A Compilation of Financial Accounting Case Studies

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by

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A thesis submitted to the faculty of The University of Mississippi in partial fulfillment of the requirements of the Sally McDonnell Barksdale Honors College.

Oxford, Mississippi

May 2024

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ABSTRACT

The case studies comprising this thesis place accounting in the context of the broader political and economic landscape. Through multimedia platforms and group discussions presented throughout the spring and fall semesters of 2023, I considered the interplay between legislation and business and reflected on the ultimate impact these events have on Americans. In-class discussions regarding references to current events, such as the war in Ukraine and impending legislation, prompted me to see the need to be well-informed if I want to be an effective auditor as well as a responsible citizen. In Case 1, I was offered the opportunity to learn about the ideology and impact of the teachings of two influential African American conservative economists Thomas Sowell and Walter Williams. The cases centered around the financial crisis of 2008 (Case 4), the failures of the Silicon Valley Bank (Case 3), and the unethical business practices in China (Case 6) created a dialogue surrounding the role of governmental and financial institutions in uncovering fraud and improving the ethics of business. I was challenged to think about how an accountant provides their professional opinion to confront these dilemmas in the financial world. The case studies addressing environmental, social, and governance (ESG) reporting (Case 2 and Case 8) considered the difficulties businesses face in reporting risks as well as the positive and negative impacts of future legislation on the way businesses operate. Additionally, in the ideation case challenge, I had the opportunity to collaborate with a team to generate an innovative presentation regarding the application of generative artificial intelligence and present my solution to a panel of KPMG professionals. Together, these cases provided me with valuable knowledge and equipped me with the cognitive skills to make me a well-rounded accounting profession.

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Case 1: Thomas Sowell, Walter Williams, and Larry Elder

Molly O’Connor

Honors ACCY 420- Spring

Dr. Vicki Dickinson

29 February 2023

Case Introduction and Summary:

The case began by introducing the gaps in our understanding of significant, influential people that shaped economic and accounting rhetoric. African American conservatives, despite having a profound impact on policy and thought, are often left out of discussions that they influenced and often pioneered. In class, we were presented with two documentaries; one concerning Thomas Sowell, "Thomas Sowell Common Sense in A Senseless World," and the other Walter Williams, "Suffer No Fools." We summarized their lives and then documented our insights regarding their work and legacies. The absence of an open discussion permitted us to form our own opinions and perspectives on the significance of these two great thinkers. Through the documentaries, I learned about the lives and intellectual careers of Sowell and Williams and the impact of their ideas in and beyond the realm of economics.

The second half of the case dealt with analyzing an article by Larry Elder titled "The Shameful Blackout of Thomas, Sowell and Williams," which concerned the exclusion of African American conservatives from political and economic discussions. The purpose of this resource was to allow us to expand our understanding of the unfair representation of African American conservatives.

I am beginning to understand the importance of having a holistic education influenced by thinkers from a variety of backgrounds and ideologies. A rich education is essential to forming a well-rounded outlook. I also understand the dangers of censoring political ideas from mainstream media. Censorship not only limits the development of constructive policies, but also can prevent the dissemination of diverse ideas.

Thomas Sowell:

Dr. Thomas Sowell was an African American economist known for his politically conservative views. His work spanned conversations concerning race, education, culture, and economics. He rose from humble beginnings in Gastonia, North Carolina during the Great Depression in a home without heat or electricity (*Thomas Sowell: Common Sense*). In Harlem, he attended the prestigious Stuyvesant High School; however, he was impelled to leave before completion. Sowell was drafted into the Marine Corps where he gained an appreciation for photography under the Combat Camera Corps. Following his military service, Sowell attended Howard University before being accepted into Harvard. He later pursued his master's in economics from Columbia University, then attended the University of Chicago for his PhD in 1968, where he was instructed by famed free-market economist Milton Friedman (*Thomas Sowell: Common Sense*).

Even while being taught by Milton Friedman, Sowell was staunchly Marxist. It was only through his employment with the U.S. Department of Labor that his ideology began to change to classical economic liberalism, including beliefs in laissez-faire economics and limited government. After years of professorship, Sowell ultimately joined the Hoover Institution and became a syndicated columnist and author (*Thomas Sowell: Common Sense*). He wrote on topics ranging from the impact of geography on cultures to the development of late-talking children and propagated the importance of access to education.

Walter Williams:

African American economist Walter Williams was a spirited advocate for conservatism, tackling divisive topics including civil rights, the minimum wage, education, and affirmative action. As Williams's father was not present, he was brought up in Philadelphia's housing projects by his mother (*Walter Williams: Suffer No Fools*). Despite the difficult living conditions, he was raised without the poverty mindset; as evidence, he worked hard and held several jobs as a youth. However, when he was fired from his job at a hat factory for violating child labor laws, he developed a belief that the labor department did not have his best interests in mind. He spoke against the negative effects of minimum wage, saying jobs should be available to youth and that minimum wage makes it more difficult for African American youth to find jobs.

Williams was drafted into the armed forces in the 1950s, where he encountered discrimination firsthand (*Walter Williams: Suffer No Fools*). After being forced to complete menial tasks and eventually being granted an Honorable Discharge for the hardships he endured, he attended college. In 1967, he graduated from the University of California at Los Angeles with a PhD in economics. In 1978, Williams spoke out regarding the negative effects of occupational and labor restrictions (*Walter Williams: Suffer No Fools*). He looked at the inflated costs of taxi medallions to cite how the lack of truly free markets ultimately hurts consumers and prospective entrants to the market.

