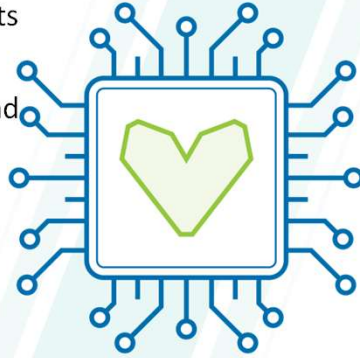
AI: A Handy Tool, Not Our Replacement

AI's Role: From the Member to the Board Member

AI & Risk: Finding the Sweet Spot

## AI for Social Good

- AI is full of risks (security, bias, hallucination, etc.).
- AI is full of ethical dilemmas (like robots replacing people).
- But the growing policy debate is around *responsible* AI.
- Credit unions have an opportunity to develop *people-centered* use cases.
- AI that *improves* the lives of people.



## AI for Social Dysfunction

- AI introduces security challenges, amplifying cyber risks.
- Unchecked AI can deepen societal biases, challenging fairness.
- AI's unpredictability risks data accuracy and trust.
- The debate intensifies around crafting responsible AI frameworks and designing AI with humanity at the forefront, ensuring technology serves to uplift rather than undermine.



#### CONCLUSION

## Financial Services and AI in 2025

- This is not the time to get stuck debating a dystopian future.
- AI is tool that can be used today.
- Let's learn how to **empower employees** with AI.
- Let's explore ways to **create value** with AI.
- Let's **advocate for social good** in the future of AI.



#### CLOSING THOUGHTS

## AI IS A DISCIPLINE NOT A PRODUCT

### Empower Your Future with Organized Data

- Preparing your data today ensures that AI can deliver personalized services, enhance operational efficiency, and provide robust risk management for your organization tomorrow.

### Tailor Your AI Approach

- Whether you choose to build, buy, or configure AI solutions, there's no one-size-fits-all. Assess your organization's unique needs, resources, and expertise to find the best path forward.

### Leverage AI for Innovation and Growth

- By strategically implementing AI, your organization can stay competitive, improve customer and user experiences, and drive future growth in an evolving financial landscape.



THANK YOU

## Acknowledgements

Filene thanks its strategic partners supporting the Center for The Credit Union of the Future, and for helping make this research possible.



5910 Mineral Point Road | Madison, WI 53705



## QUESTIONS?

[filene.org](http://filene.org)

Cortney Arnold

[CortneyA@filene.org](mailto:CortneyA@filene.org)

2:20 – 3:20 p.m.

# ALM Hot Buttons & Strategies for Success

**Marc Gall**, *Senior Vice President, BOK Financial*

FOR INSTITUTIONAL USE ONLY

# ALM Hot Buttons and Strategies for Success

WICPA / Financial Institutions Conference

May 13, 2025



Marc Gall  
Senior Vice President  
mgall@bokf.com / 866-440-6515

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- Interest Rate Risk Management
- Independent Model Validations
- Deposit/Decay Studies
- Investment Portfolio Management
- Asset / Liability Management (ALCO) Consulting

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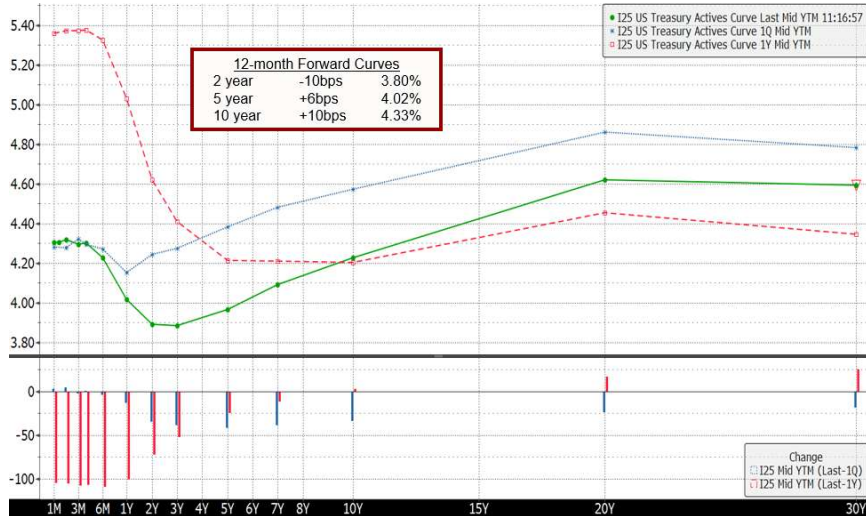
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## Session topics

1. Interest rate environment
2. Key assumptions in IRR modeling
3. Liquidity management and monitoring
4. Driving performance in 2025
5. Securities portfolio – investment allocation, possible sales / restructuring

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# Treasury yield curve



Source: Bloomberg as of 3-31-25

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# Key takeaways from March FOMC meeting

- Downgraded GDP Growth to 1.7% in 2025 & 1.8% in 2026
- Continues to project unemployment to be relatively steady
- Median forecast for PCE inflation, the Fed's preferred gauge, settles in the 2.0% range, but remains elevated in 2025 (Projected 2.8% vs December projection of 2.5%)
- Fed funds forecast the same as December at 3.9% year-end 2025, and 3.40% end of 2026

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, March 2025

Variable	Median <sup>1</sup>				Central Tendency <sup>2</sup>				Range <sup>3</sup>			
	2025	2026	2027	Longer run	2025	2026	2027	Longer run	2025	2026	2027	Longer run
Change in real GDP	1.7	1.8	1.8	1.8	1.5-1.9	1.6-1.9	1.6-2.0	1.7-2.0	1.0-2.4	0.6-2.5	0.6-2.5	1.5-2.5
December projection	2.1	2.0	1.9	1.8	1.8-2.2	1.9-2.1	1.8-2.0	1.7-2.0	1.6-2.5	1.4-2.5	1.5-2.5	1.7-2.5
Unemployment rate	4.4	4.3	4.3	4.2	4.3-4.4	4.2-4.5	4.1-4.4	3.9-4.3	4.1-4.6	4.1-4.7	3.9-4.7	3.5-4.5
December projection	4.3	4.3	4.3	4.2	4.2-4.5	4.1-4.4	4.0-4.4	3.9-4.3	4.2-4.5	3.9-4.6	3.8-4.5	3.5-4.5
PCE inflation	2.7	2.2	2.0	2.0	2.6-2.9	2.1-2.3	2.0-2.1	2.0	2.5-3.4	2.0-3.1	1.9-2.8	2.0
December projection	2.5	2.1	2.0	2.0	2.3-2.6	2.0-2.2	2.0	2.0	2.1-2.9	2.0-2.6	2.0-2.4	2.0
Core PCE inflation <sup>4</sup>	2.8	2.2	2.0		2.7-3.0	2.1-2.4	2.0-2.1		2.5-3.5	2.1-3.2	2.0-2.9	
December projection	2.5	2.2	2.0		2.5-2.7	2.0-2.3	2.0		2.1-3.2	2.0-2.7	2.0-2.6	
Memo: Projected appropriate policy path												
Federal funds rate	3.9	3.4	3.1	3.0	3.9-4.4	3.1-3.9	2.9-3.6	2.6-3.6	3.6-4.4	2.9-4.1	2.6-3.9	2.5-3.9
December projection	3.9	3.4	3.1	3.0	3.6-4.1	3.1-3.6	2.9-3.6	2.8-3.6	3.1-4.4	2.4-3.9	2.4-3.9	2.4-3.9

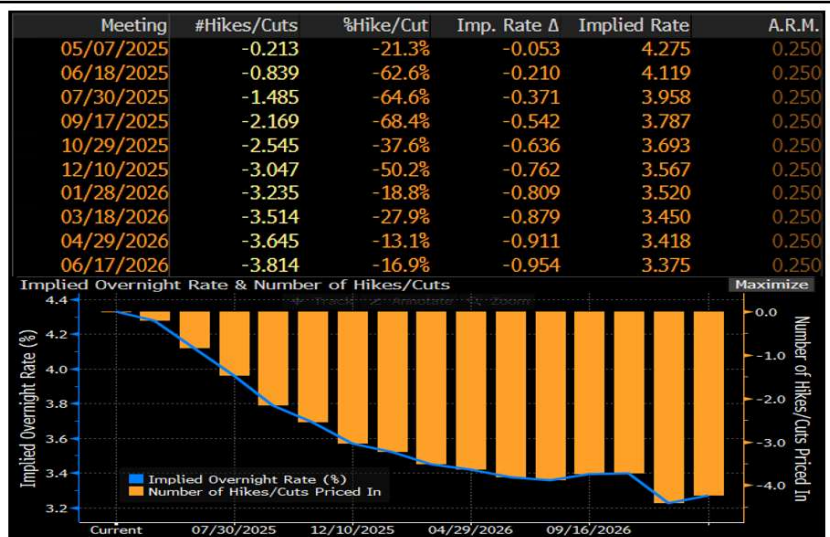
Source: Federal Reserve

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## Fed funds futures – a closer look

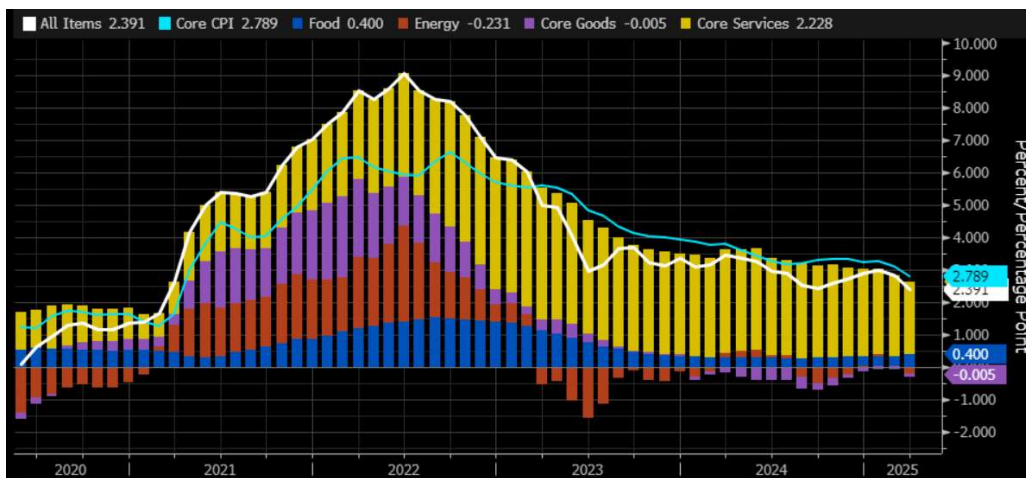


Source: Bloomberg as of 3-31-25

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## Why does inflation get so much attention?



Source: Bloomberg

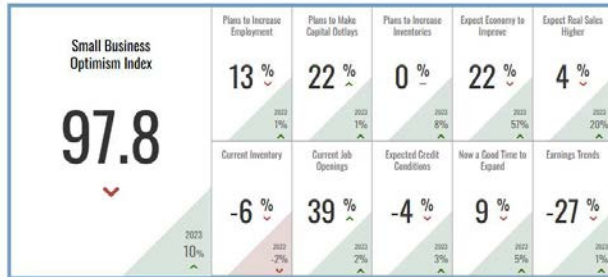
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# Small business optimism index – March 2025

- Month over month index dropped by 3.3 points

Index Component Levels and Percentage Change from Prior Year



Source: NFIB

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## #2

## Key assumptions in IRR models

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# Interest rate risk - assumption review

Deposit beta calculation, supporting data

**Figure 1 – Example Rate Data**

	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3
<b>Periodic Quarterly Average Deposit Cost</b>												
NOW	0.62%	0.61%	0.61%	0.67%	0.75%	0.87%	1.00%	1.16%	1.32%	1.47%	1.61%	1.74%
Savings/MMDA Cost of Funds	1.53%	1.50%	1.48%	1.49%	1.49%	1.50%	2.00%	2.33%	2.55%	2.68%	3.10%	3.30%
<b>Periodic Market Rate Indexes</b>												
Federal Funds Rate	0.94%	1.05%	1.38%	1.94%	1.97%	2.96%	3.35%	3.93%	4.09%	5.00%	5.05%	5.34%
3-Month US Treasury Bill Yield	0.92%	0.94%	1.27%	1.71%	2.22%	2.77%	3.06%	3.53%	4.20%	4.62%	5.02%	4.95%

Analysis of the data in Figure 1 might produce results such as those displayed in Figure 2. In this example, the results indicate that interest rates on the bank's NOW and Savings/MMDA accounts are driven by changes in the federal funds rate and 3-month Treasury bill rate, with deposit betas in the range of 25 percent to 42 percent.

**Figure 2 – Example Estimates of Deposit Betas**

	Federal Funds Rate		3-Month US T-Bill		Average Beta
<b>Regression Analysis</b>	Beta	R-squared	Beta	R-squared	
NOW	0.251	95.04%	0.264	95.39%	0.257
Savings/MMDA	0.396	86.47%	0.415	86.42%	0.405

Example summary of results:

Jan 2016 - Jun 2019 (Rising Beta)	Beta
NOW Accounts	-0.01
HSA Checking	0.01
Money Market Accounts	0.43
Savings Accounts	0.07

Jul 2019 - Mar 2021 (Falling Beta)	Beta
NOW Accounts	0.02
HSA Checking	0.07
Money Market Accounts	0.52
Savings Accounts	0.14

- How do you model in migration risk?

Source: FDIC

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## Market value of equity – conceptual example

### Asset

- › The bank makes a \$1 million 5 year fixed rate loan today at 7.00%.
- › Market rates on 5 year loans rise next year to 8.00%
- › If the bank had to sell the loan to someone else, the investor would not be willing to pay \$1 million for the 7.00% loan. They would pay something less, because new loans are at 8.00%. \*Loss\*

### Liability

- › The bank funds the loan above with a \$1 million 3 year FHLB borrowing at 4.00%
- › FHLB advances rates rise next year to 5.00%
- › If the bank could sell the advance to someone else, the investor would be willing to pay more than \$1 million for the borrowing at 4.00% because the new borrowing cost is 5.00%. \*Gain\*
- › Market value of equity uses the same idea on every item of the balance sheet. Asset Value – Liability Value = Equity. (Rearranged A = L + E)
- › Why look at MVE? Rate shock of income generally looks at a one – two year “window”. What risk exists outside of that window?

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## What's decay?