Walter Williams was a professor at George Mason University, a columnist, and an author in his later life. Ever a champion of black entrepreneurship and free markets, Walter Williams reveals the importance of preserving liberty in the modern era.

Insights:

After viewing the documentaries on Thomas Sowell and Walter Williams, I am surprised by how I have never heard of either of these individuals in my academic career. Until now, I have only been exposed to a select few economists, mostly white males from prior centuries, such as Adam Smith, John Keynes, and David Ricardo. Upon reflection, I thought about how dated and narrow my economic education has been, especially given the amount of social and economic policy changes in the past century. It is essential to have a well-rounded perspective offered by people with diverse backgrounds to formulate assessments about the world. While knowing the foundations of essential economic theory is important, it is also crucial to note how theories are adapted and built upon given new socioeconomic conditions.

I was particularly surprised by Sowell and Williams's disadvantaged childhoods and how their situations were not a hindrance to their success. Both Sowell and Williams were raised in economically impoverished environments that one would associate with welfare benefits and government aid. However, neither Williams nor Sowell adopted the mindset that the government should bail one out of these situations or provide affirmative action to provide equal opportunity to "disadvantaged" individuals. Through hard work and dedication, they were able to break the poverty cycle in their households and obtain the first higher-level education in their families. Their intrinsic motivation really struck me because, given such disadvantaged beginnings, they were not deterred from applying themselves and moving forward. I realized it is less the environment and more the influential people instilling positive ideas in one at a young age that can truly alter your life's outcome. Without positive individuals encouraging Sowell and Williams to apply themselves, their lives and legacy would likely look vastly different.

I think Walter Williams's observation regarding the connection between the disintegration of the black family and the rise of poverty is especially perceptive. This correlation emphasizes why the welfare state is largely ineffective and stresses the importance of, instead, having a solid foundation of positive values and work ethic ingrained during one's upbringing. Williams brought to light that the welfare state disincentivizes hard work and self-sufficiency as people become reliant on government benefits. These values can affect the culture of a community by dividing families and propagating a cycle of systematic poverty. Williams made me realize that poverty is more complex than cause-and-effect actions taken by the government, and it must be looked at through the lens of the individual. A community functions differently from a market. It is impossible to enact a single policy that can take all the variables which determine systematic poverty into account. To me, this explains why the welfare state fails. The government is injecting money into households, encouraging living on the baseline, without truly targeting the source of poverty. I think fostering educational availability, such as through charter schools, as Sowell proposed, can ameliorate this disparity, and provide equality of opportunity.

I was inspired by Sowell and Williams's life experiences leading up to their professional careers and saw these early experiences as significant contributors to the development of their ideology. Through gaining experience in both the labor market and the military, Sowell and Williams developed economic and political views consistent with their experiences and observations. I was surprised that, despite being subject to discrimination and segregation in the military, neither Sowell nor Williams remained loyal to the political left. They allowed their observations over their prejudice to shape their economic theories. For instance, through empirical evaluation in his government bureau job, Sowell noted a relationship between increasing the minimum wage and increasing unemployment. Upon noting the government's indifference to this conclusion, Sowell began to incorporate conservative ideas into his economic ideology. Williams similarly looked to his former job as a cab driver and used statics to analyze the inflation of taxi medallion prices to explain the dangers of closed markets for consumers and workers. Sowell and Williams adapted their political views to align with economic indicators of what works instead of relying on gospel preaching radical and potentially destructive actions. I think this ability to logically pinpoint the root of injustice is rare in politics. The experiences

Sowell and Williams endured are likely why their rhetoric appears so honest and insightful; it comes organically from life more than leaning on prior theory.

I was also surprised by Sowell's work regarding how geography influences the development of cultures. Sowell upheld that the natural landscape has a profound impact on the way that culture develops. I was taught in high school that environmental determinism is not the traditionally accepted philosophy on why cultures developed differently. I was instructed that this theory is a racist way to legitimize colonization and imperialism. However, I think it was the way environmental determinism was used to justify immoral actions such as slavery or racial inferiority which gave the theory a negative connotation, despite the merits it may hold. It was interesting to see how Sowell used objective data to make his conclusions, looking at how the presence of ports and rivers facilitated travel and cultural diffusion and integration. I realized I shouldn't accept or reject a theory based on subjective interpretations. The value of empirical evidence can often triumph over insights made based on interpretation; as Sowell demonstrates, it is hard to argue with data.

Furthermore, Sowell and William's attack on the minimum wage intrigued me. When a minimum wage hike is announced, I immediately think it is a positive event. I assumed that with rising inflation should come an increased minimum wage to cover the cost of living. I believed that the minimum wage protects workers from unfair employment contracts and wage discrimination. I never considered that increasing the minimum wage could contribute to discriminatory practices. Sowell believes that employers will reject less experienced or lower-skilled workers deemed not worth the minimum wage, limiting their available job opportunities. I am skeptical of this philosophy, as I consider how individuals today making the minimum wage still struggle to cover the cost of living. If the minimum wage was eradicated or pushed lower, I wonder if poverty would decrease as Sowell and Williams advocate or if workers would instead be exploited.