- "Institution specific" as this assumption is critical in market value of equity calculation
- One possible approach:
  - › Ideally review over a 10-year period (rising and falling rate cycles)
    - › Should more recent period be weighted more or only considered for assumption?
  - › Measure number of accounts closing in comparison to total at beginning of period
  - › Measure balance of closed accounts vs. total balance for that account type
  - › Need to take "surge" balances into account (assign shorter decay to these balances)
  - › Should a cap / max term be applied to results?
- Analysis is completed for non-maturing deposit accounts
  - › Money Market Accounts
  - › Savings Accounts
  - › NOW Accounts
  - › Checking Accounts

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## How are NMD assumptions used?

- Economic value of equity (net economic value) analysis is similar to a present value calculation
- Present value calculation uses:
  - Cashflow over future time horizons
  - Interest rate
  - Discount rate – typically an alternate funding cost (ex. if we did not have these deposits, what would the rate be on a like term deposit/funding option?)

### Hypothetical example

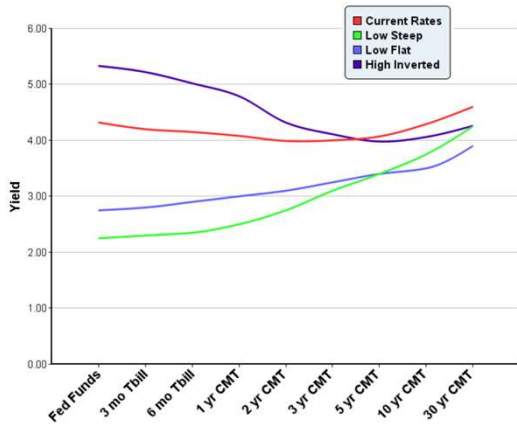
Period	Total Maturity	Interest Payment	Total Cashflow	Discount Rate	Discount Period	Discount Factor	Discounted Cashflow	Cashflow x Period
30 Jun 27	469	68	538	4.18	27	0.91039	489	13,214
31 Jul 27	469	70	539	4.18	28	0.90723	489	13,692
60 Dec 29	469	46	515	4.18	57	0.82020	422	24,078
61 2034	25,799	1,227	27,026	4.18	87	0.73895	19,971	1,737,493
	52,536						47,726	2,504,936
Current Balance:		52,536		Macaulay's Duration:		52.486	months	
Current Yield:		1.89		Modified Duration:		52.395	months	
Market Rate:		2.08						

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# Hypothetical non-parallel curve simulations

What could yield curve do from here?



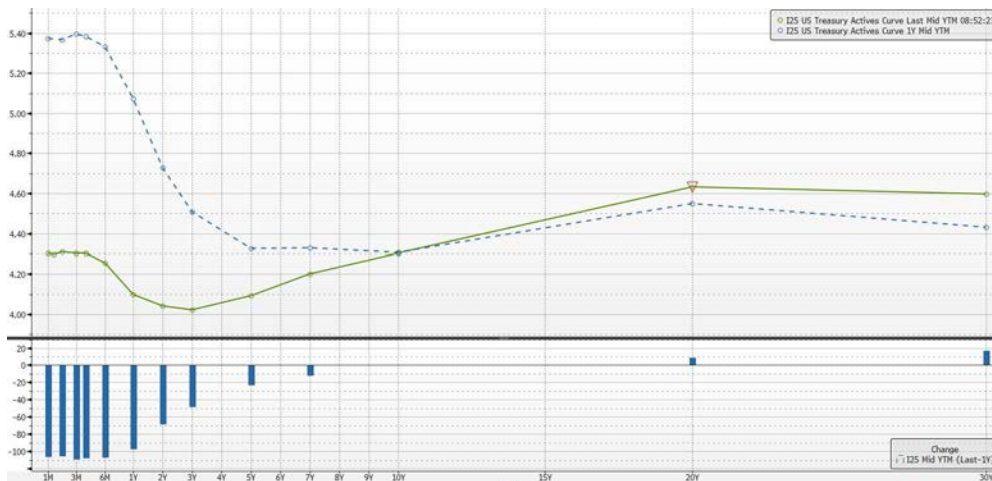
- While parallel +/- yield curve simulations are standard runs in IRR models, is an inverted yield curve likely to persist?

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# Historical reference

Vs. 1 year ago



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Source: Bloomberg

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# #3

## Liquidity monitoring and stress testing



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## Liquidity management

Hypothetical example of internal liquidity monitoring

Actual Fed Funds Sold 1-10-25	7,676,000
Securities Cash Flows (1/15)	101,658
Securities Cash Flows (1/16)	30,968
Securities Maturity	0
Investment Sales Settling	0
Loan cash flows	633,953
Loan Closings	-2,723,687
Loan Closings - SI (1/15)	-5,324,000
Investment Purchases Settling	0
Quickrate settling	0
DTC Settling--	0
Payoffs - HC	3,335,916
Brokered CD Maturities	0
Estimated Fed Funds Sold 1-17-25	3,731,926
Securities Cash Flows (1/21)	1,076
Securities Maturity	0
Investment Sales Settling	0
Loan cash flows	633,953
Loan Closings	-2,723,687
Investment Purchases Settling	0
Quickrate settling	0
DTC Settling--	0
Payoffs	0
Brokered CD Maturities (1/23) 1-DTC	-1,500,000
Brokered CD Maturities (1/23) 1-QR	-124,500
Estimated Fed Funds Sold 1-24-25	18,770
Securities Cash Flows (1/27)	210,236
Securities Maturity	0
Investment Sales Settling	0
Loan cash flows	633,953
Loan Closings	-2,723,687
Investment Purchases Settling	0
Quickrate settling	0
DTC Settling--	0
Payoffs	0
Brokered CD Maturities	0

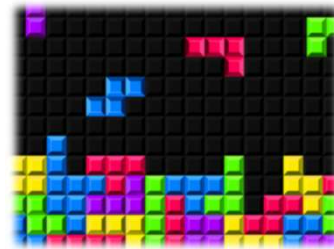
- Simple format of tracking sources and uses of funds internally
- Helps monitor liquidity needs internally on a more frequent basis than an ALCO model may be updated and be proactive in decision making/planning
- Examiners may ask for your internal sources and uses documentation/forecasting

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# Maximizing availability and collateral value

- Brokered / internet deposits – does not require collateral
  - Are you set up to use these sources?
- Municipal, large deposits – may require collateral, but some are not specific as to what type of collateral
  - Consider municipal securities for pledging, unless they can be used elsewhere
  - FHLB letter of credit for municipal deposits
- FHLB, Fed Discount Window may accept many types of loans as collateral (may take time to set up)



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# Liquidity stress testing, early warning indicators

- Stress testing frequency – more than just annual exercise
- Develop scenarios that would negatively impact the bank's ability to operate
  - Core deposit loss
  - Loss of large depositor (s)
  - Increase of loan funding
  - Impacts of falling below well capitalized
- Vary timing of events – short term vs. long term horizons

Hypothetical Early Warning Indicators

	Mar-24	Level 1	Level 2	Level 3
<b>Liquidity and Funding Needs</b>				
Primary Liquidity (On Balance Sheet)	29.15%	12.00%	10.00%	8.00%
Total Liquidity (On and Off Balance Sheet)	55.80%	20.00%	15.00%	10.00%
Net Loans to Deposits	73.32%	90.00%	95.00%	100.00%
Net Noncore Funding Dependence (\$250M)	0.00%	25.00%	30.00%	35.00%
Short Term Noncore Funding Dependence (\$250M)	0.00%	20.00%	25.00%	30.00%
Brokered Deposits to Deposits	0.00%	10.00%	12.50%	15.00%
Brokered Deposits to Assets	0.00%	15.00%	20.00%	30.00%
Listing Service Deposits to Deposits	0.00%	10.00%	12.50%	15.00%
FHLB Borrowings to Assets	0.00%	10.00%	15.00%	20.00%
FF Purchased to Deposits	0.00%	3.00%	5.00%	7.00%
<b>Capital</b>				
Common Equity Tier One Capital Ratio	15.76%	8.50%	6.50%	4.50%
Tier One Leverage Capital Ratio	10.25%	9.00%	7.00%	5.00%
Tier One Risk Based Capital Ratio	15.76%	12.00%	10.00%	8.00%
Total Risk Based Capital Ratio	17.01%	14.00%	12.00%	10.00%
<b>Capital at Risk</b>				
Classified Assets to Total Capital	1.06%	15.00%	25.00%	35.00%
Nonperforming Loans to Total Loans	0.20%	2.50%	3.50%	5.00%
Net Income (Loss) - Six Months	4,568,513	1,000,000	500,000	250,000

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# #4

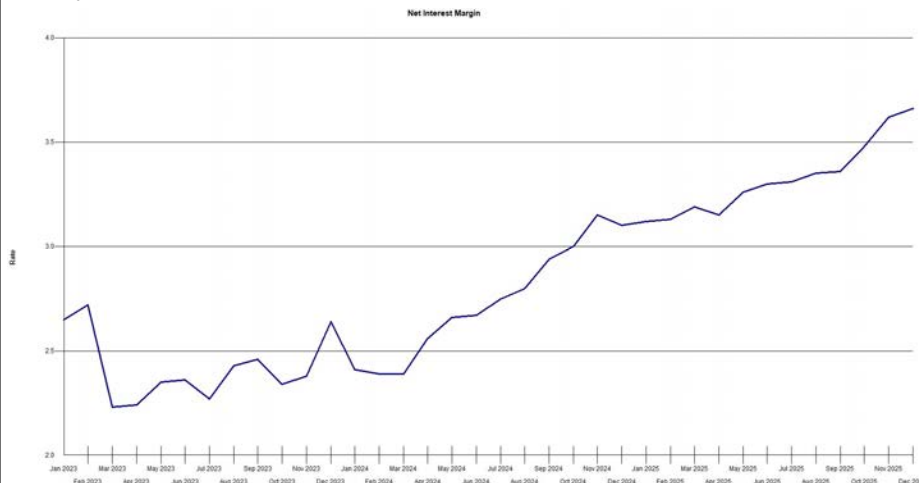
## Driving performance in 2025



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## Income tailwind due to repricing?

Hypothetical example #1



Margin profile could represent a bank with:

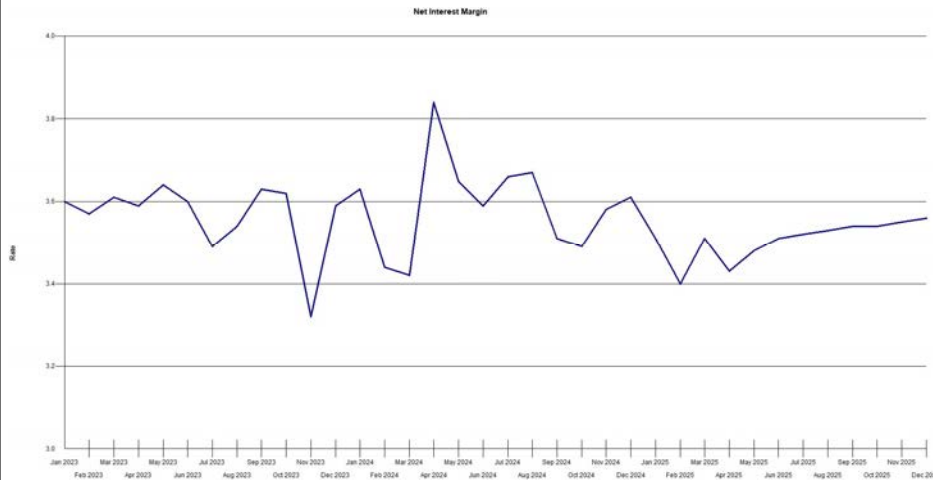
- Relatively higher cost of funds – which can fall due to recent Fed cuts
  - Could be heavier in higher cost money markets, CDs, municipal funds
- Loan / investment portfolio repricing to greater magnitude in later 2024 and 2025

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# Income tailwind due to repricing?

## Hypothetical example #2



Margin profile could represent a bank with:

- Moderate cost of funds
- Shorter duration loan portfolio (more variable vs. fixed) and excess cash on balance sheet

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# Drivers of performance - loans

How can your institution maximize opportunity this year?

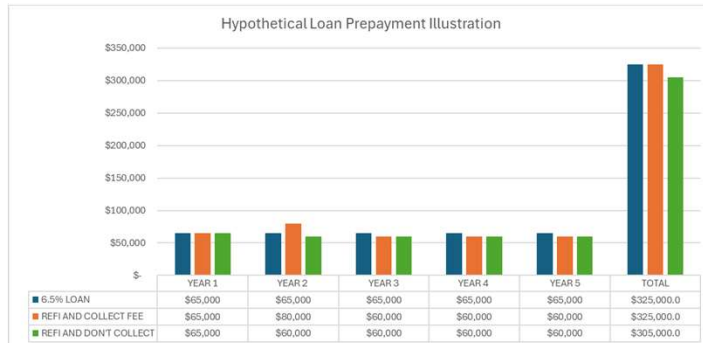
- Every basis point counts!
- As loans come up for renewal (balloon maturities), are loans being fully brought "up to market"?
  - Hypothetical example – maturity at 4.00%. Your typical pricing for credit/structure would be 7.25%.
    - Do lenders "meet in the middle" or raise the rate, but not as much to try and keep a client from having "too much" rate increase?
  - If interest rates fall, will your institution keep a consistent spread vs. index?
- Implementing and holding prepayment penalties in loans
  - In lieu of prepayment penalty, loan rate should reflect the option the client has to refi/payoff early

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# Prepayment penalty in practice

- Does your institution enforce a prepayment penalty if refinanced at your institution?
- If your penalty is 2%, how much of an impediment to refinance is that?



Hypothetical Example:

- Make a loan at 6.50%
- Solving for breakeven with a 2% penalty, after year 1...
- 2% penalty / 4 remaining years = 50 bps per year of savings to breakeven. (3%/4 years = 75 bps lower rate to breakeven)
- If customer can refinance at 6.00% or lower **and** the bank actually charges the 2% penalty (\$20,000), the customer would be in the money to refinance if rates fall below 6.00%

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# Drivers of performance - deposits

How can your institution maximize opportunity this year?