Larry Elder and "The Shameful Blackout of Thomas, Sowell and Williams":

Larry Elder is a conservative political commentator and radio host. He hosted a radio show called "The Larry Elder Show," authored several political books, and commentated on several news programs (Genatossio, para. 2). In his article entitled "The Shameful Blackout of Thomas, Sowell, and Williams," Elder discussed how, despite the significant contributions of African American conservatives such as Thomas, Sowell, and Williams, they are rarely involved in discussions regarding politics, race, and equality. Elder illuminated the unfair exclusion of Clarence Thomas, acclaimed author and the second African American on the Supreme Court, from receiving adequate recognition for his contributions (Elder, para. 3). He also discussed how economists Thomas Sowell and Walter Williams, who contributed significantly to conservative economic literature, face similar disparagement. Elder described the dangers of race-based preferences, citing the inefficacy of affirmative action, and advocated for more open discussions in the black community regarding pressing issues plaguing Americans (Elder, para. 11). The author denounced the large cultural biases against African American conservative intellectuals and ultimately called for an end to the censorship of conservative voices in political and intellectual discussions.

Despite overcoming their disadvantaged upbringings, Thomas, Williams, Sowell, and countless other pioneers like them are still not sufficiently respected as role models in the black community. They are diminished and left without recognition because their conservative views are at odds with the liberal orthodoxy of the black community. Liberal African Americans view their attacks against affirmative action as hypocritical and illogical without looking at the effects of these actions. According to Elder, liberals claim Thomas was hypocritical for purportedly benefitting from affirmative action policies based on race when he was admitted to college but later spoke against such policies (Elder, para. 4). Thomas's critics ignore his intrinsic motivation, hard work, and academic prowess that would have guided him to success. Affirmative action and welfare have been such strong anchors for African American liberals that contesting these topics is almost unspeakable and not considered.

The deeply divided two-party system is mainly led by white conservatives and perceived racially sympathetic liberals. Since Thomas, Williams, and Sowell defy these conventions, they are viewed as radical and at odds with mainstream conservative political circles. The unwavering resolve and cutting rhetoric of Sowell and Williams are difficult to dispute but can be seen as abrasive and controversial. They have likely not received the visibility they deserve from the conservative party because of the preconception that they are too radical. Hopefully, politics will evolve to fairly include all qualified people in discussion and leadership, absent of racial biases. Until then, individuals like Sowell, Thomas, and Williams will remain excluded from the circles they so strongly contributed to through their intellectual careers.

This article opened my eyes to the dangers of having a closed mind in political discussions, and lack of inclusive political leadership. The conservative party is harming itself by not including more African American role models in the media, restricting its audience and appeal, and limiting the impact of its message. To have a healthy political system, individuals from all backgrounds and races should be encouraged and given exposure to participate in the party which aligns with their beliefs. Incorporating a variety of perspectives from people with different backgrounds is crucial for developing an all-inclusive approach to combatting the systemic issues of poverty and inequality.

When African American leaders such as Thomas, Sowell, and Williams overcome systematic barriers and rise to positions of influence, they deserve credit not just for their individual accomplishments, but also for the ways in which they are pioneering change and creating opportunities for others in their communities. These thought leaders are inspiring beyond their personal journeys; they wield their influence to advocate positive change for others and alter the status quo.

Article Reflection:

"The Shameful Blackout of Thomas, Sowell and Williams," introduced me to the reality that anti-African American conservative bigotry is more prevalent than just in the realm of economics but impacts politics as well. The documentaries introduced the idea that Sowell and Williams led influential lives with opposition, and the article laid bare who the most prominent dissenters of these figures are. It is the black community that is largely unreceptive to the preaching of black conservatives, and these biases have prevented them from being at the forefront of political and economic discussions. I came to realize how deeply ingrained party lines are, even in the modern era. The discrimination of Clarence Thomas provided an unnerving insight into how the black community is fearful of accepting opinions outside of the status quo, siphoning off talented and influential individuals from being acknowledged. I understand that my exposure to black conservative leaders in economics and politics has been limited due to this censorship. A lack of variety of individuals and beliefs robs society of intellectual enrichment and promotes a continuity of ineffective policy and outdated opinions. It is unfair that individuals warranting praise and discussion are relegated to the background of mainstream political debates. The article reinforced some of the topics in the documentaries, particularly regarding the inefficacy of affirmative action and race-based preferences. The article expanded my realization that many individuals make decisions on political figures extremely superficially, citing a candidate's party, but not their policies and goals, for their reason for disliking them. If influential black intellectuals are given more mainstream media coverage, perhaps they can build a stronger following of black conservatives and expose the public to solutions they might not have considered but may be life changing.

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Signed,

Case 2: Disaster Contingency Case

Molly O’Connor, Roderick Russ, James Waits

Honors ACCY 420- Spring

Dr. Vicki Dickinson

7 March 2023

1. Case Introduction and Summary:

The purpose of this case is to analyze the 2/3/23 Norfolk Southern train disaster in East Palestine, Ohio, looking at literature prior to and following the incident. We examined the shortcomings of the Norfolk Southern company, including reviewing Norfolk Southern's Environmental Social Governance (ESG) Report and citing the safety measures they have currently implemented. Next, we decided on the preventative measures that should have been in place before the incident occurred. We then discussed whether Norfolk Southern should be liable for the disaster and whether its compensation efforts were adequate. Next, we analyzed the disaster through the lens of an auditor, discussing the difficulties and risks in reporting after such a disastrous event and providing insights into what should be included in the annual report and financial statements and notes. Lastly, we looked at the political climate and the current Ukraine disaster through the eyes of East Palestine, particularly in relation to the current distribution of funds related to each event. Broadly, we learned how to interpret current events, policies, and regulatory actions to arrive at solutions and cultivate our perspectives on both corporate and governmental initiatives.