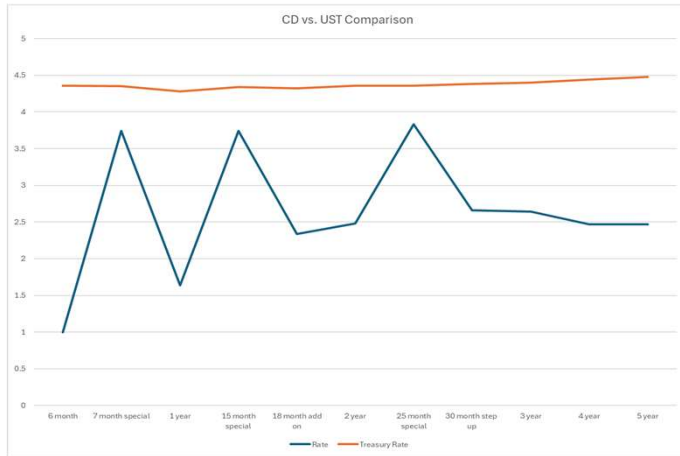
- Deposit pricing can be more art than science
- Do your rates need to be "highest in market?"
  - How close is good enough?
- Core deposit acquisition and growth
  - Does your institution have a strategy to grow core deposits
  - Potential replacement of higher cost wholesale with lower cost core deposits
- CD specials – how to get a reprieve from short and frequent repricing of CD specials?
- Every basis point counts!

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## CD rate sheet

When did you last adjust your “standard rates?”



Hypothetical illustration

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## Discussion on deposit products

1. Review your deposit account lineup
2. Examine how customers use your accounts (what is the purpose/utility for each?)
3. Differentiate rate on account based on #2
4. How much emphasis is placed on business/commercial deposits?
5. Does your institution selectively match rates (individually by customer?)
6. Prepare pricing plan if Fed continues to cut rates

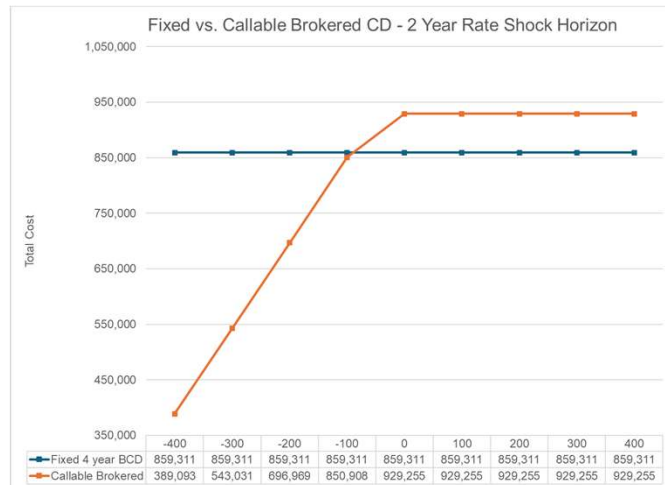
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# Callable brokered CD

Hypothetical illustration of \$10mm callable vs. non callable brokered CD

- 4 year non-callable brokered CD – 4.30%
- 4 year non-call 6 month brokered CD – 4.65%
- While the cost is higher for a callable compared to non-callable, the benefit is significant *if* interest rates fall and the call is exercised (callable cost includes amortizing the placement fee during this period)
- For interest rate risk position, this structure would help protect against rising rates, while providing cost savings in lower rate scenarios



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# FHLB fixed, callable and putable options

“Bank” in this example is FHLB, “Member” is your institution

Fixed Rate Advances				
Term	Community Advances	Regular Advances	All-in After Dividend*	Forward-Starting
1 week		4.46%	4.28%	
2 weeks		4.46%	4.28%	
3 weeks		4.46%	4.28%	
1 month	4.36%	4.46%	4.28%	
3 months	4.36%	4.46%	4.28%	
6 months	4.27%	4.37%	4.19%	
9 months	4.18%	4.28%	4.10%	
1 year	4.02%	4.13%	3.95%	3.98%
1.5 years	4.00%	4.10%	3.92%	4.02%
2 years	3.95%	4.06%	3.88%	4.08%
2.5 years	3.95%	4.06%	3.88%	4.13%
3 years	3.99%	4.09%	3.91%	4.19%
3.5 years	4.02%	4.12%	3.95%	4.24%

*Advances settle one year forward from today and then have stated term to maturity*

Fixed Rate Callable Advances (Member-Owned Embedded Option)				
Term	Lockout	Bermudan	All-in After Dividend*	Option Cost
2 years	6 months	4.70%	4.53%	0.65%
2 years	1 year	4.28%	4.10%	0.23%
3 years	6 months	4.85%	4.67%	0.76%
3 years	1 year	4.54%	4.37%	0.45%
5 years	6 months	5.20%	5.02%	0.96%
5 years	1 year	4.90%	4.72%	0.65%
5 years	2 year	4.61%	4.43%	0.37%

Fixed Rate Putable Advances (Bank-Owned Embedded Option)				
Term	Lockout	European	All-in After Dividend*	Option Value
3 years	6 months	3.56%	3.38%	-0.81%
5 years	6 months	3.44%	3.26%	-0.93%
7 years	6 months	3.42%	3.24%	-0.95%
10 years	6 months	3.47%	3.29%	-0.90%
3 years	1 year	3.61%	3.43%	-0.51%
5 years	1 year	3.46%	3.28%	-0.67%
7 years	1 year	3.42%	3.24%	-0.70%
10 years	1 year	3.45%	3.27%	-0.68%
5 years	2 years	3.61%	3.43%	-0.45%
7 years	2 years	3.51%	3.33%	-0.55%
10 years	2 years	3.48%	3.30%	-0.58%
7 years	3 years	3.67%	3.49%	-0.42%
10 years	5 years	3.84%	3.66%	-0.40%

Fixed Rate Callable Advances (Member-Owned Embedded Option)				
Term	Lockout	Bermudan	All-in After Dividend*	Option Value
5 years	6 months	3.13%	2.95%	-1.24%
7 years	6 months	2.95%	2.77%	-1.42%
10 years	3 months	2.74%	2.56%	-1.72%

Example, compare three year terms for illustration of value to the balance sheet, income statement

Source: FHLBC 4/14/25

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# #5

## Securities portfolio



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## Role of the investment portfolio

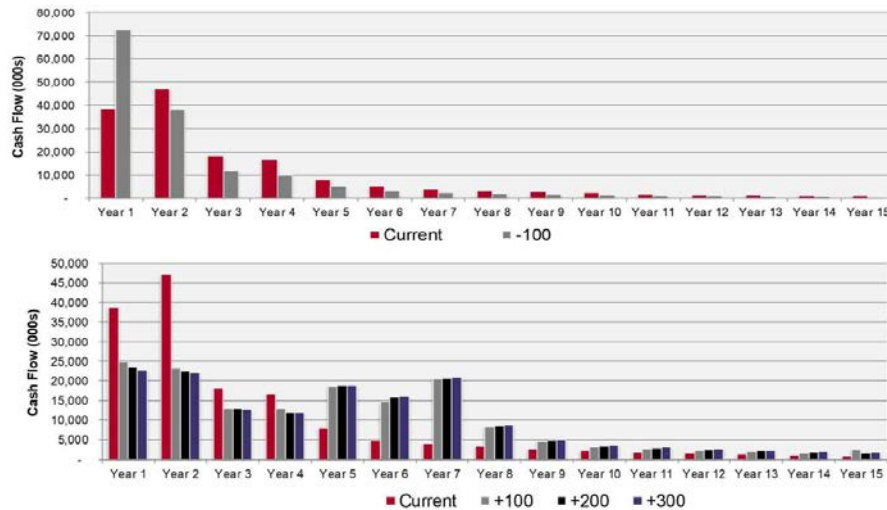
- **Liquidity source**
  - Place to earn on excess liquidity while waiting for loan demand to materialize
  - On – balance sheet store of liquidity
    - Unlike borrowing sources, bank's ability to use portfolio for funding is not contingent on the bank's credit position
  - When viewing portfolio within liquidity context, understand:
    - Cash flows
    - Extension/contraction risk
- **Earning asset**
  - Lower yield than loan portfolio, but higher liquidity and lower risk
  - View earnings/yield relative to holding cash vs. comparing to loan alternatives
- **Other Benefits**
  - Collateral for deposits or borrowing
  - Portfolio is a tool for managing interest rate risk