Through this case, we learned about disaster management and the measures that can be taken to mediate a disaster from the company's and auditor's angles. We learned about the dangers of insufficient infrastructure and auditing procedures, and how to critically analyze the measures a company takes in response to events with negative implications for the company's future as well as the surrounding environment.

2. ESG Report Findings:

Norfolk Southern’s most recent ESG Report was useful in providing overarching objectives and summarizing Norfolk Southern's economic and sustainability metrics; however, it lacked details regarding how to improve the internal operations of the company. In the ESG Report’s safety section, the authors briefly cite replacing most of the brake sticks in the field; this effort and Norfolk Southern’s ‘Safety Champion’ role are two specific ways Norfolk Southern attempts to curb accidents. On page 14 of the report, Norfolk Southern’s expanded use of mobile technology for enhancing field safety is sparsely referenced, but the specific technology is not named (“ESG Report”). Furthermore, each employee is given their own individual responsibility for identifying, eliminating, or safeguarding hazards in an attempt to prevent locomotive derailments and accidents. Safety management is additionally strengthened through increased employee involvement via improved communication between departments and the creation of specific operational safety goals for employees. The ESG Report does not showcase many specific methods for improving the core operations of the company. Much of the issues discussed focus on the responsibility placed on the employees as individuals in creating a sustainable and inclusive environment rather than instilling intensive and structured protocols for the company as a whole to prevent economic and environmental disasters. The ESG Report mainly provided the broad vision of Norfolk Southern, which involves reducing waste and cutting inefficiency to become leaner, more agile, and more sustainable.

3. **Sensor Technology:**

Electronically controlled brakes alone may not have prevented the crash; however, sensors on railcars that identify problem areas may be more proactive and cost-effective when it comes to detecting a disaster (Black, para. 8). This sensor technology discussed in the article “Rail Industry Pushes Sensors Over Brakes After Ohio Train Crash,” is not explicitly referenced in the ESG Report. The ESG Report mainly references sustainability measures, climate, and human rights. The article states the ways in which the train technology itself should be regulated and improved to enhance safety, while the ESG Report looked at broader goals of achieving long-term sustainability and minimizing the footprint of large energy-expending companies. Additionally, the ESG Report of Norfolk Southern focuses largely on each employee practicing safety measures as opposed to the safety measures taken with the equipment itself being used (“ESG Report,” para. 26).

4. **Responsibility and Compensation:**

The first step in assigning compensation to the citizens of East Palestine is obtaining proof that the population illnesses and wildlife deaths are a direct or indirect result of the train derailment and subsequent chemical exposure. For instance, more than 43,000 aquatic species purportedly died due to the disaster (Buhay, para. 2). Locals also suffered, developing bronchitis and other symptoms soon after the incident (Etienne, para. 1). Once the link between the wreck and the damage is confirmed, Norfolk Southern should be held financially responsible for the reparations. The total amount assigned to compensation should include the medical costs required to treat the linked illnesses, as well as the wages and profits lost due to citizen illnesses that prevented work. Furthermore, compensation for how resale home values decreased from their prior market value should be a consideration. Additionally, Norfolk Southern should be responsible for the finances required to ensure untainted water systems for the community, in addition to rebuilding the wildlife population that has already perished as a result of the toxic release. An Environmental Protection Agency (EPA) site survey should be used to determine the total wildlife loss and damage to the area. Without this intensive compensation, the small-town economy will suffer greatly, and the complex wildlife ecosystems of the area could face unrecoverable losses. For an estimate, if the roughly 5,000 affected residents each required $10,000 worth of medical expenses, lost wages, and damages, Norfolk Southern's compensation for the residents alone would total $50 million. On top of this amount, environmental restoration and payment to businesses are going to add significantly to the cost of damages.

5. **Sufficiency of Norfolk Southern's Compensation:**

The Chief Executive Officer (CEO) of Norfolk Southern recently pledged $6.5 million to help those in East Palestine, Ohio, affected by the train derailment (Isidore, para. 2). The amount of $6.5 million averages out to just $1,300 per person in East Palestine, which is unrealistic and insufficient. However, in plans earlier this year, it was revealed that they plan to spend $7.5 billion to repurchase their own shares in order to benefit their shareholders (Isidore, para. 5). Meanwhile, the company also has $1.1 billion in insurance coverage that it can use to aid the affected third parties and $200 million in insurance to cover the affected loss of property (Isidore, para. 4). The amount of compensation already assigned to East Palestine is not sufficient to meet the needs for compensation listed above. The shareholders should not be rewarded for their investment in a company that has caused irreparable damage to a community. Norfolk Southern is only offering $6.5 million to help, while they spend more than 1,000 times that on stock repurchases, and they have more than enough insurance to help the community but choose not to do so.

6. Auditor Assessment:

The risks as Norfolk Southern's auditor include estimating amounts with unknown liability for remediation efforts, damages, compensation, and capital losses. Generally accepted accounting principles (GAAP), requires auditors to record probable contingent liabilities for future settlements in financial statements (Ross, para. 1). These contingent legal or environmental liabilities must meet two criteria to be disclosed: they must be more than 50 percent likely to occur and can reasonably be estimated (Ross, para. 2). To test and verify the accuracy of the assessments, auditors should consult legal advisors as well as look at how similar situations were handled in past financial statements and legal situations. As an auditor, disclosing the full amount of environmental liability incurred is difficult to estimate and report. With new ESG reporting standards being implemented, the role of an auditor as a provider of verification and assurance is made more difficult due to the scale and complexity of issues contained in the ESG bubble, many of which are impacted by a disaster such as the train derailment in East Palestine. The liability estimate should include remediation and compensation efforts which should also be disclosed in the notes of the financial statements. Required equipment inspections should be performed to ensure the trains' operations are reasonably safe. Noting depreciated equipment and obsolescence is a necessary responsibility of the auditor. All members of the train crew should be reasonably trained, compensated, and informed, especially if they are carrying hazardous materials. Impairment tests should be performed on short-term and long-term assets. The auditor should estimate the long-term financial implications of the disaster regarding insurance, environmental recovery, and asset impairment and include this information in the notes. Effective audit procedures for the upcoming audit, particularly concerning ESG, should include verification of the necessary inspections, depreciation, and training listed above. In order to verify Norfolk Southern's financial statements as an auditor, there must be unquestionable confidence that significant operational and cultural changes have been implemented to ensure that similarly disastrous events do not reoccur.

Norfolk Southern must address the East Palestine disaster in the next annual report. Within the report, there should be a clear synopsis of what incited the disaster, as well as the significant operational changes and community reparations that have subsequently occurred as a result of the disaster. Regarding the financial statements and notes in the annual report, the significant losses and community compensation payouts must have significant accompanying notes that clearly distinguish the event from typical operational losses.

For financial statement line items that should be used to account for the current and future ramifications of this disaster, the expense account on the income statement should be examined as the expense accounts will include insurance claims, legal fees, and property damage. On the balance sheet, the damages resulting from the accident and the environmental cleanup cost should be recorded as either a current liability or a long-term liability. The footnotes should include any significant legal claim that the company is currently faced with.

7. East Palestine's Perspective:

If we were residents in East Palestine, Ohio witnessing hundreds of billions of taxpayer dollars going to the war in Ukraine, we would be irate with the Biden administration, as well as Norfolk Southern. With Norfolk contributing what seems to be the bare minimum to combat the negative effects of the derailment, there needs to be some type of help from the government– whether it comes from a monetary contribution from the government or the government enforcing Norfolk Southern to pay more in damages to the East Palestine community. With hundreds of billions of dollars of taxpayer money going to the war in Ukraine, a nondomestic war in which the United States is not directly involved, as struggling members of the East Palestine community and as United States citizens, we would expect some form of adequate financial contribution from the government to ensure that our community is safe and repaired justly. While the war in Ukraine is important for foreign affairs, just one one-thousandth of the money being spent to combat the war in Ukraine would be more than enough capital to help the community get back on its feet. As East Palestinians, we would definitely expect some help from the government as this is a major local tragedy that needs to be dealt with swiftly.

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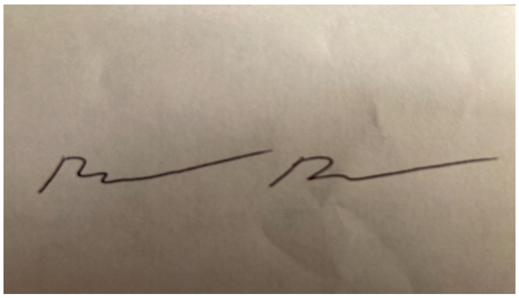

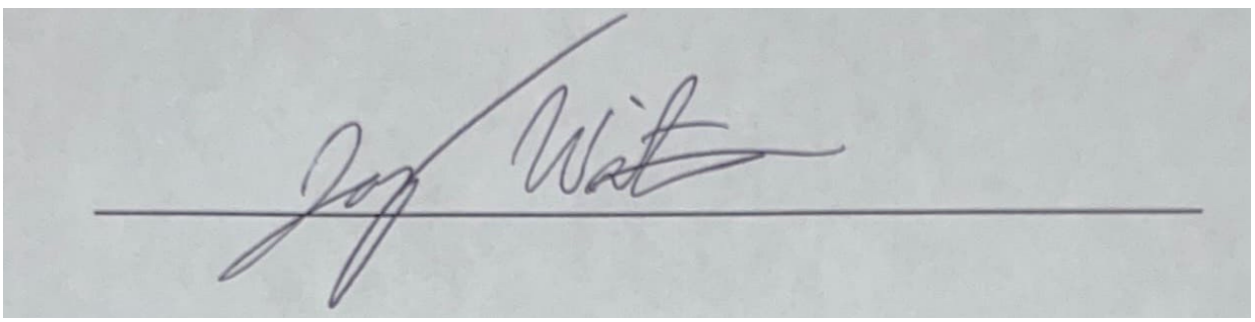

Case 3: Silicon Valley Bank Crisis

Molly O’Connor

Honors ACCY 420- Spring

Dr. Vicki Dickinson

5 April 2023

Case Introduction and Summary:

This case uncovered unsettling trends in the economic environment, showcasing the adverse effects of nontransparent financial reporting, rampant inflation, and government spending. The case began analyzing the crisis on a balance sheet level, looking at how banking institutions' mismanagement and uncomprehensive reporting of assets can have disastrous implications for the firm. During the case, we examined the various failures of Silicon Valley Bank (SVB), including those on the part of management and auditors. We then broadened the discussion to examine how the banking crisis fits within the broader scope of America's economic situation. We analyzed the growing government deficit, pinpointing the areas which have experienced the most growth in expenditures in recent years. We then discussed inflation and ways the government could enact policies to arrest its increase.