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## Diversification in the investment portfolio

Hypothetical illustration

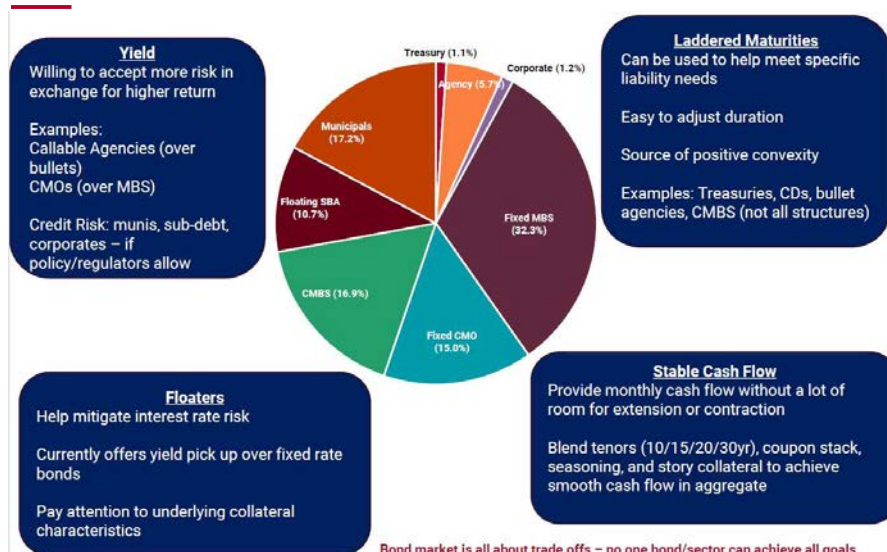


- Callable agency securities have very wide spreads and high relative yields... Why?
- At the money mortgages offer higher yields and spreads as well... Why?
- If interest rates fall from here, limiting optionality in bond purchases will help lock in these higher yields
- When do you want to receive cash back?

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## Considerations for portfolio allocation



Bond market is all about trade offs – no one bond/sector can achieve all goals

Hypothetical illustration

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## To reinvest or not...

- **Consider identifying a target portfolio size**
- **If you are not currently investing, when will be the “right” time to invest?**
  - If your institution has a portfolio with substantial cashflow over the next 12-24 months, what may the rate environment be like when bonds need to be reinvested?
  - Adding in all rate environments may help average into the market
    - Market timing is extremely difficult to get right everytime
- **Set a quarterly strategy to determine what types of securities and maturities fit the balance sheet position best**
  - Strategy can adjust from quarter to quarter

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## Now what?

### Hypothetical investment sale for funding

#### Analysis of current holdings

Bank owns \$3 million of agency maturing Dec 2026

Current book yield = 0.75%

Book price = \$100

Sell in the current market at \$94.25

Sale yield/market yield/give up yield = 4.18%

Loss on sale: \$172,500

#### Review of alternatives

1.75 year funding cost at FHLB (Chicago) = 4.14%

1.75 year brokered CD cost = 4.18%

Over next 1.75 years, the interest cost on new funding nearly equivalent to selling investment (loss + foregone income)

However, taking loss could be unappealing for budget reasons.

2025: Loss on sale \$172,500

2025: Interest cost on new CD: \$94,050

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# Now what?

## Hypothetical loan funding example

### Sale option

Bank owns \$3 million of agency maturing Dec 2026

Current book yield = 0.75%

Book price = \$100

Sell in the current market at \$94.25

Sale yield/market yield/give up yield = 4.18%

Loss on sale: \$172,500

### Reinvestment option

5 year loan = 7.00% reinvestment yield

Time to "recapture loss":

$\frac{\$172,500 \text{ (loss on sale)}}{7.00\% \text{ (reinvestment yield)} - 0.75\% \text{ (book yield)} * \text{principal proceeds}}$

= 0.97 years to recapture loss

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## Interest rate risk checklist

### Interest rate risk reporting with comparison to policy limits

- Include 1 year and 2 year rate shock of income, EVE
- *Is a non-parallel now most likely? Are our assumptions reasonable?*

### Listing of key assumptions used in the model and supporting documentation

- Pricing assumptions, deposit decay rates, prepayment assumptions
- With a recent rising rate cycle complete, confirm and update assumptions
- Need to be reviewed/approved by the board

### Alternative assumption testing

- How sensitive are model results to the assumptions used (input different assumptions and compare results)

### Liquidity stress testing

- Include sufficiently severe scenarios restricting use of brokered deposits, FF lines
- Review contingency funding plan, including any early warning indicators

### Independent Model Validation

- Completed by a party independent of the ALCO meeting
- Report with findings provided to the board

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## Key takeaways

- Understand where your income is headed, even without change in rates
- Is your balance sheet duration changing, by design or by demand?
- Examine deposit strategy for retention and cost of funds management
- Develop a mindset to maximize margin – every basis point counts!
- Consider taking losses in the portfolio as a funding option or to reposition for higher income
- Ensure completion and documentation of expected interest rate risk and liquidity management process

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Marc Gall  
Senior Vice President  
mgall@bokf.com / 866-440-6515

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3:30 – 4:45 p.m.

# Ethics & Decision Making

**George Heyman, CPA, CGMA**, *Professor Emeritus of  
Accounting & Economics, Oakton College*

# An Ethical Culture

## WICPA- FINANCIAL INSTITUTIONS CONFERENCE

13 May 2025

George A Heyman, CPA, CGMA  
Professor Emeritus, Accounting and Economics  
[gheyman@me.com](mailto:gheyman@me.com)  
847.553.6118

## RULES OF ENGAGEMENT

### (The Engagement Letter)

1. No Smartphones or Computers (confidentiality)
2. Make Connections – Network
3. Ask Questions
4. Consider Takeaways for Your Practice
5. Have a Good Time



## CULTURE

- Beliefs - Implicit assumptions (What are they?)
- Values – Norms, principles, and standards (AICPA Code of Ethics) (The story)
- Behavior – What we actually do
- Comfort – Fair and equitable treatment
- Belonging - Need to feel you belong because the culture is ethical

**“It is our choices that show what we truly are, far more than our abilities.”**

*- Harry Potter and the Chamber of Secrets, by J. K. Rowling*



## PROFESSIONAL CONDUCT

### Principles and Rules

- Integrity – trust , judgment, observation
- Objectivity – influence and unbiasedness
- Confidentiality – information – personal gain
- Competency – Channel your inner Sherlock  
a questioning attitude

## Making Decisions



1. People face trade-offs.
2. What people get is the cost of what they give-up.
3. Rational people make decisions on the margin.
4. People react to incentives.