The discussion aimed to encourage critical thinking and foster a difficult conversation regarding the future of the economy and what can be done to prevent further damage. An impending recession has widespread implications for the health of the economy. This case is exceedingly pertinent because the economy is inescapable; regardless of where we end up in life, we will bear the effects of monetary policy and fiscal spending. As future and current taxpayers, it is our job to be informed regarding the current economic atmosphere and educate ourselves regarding current events to become better-informed voters and leaders in society. Ineffective policies have the power to shape more than our disposable funds; they also affect the way we plan our careers and futures. There are no easy answers regarding financial policy; long-term solutions require uncomfortable short-term trade-offs. In the end, there is no way to eliminate an economic downturn, but if the right policies are in place the economy has a chance to stabilize and prosper in the future.

Effects of Economic Crises and Proposed Monetary and Fiscal Solutions:

In the past month, Silicon Valley Bank in California collapsed due to poor management of its long-term securities accounts, raising more concerns about the health of the U.S. economy (Morrow, 2023, para. 2). The collapse of financial institutions such as SVB points to inadequate reporting regulations and may exacerbate the deterioration of an already ailing economy. The 2008 lending crisis, along with the poor policies of financial and non-depository institutions, illustrated that the banking system plays a crucial role in the well-being of the economy. Therefore, it is important to closely examine the failures of Signature Bank in New York and Silicon Valley Bank to project the long-term effects of these recent bank failures. Since Silicon Valley Bank was a creditor to major technology industries, its collapse will likely stunt the growth in this sector and reduce the ability of critical firms to secure credit (Morrow, 2023, para. 7). Furthermore, SVB's collapse will likely negatively impact the housing market by decreasing home values. When banks with large deposits fail, this often leads to a contraction of the economy, a reduction in consumer confidence, and an increase in financial uncertainty. If critical industries go bankrupt from lack of solvency, then unemployment will likely increase, thus worsening economic conditions.

Through the discussion, I learned there are several indicators that foreshadow future economic uncertainty in America. Unchecked rising inflation poses a threat to the economy as it weakens consumer purchasing power and strains resources. Inflation is so destructive because it damages consumer confidence and can often lead to higher interest rates imposed by banks to counteract its effects, further discouraging spending and investment. As the federal deficit continues to grow and government spending increases, I fear the long-term increased burden on taxpayers as well as the U.S.'s potential insolvency against its foreign creditors and domestic investors. Additionally, the recent collapse of the globally important foreign bank Credit Suisse in Switzerland has shaken investor confidence and impacted U.S. domestic firms with investments overseas (Thompson, 2023, para. 3). I think these factors, along with the recent SVB crisis, will likely lead to a recession characterized by an increased rate of unemployment, as well as reduced investment, spending, and revenues.

The Federal Reserve has already taken monetary action to minimize the effects of the crisis by bailing out uninsured depositors in SVB and increasing loans to the struggling bank (Smialek, 2023, para. 8). This action was necessary, in my opinion, as it likely prevents a systematic banking crisis, at least in the short-term. The Federal Reserve can also conduct some open market purchases of securities to stabilize the banking system by providing liquidity and more available credit. To prevent future failures, the Federal Reserve should implement stricter risk management policies and require banks to hold higher levels of capital to aid in liquidity. What the government should do with interest rates depends on whether they want to recalibrate the banking system or combat the broader issue of rising inflation. Increasing the interest rate with contractionary monetary policy shifts the economy back toward price stability by reducing demand in the market, thus curbing inflation. However, to aid the banking system following a significant crisis, monetary policy is contradictory: lowering interest rates stimulates borrowing and investment for banks.

Regarding fiscal policies Congress could enact, I think fiscal tightening in the form of cutting government spending and the rate of printing money is the best course of action. Where to cut spending is a daunting task. Perhaps welfare, foreign aid, and work entitlement programs need to see cuts in the upcoming years, but the costs of the cuts to American taxpayers need to be weighed with the economic benefits (Edwards, 2023, para. 7). Tax cuts leave financial agents with more disposable money and are another option for stimulating the economy in the short run. However, Milton Friedman explained that if a corresponding reduction in government spending does not accompany tax cuts, then the deficit will only increase, and this will lead to prolonged economic instability (Massey, 1979, 0:39:30). Additionally, Congress could also consider implementing regulatory reforms as a preventative measure against future banking collapses like SVB by increasing oversight and banking regulation standards.

Personal Impact of Recent Economic Crises:

With impending fiscal uncertainty, many companies are reducing the number of interns they are hiring and cutting expenses. I am exceedingly lucky to have accepted an internship before the recession sets in. These events will almost certainly have negative effects on my career in the future, affecting salaries across the country, job security, and the way I budget and plan. I saw the strain my parents went through during the 2008 recession; their savings account was eliminated, and they had to severely reduce their expenses and alter their lifestyles. I have considerable anxiety about starting my career in this quicksand environment where I will be trying to subsist over save. Making sure that I give my full effort to establish myself as a dedicated, dependable employee, especially for the beginning of my career, will be my top priority. Companies will likely eliminate employees they find dispensable first; as such, if I am able to network effectively and establish good working habits, I believe I will be more likely to advance in my job. I am anticipating how difficult it will be to pay for rent and bills on a starting salary in these conditions.

In preparation for the recession, I have made the decision to intern close to home so I can save on rent to build an emergency fund for my first couple of years starting out. My thinking towards having a career has shifted from viewing work as something obligatory to something empowering; financial freedom truly provides the foundation for individual freedom. Without feeling secure financially, it is difficult to discover what I truly find fulfilling in my professional and personal life. I also question if the economic difficulties will affect my decision to have children in the future. I hope that is not the case, but I am hesitant to start a family if I do not have the resources to do so.

Changes in Accounting and Auditing Rules:

Given these recent occurrences, I think there should be changes in accounting and auditing rules. As of now, a company is only allowed to declare a long-term security as held-to-maturity if it has the 'intent' and 'ability' to do so (Kieso et al, 2019, Chapter 17). Evidently, SVB lacked the intent, preferring the appearance of short-term profitability at the expense of substantial long-term losses. I think the FASB should hold specific standards to what 'intent' really means; as of now, the definition is vague and easily disregarded. Potentially, a company should report unrealized gains and losses on held-to-maturity securities just to error on the conservative side of financial reporting.

Furthermore, I think auditors should be required to perform sensitivity analyses to project what would happen if firms sold held-to-maturity securities before their maturity; this will give an in-depth illustration of the future profitability of a firm under changing conditions. Because it is also an auditor's duty and moral responsibility to notify shareholders when a company's 'going concern' assumption is under threat, stronger penalties should be imposed on auditors who fail to identify these risks to a company's long-term health. Auditors should examine more than financial statement information, including a company's risk management plan and system, as well as internal controls that may signal an institution's instability. Tighter regulation and supervision by the agencies that oversee banking operations, such as the Office of the

Comptroller of the Currency (OCC), may also prevent future collapses. Supervisors should make sure that banks and companies are liquid enough to meet their current debts and are not undertaking measures to distort their profitability. Audit quality and scope should be enhanced to increase transparency to allow investors to gain a holistic vision of a firm.

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Signed,

Case 4: Financial Crisis

Molly O'Connor

Honors ACCY 420- Spring

Dr. Vicki Dickinson

12 April 2023

Case Introduction and Summary:

Governmental and financial institutions have historically enacted policies that not only failed to prevent economic crises but fueled them. This case dealt with the multiple failures of these institutions by exploring the causes and effects of the 2008 financial crisis. Risky lending practices and mortgage securitization were not the only factors feeding the crisis. The deeply rooted conflicts of interest affecting multiple presidencies also played a predominant factor in the financial crises. The 2010 film, *Inside Job,* looked at how officials colluding with financial institutions led to the creation of policies counter to the interests of the American people. The film highlighted the lack of accountability for those responsible and warned about the dangers of a future crisis. The 2009 article published in Rolling Stone magazine, "The Great American Bubble Machine," scrutinized the investment bank Goldman Sachs for profiting off the United States' various financial bubbles. The article also looked at how the close relationship between Goldman Sachs and the U.S. government unethically interfered with policymaking.

The materials in this case inspired me to question my faith in our nation's policymakers and leaders. I was shocked by the extent to which large financial institutions intermingled with government policy over time. At points in America's history, the division between financial markets and government oversight has been too blurred to be distinguishable. I was surprised at how, even with the prevalence of warning signs, government officials continued to push laws and agendas which benefitted large institutions and fed growing instability. This case allowed me to draw parallels between the landscape leading up to the financial crisis and our current one to critically analyze what the government can potentially do in the near future to soften the effects of a potential recession. I am also beginning to understand how this crisis will affect me and what my role should be as an informed citizen in turbulent times.

Trust in Government and Financial Institutions:

My faith in financial institutions and the government was called into question when the film discussed the unethical economic practices starting in the 1980s. During the time of deregulation in the Reagan administration, regulatory agencies which were intended to oversee financial institutions became influenced by them. When corrupt policy invades the market, big businesses, government officials, and lobbyists all profit at the expense of the average American.

Among the factors fueling the 2008 crisis was the rapid influx of banks issuing collateralized debt obligations (CDOs) backed by subprime mortgages, which should not have been permitted under risk-mitigating legislation, yet it was running rampant (Ferguson, 2010). Ratings agencies also lacked critical oversight, evident by the rapid rise of AAA-rated instruments (Ferguson, 2010). The lack of government intervention in these cornerstone industries was concerning; predatory lending and fraudulent mortgage schemes were allowed to occur unchecked. Was the government afraid of interrupting a period of perceived prosperity, were they ignorant to the effects of these policies, or were they influenced by institutions in which they had a vested interest? The film and article dealing with Goldman Sachs have led me to assume the latter.

From the Great Depression to the 1990s technology bubble, and again with the 2008 housing bubble, Goldman Sachs inflated financial bubbles and then profited from economic collapses (Taibbi, 2010, paras. 5-10). Key officials from Goldman Sachs have occupied positions in the U.S. government, shaping policy for the detriment of the American people. Goldman Sachs was evidently aware of the conditions and exploited its knowledge to gain a profit under the protection of its insider status. While American homeowners suffered losses from their investments, Goldman Sachs was reaping copious profits in 2009. There was a sickening lack of accountability by firms, banks, or government officials. Many insider traders and lobbyists were left unprosecuted or, worse, rewarded. I no longer fully trust either the institution in which I deposit my money or the government that guarantees the safety of my investment. Insider information and unethical relationships between banks and government agencies have distorted the objective operation of the market.