Ethical decisions include:  
observation and prediction

## **SHERLOCK HOLMES**

KNOWLEDGE

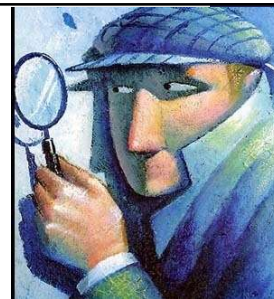
OBSERVATION

DEDUCTIVE REASONING

INQUIRY



## **Making Decisions**



Act as if everything depends on you.

Ethical people are aware and  
observant – they notice.

Influence and Accountability

## Ethical Behavior

- Rewarding ethical behavior
- Developing intrinsic ethical behavior
  - Can an ethical person have unethical behaviors?
  - Can guidelines keep people ethical?

## ETHICAL DIFFERENCE

I did **NOTHING WRONG**

VERSUS

I did the **RIGHT THING**

“While I do not believe I ever did anything illegal...I’ve done an awful, awful lot that was wrong.”

John Edwards on his acquittal/mistrial

100% legal – 10% ethical?  
Is doing the right thing the same as saying, “I did nothing wrong?”

## Description Of CPA Ethics



## ICPAS's *INSIGHT* Magazine

Spring 2013 Article, "Are You Ethical?"

1. Know thyself
  - [www.lifevaluesinventory.org](http://www.lifevaluesinventory.org)
2. Anticipate questionable scenarios
  - Talk about ethics with others
3. Get the facts
  - Ethical dilemma or misunderstanding?
4. Consider the consequences
  - Think short-term and long-term
5. Evaluate the tone at the top
  - Help create the tone
6. Be proactive
  - Act immediately



## ACCOUNTING ETHICS

Accounting means financial information

Reliable financial information helps educated investors and aids in decision-making

We are the guardians of reliable financial information

Accountability – authority and responsibility



# UNETHICAL ACCOUNTING

1. Exaggerate revenue
2. Provide misleading information regarding business expenses
3. Misuse funds
4. Misappropriation



## PURPOSE

Oversight bodies, those charged with governance.

- Entities manage resources & use authority properly in compliance
- Programs are achieving objectives
- Programs are effective, efficient, and ethical
- Accountability – responsibility and authority

## PROFESSIONAL CONDUCT

Accountability

Tone from the top → Modeling, Decision-Making, Hiring

Making decisions consistent with public interest → Integrity

Auditors place priority on responsibility to public

Proper use and prudent management of resources

Transparency → What, How, Why

## ETHICAL BACKGROUND

Ethics – From the Greek ethos, meaning character.  
Ethics is the study of how we make decisions

Intent and expectations

Ethics are the values by which human beings live in relation to other human beings, themselves and/or nature.

## RULE ETHICS

Emanuel Kant would say that consequences can't make actions right or wrong.  
The key question is: "What would happen if everyone acted this way?"  
Excuse – "everyone does it"

A good rule is one that:

Becomes universal and can be applied consistently  
and  
Is respectful of the autonomy and rationality of all human beings

Trade offs:

Promotion of self interest  
vs  
Protection of rights

**Does having rules make someone ethical?**

An ethical person will want to know the rules so that he/she can make informed ethical choices.

**The question is whether or not the rules and procedures are being applied ethically.**

## LAWRENCE KOHLBERG'S MODEL

1. Pre-conventional Level:

- People act out of fear of punishment  
There is no morality.

2. Conventional Level:

- People act to conform their behavior to the expectations of the group to which they belong.

**"I did nothing wrong."**

**"Everyone one else does it."**

3. Post-conventional Level"

- The individual understands the reasoning behind a moral principle.

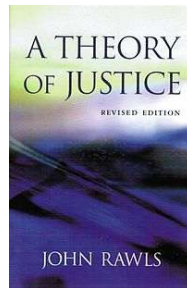
**"I did the right thing."**



## CONTRACT THEORY

John Rawls – American Philosopher 1921 – 2002

1. SOCIAL JUSTICE – All jobs should be open to talent (equal opportunity)
2. DECISIONS – Made behind a veil of ignorance
  - This "veil" blinds people to all facts about themselves and others so they cannot tailor principles to their advantage



## DISCRIMINATION

(1.400.10, 2.400.10, 3.400.10)

Violates any antidiscrimination laws

Includes sexual and other types of harassment

Is an act discreditable.

## PSYCHOLOGY

Ann Tenbrunsel – Current Notre Dame Researcher

Business professionals rationalize a “business” decision instead of an “ethical” decision; framework is everything

Business Decision

What might I gain?

How will it affect the future?

Ethical Decision

Is this decision fair?

Will people be hurt?

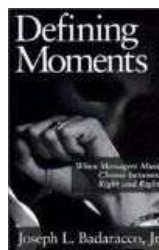


## ETHICS AND DECISION-MAKING

Ethics is not always making a decision between right and wrong

Ethics is also about making the key decisions between right and right

*Defining Moments: When Managers Must Choose Between Right and Right*



# Ethical Behavior

## GOLDEN RULE

Do unto others as you would have them do unto you.

What you want may not be what others want or need.

We would want people to ask us what we want or need so we should ask them.

Fairness is not equality. I am short if you have not noticed.

Equity and Equality. Wages.

## THE CODE OF PROFESSIONAL CONDUCT

1. Principles are ideal standards and are not enforceable. (Based in Philosophy)
2. Rules of Conduct are minimal standards of ethical conduct stated as specific rules. They are enforceable. (Ex. Independence)\*
3. Interpretations of rules of conduct. Not enforceable but you must justify departure. (Ex. Can an auditor accept a gift?)
4. Ethical rulings. Published explanations of questions asked to the AICPA. Not enforceable but you must justify departure.

## GENERAL STANDARDS

### Internal auditor's rules of conduct:

Integrity – perform with honesty, diligence and responsibility

Objectivity – appearance and fact

Confidentiality – prudent in use of information (protect it.)

Competency – necessary knowledge, skills and experience.

Professional Behavior

## GENERAL STANDARDS

- All things “technical!” When we think of ethics, rarely do we think technical standards.
  - ❖ Professional Competence
  - ❖ Due Professional Care (professional judgment & skepticism)
  - ❖ Planning and Supervision
  - ❖ Sufficient Relevant Data
  - ❖ GAAP
  - ❖ GAAS

## PROFESSIONAL CONDUCT

- The Public Interest (trust and responsibility)
- Integrity (can accommodate the inadvertent error and honest difference of opinion; it cannot accommodate deceit or subordination of principle)
- Due Care “The **quest for excellence** is the essence of due care.” – Professional judgment and skepticism
- Prudence

## CODE OF CONDUCT UPDATE

- Reorganize the Code of Conduct
  - Part 1: Public practice
  - Part 2: Industry
  - Part 3: Between jobs, retired, other
- Topics and Subtopics
  - Non-authoritative guidance issued by the AICPA will appear next to authoritative standards



Public – Ethical Conflicts

Business – Conflicts of Interest

Others – Acts Discreditable

## INDEPENDENCE

- Conceptual Framework
  - ❖ Independence of Mind
  - ❖ Independence of Appearance
- The most detailed section of our Code of Conduct

## Ethical Conflicts - Threats to Independence

- Obstacles created by internal or external pressures
- Conflicts in applying relevant professional and/or legal standards. (Fraud and confidentiality).
- Response: relevant facts and circumstances (including rules), issues, established internal procedures

ethical

## Public & Business – Ethical Conflicts Threats to Independence

- Adverse Interest – members interest opposed to employer (ex. Lawsuit against client)
- Advocacy – promote employer interest or position (IPO, expert witness, tax)
- Familiarity – too accepting of a person's word or sympathetic to a person (Close relationship)

### **Warning Unconscious biasness**

(Initial reaction - You can not tell me what to do! OR Don't tell me what to do.)

- Self-interest – benefit financially or otherwise (Loan)



## Public – Ethical Conflicts Threats to Independence (2)

- Self-review – will not evaluate work appropriately (previously made judgments)
- Undue influence – a member will subordinate his/her judgment and integrity to an individual due to that individual's position, reputation, or aggressive (dominating) personality
- Management Participation (old 101-3) – Directorship, client employees, responsible for client internal control

## Client and Customer Acceptance and Retention

1. Set expectations from the beginning
2. Client meetings should be two way interviews
3. Bullying



# Discussion

Your boss says to you...

“I am not telling you to do anything illegal. I am just telling you what I want done. It is up to you to figure out how to do it.”

Friend in Government

## Safeguards

- Legislative
- Training
- Culture – Expectations
- How and by whom the safeguard is applied – internal control
- Policies and procedures against discrimination and harassment
- Tone from the top
- Skepticism

## ETHICAL CASE FOR CONSIDERATION

Role → You are Mayor and as such, Liquor Commissioner...

Decision → Do you accept a gift from a tavern or not?



### Gifts – Judgement Concerning Relevant Facts

- Nature of the gift or entertainment
- The occasion of giving rise to the gift
- The cost or value of the gift or entertainment (Cubs vs. Sox)
- The nature frequency, and value of other gifts or entertainment
- A designated person in your firm to ask about any gift.

## **ETHICAL BACKGROUND**

Ethics –adherence to applicable regulations, laws, and professional standards

Be proactive – Hasbro and lead

Communication – policies and procedures

Documentation – who, what, when, how and why

Accountability – responsibility and authority

## **Ethical Challenges**

- Conflicts of interest
- Disagreement over a tax/accounting position
- Integrity
- Due diligence
- Reckless or intentional disregard of rules, laws, or regulations
- Client acceptance – Knowledge of client's error
- Confidentiality

## The Job

- Do it right the first time (saves time fixing issues later)
- Provide higher level of uniform quality\*
- Experience less conflict
- Keeping reputation intact leads to new and repeat business

\*W. Edwards Deming



## The Aura

1. Take accountability from the top-down
2. Make the message consistent
3. Encourage skepticism
4. Facilitate ethical behavior
5. Don't create a home for the 'Fraud Diamond'

## Accountability from Top-down

- Common vision and mission
- Prevent, detect, and correct with internal controls
- Prevent, detect, and respond to compliance and fraud issues

## Consistent Message

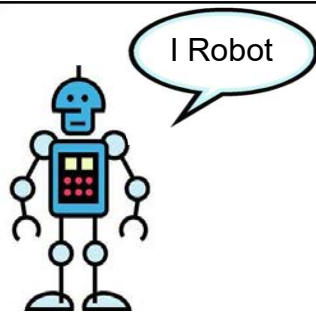
- Ask employees to repeat the mission to ensure consistency within the company
- Ensure employees know what is expected of them and where the **boundaries** are
- Let clients and customers know what your message is  
(Ex. Engagement letter, contracts, website, marketing materials)

# AI and CHATGPT

They can make useful suggestions.

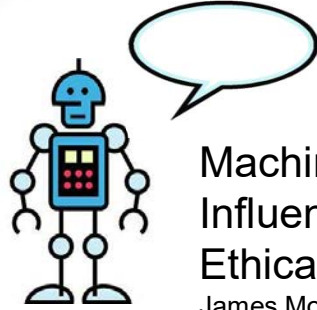
You need to make the decisions. They do not incorporate your personality or organizational culture.

A questioning attitude using complex problem solving, critical thinking, creativity and emotional intelligence is needed more than ever.



## Asimov Rules!

1. A robot may not injure a human being or, through inaction, allow a human being to come to harm.
2. A robot must obey the orders given to it by human beings, except where such orders would conflict with the First Law.
3. A robot must protect its own existence as long as such protection does not conflict with the First or Second Laws.



## Machines with Ethical Influences Ethical Agents

James Moor

1. Impact Agents: influence-intended or not – clock on time.
2. Implicit Agents: designed to avoid unethical and negative outcomes-security or safety-"the door is ajar."
3. Explicit Agents: algorithms to act ethically-drone to destroy military targets but must avoid nearby humans.
4. Full Agents: AI-machine that can make moral decisions and And can understand why it makes those decisions.

## REMOTE WORK

Confidentiality - passwords, public places, apartments

Productivity – clear goals and expectations

Equipment usage – business only?

Wellness – a mentor or someone to run ideas by

Fraud – segregation of duties



# Navy Commander

About mission commander on two boats  
accidently entering Iran's waters

"He lacked a questioning attitude, failed to  
promote a culture of safety, and disregarded  
appropriate backup from his staff and  
subordinate commands."

July 1, 2016

- What HAS Changed?
- What SHOULD HAVE Changed?
- Does it cause a Risk?
- **What is going to be your RESPONSE?**

## Danger, Accountant, Danger

It is most dangerous not to know  
what you do not know!!!!



## How do we know we are acting ethically?

***"Judge a man by the questions he asks –  
not by the answers he gives."***

Voltaire

**Ask yourself:**

Who will the decision help?  
Who will the decision harm?  
Why is the decision appropriate for the  
situation/time?

Sometimes the choice is between right and right!

## MORE QUESTIONS

Who am I? (Psychological)

How does it work? (Physical)

How do I make decisions? (Ethical)

People make bad decisions because they are pressured to do something that may be wrong.

They may have a bad attitude because they may feel things are not fair.

Also, they may have the opportunity.

How do I relate to other people? (Sociological)

## Four step ethical decision framework

**Step 1: Identify the dilemma and assess the potential risk to the organization, others and yourself.**

- What is the dilemma?
- What is the potential risk to others (clients, coworkers, your family, etc.)?
- What is the potential risk to the organization?
- What is the potential risk to you?

## **MORAL HAZARDS**

- 1. SEAT BELTS**
- 2. BLOCK CHAIN**
- 3. INTERNAL CONTROL**
- 4. DRIVERLESS CARS – TESLA**



## **ETHICS OF DRIVING**

- 1. Don't hit anything**
- 2. Be aware – notice things (Bus)**
- 3. Don't get hit by anything**
- 4. Stay out of other peoples' way**
- 5. Know what others expect you to do**
- 6. Let others know what you are doing- Be Transparent!**
- 7. Your decisions impact others**
- 8. For backseat driving...**



## PRACTICAL BEHAVIOR

An Ethical Person:

I messed up.

It won't happen again.

## ETHICAL PEOPLE

Can an ethical person have unethical behaviors?

Can guidelines keep people ethical?



Being ethical is doing the right thing...  
Even when no one else knows.



**Do the Right Thing!**