Could disaster have been mitigated? Leading up to the financial crisis, there were very clear signals that the U.S. economy was in a precarious position. When Raghuram Rajan, a critical economist for the International Monetary Fund (IMF), voiced these concerns, the U.S. Treasury Secretary immediately dismissed him (Ferguson, 2010). Economists act as the key conduits for foretelling the defaults in economic regulation; therefore, the historical failure of government officials to listen to economists is troubling. I question how many truly faithful civil servants exist today who have the proper economic education to formulate policies serving the interests of the American people. If policies curbing unethical lending practices and imposing tighter regulations on banks had been enacted sooner, perhaps the 2008 bubble would have never grown uncontrollably and burst.

My Role in Society:

These materials made me realize that I cannot blindly place my faith in financial institutions. I need to analyze economic trends and statistics in tandem with economic literature to form a more informed viewpoint concerning the nature of the economy. I want to participate more in the economy that I am undeniably affected by. It is impossible to escape policy: it infiltrates the tax on the goods you purchase to the investment sitting in the bank. I want to write to my senators and voice my concerns, contributing at least a little to the discussion. Personally, I feel hurt by the reckless and ineffective behavior of the government in times of crisis. I feel like I am at the mercy of policies created by people without my best interests in mind.

Professionally, I see that my role as a future accountant is critical. I need to act as a whistleblower when I see unethical actions or collusion taking place. Accountants have the power to disclose financial concerns before they spell disaster for the firm and, consequentially, shareholders. I need to pay special attention to areas of risk and practices that distort a firm's financial position to enhance its appearance of profitability. I want to provide individuals with the financial information they need to make informed investment decisions.

Parallels Between Past and Current Financial Crises:

Currently, I see trends in the political system which are negatively fueling a potential recession. The private interests of government officials are being served by taxpayer dollars; as evidence, senators are still receiving massive paychecks, and operations funding the legislative and executive branches have seen budget increases, not decreases (Edwards, 2023, para. 10).

Since the 2008 crisis, banks have resisted reform efforts, and there is still a predominance of oligopolistic firms. As of 2022, the top three banks JPMorgan, Bank of America, and Citibank have a combined 42.7 percent of the market share (McCann, 2023, para. 3). Placing faith in a few large institutions can spell disaster if one of these institutions collapse. There are also similar troubling trends within the banking system that forecast uncertainty. The collapses of domestic and foreign banks have shaken consumer confidence. With bank regulations eroding, interest rate volatility, and risk mismanagement of banks, the current banking system is scarcely any safer than it was in 2008. I am surprised that even with its privilege and esteem, Goldman Sachs misplaced their faith in the expectation of forever low interest rates, suffering losses totaling $200 million since the Silicon Valley Bank crisis (Barrabi, 2023, para. 2). After the recent struggles with First Republic bank, Goldman Sachs among other banks helped infuse $30 billion to bail it out, but First Republic's stock continued to fall indicating the market's volatile nature at this point (Barrabi, 2023, para. 10). If banks continue to default, this could have disastrous on taxpayers' trust in financial institutions and the ability to secure credit.

What we can learn from past crises is that risk is dangerous, and unsound management and lending practices should be effectively controlled and managed. Short-term financial profitability should not take precedence over long-term economic harm, and there needs to be less blind faith that the government will secure investments and bail out the market. To avert future financial crises, the government should prevent unethical or risky behavior in the money market system but should not overstep into creating policies that exacerbate issues even more. The banking system needs to be stabilized and regulated in a way to reduce risk, or there will be similar failures as seen in 2008. Restoring faith in our financial institutions and taking steps to combat inflation should take precedence right now. Making sure the biased interests of government officials and financial institutions do not overlap will also help preserve the credibility of the financial institutions.

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Signed,

Case 5: Excel Certification

Molly O'Connor

Honors ACCY 420- Spring

Dr. Vicki Dickinson

26 April 2023

Corporate
Finance Institute®

The Board of Directors of the
Corporate Finance Institute® have conferred on

Molly O'Connor

who has pursued studies and completed all the
requirements for the certificate of

Excel Fundamentals – Formulas for Finance

with all the rights and privileges
pertaining to this certificate.

VERIFIED CFI CERTIFICATE

Scott Powell
Chief Content Officer

Certificate number
72326770

April 22, 2023

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Signed,

Case 6: The China Hustle

Molly O’Connor

Honors ACCY 420- Fall

Dr. Vicki Dickinson

12 September 2023

Case Introduction and Summary:

This case explored the dangers of investing in volatile foreign securities without adequate financial transparency or due diligence to investors. The 2017 documentary *The China Hustle* exposed how nimble investment firms such as Roth Capital employed short selling tactics to profit off unknowing Americans by ditching securities before the investments inevitably plummeted in value. By using the thin veil of reverse mergers, Chinese companies with hyper-inflated revenues could penetrate the U.S. market and steal billions of U.S. dollars. The documentary concluded on a solemn note: it presented many CEOs without the proper admonishment, and the U.S. on a route of continued relations with China despite alarming red flags and a lack of satisfactory financial transparency.

This case is highly relevant given the impending financial crisis on the horizon and the United States' continued close-knit relationship with China. Despite the very clear risks of engaging in business with China, in 2022, the U.S. hit a record-high level of trade with China, totaling $690.6 billion worth of goods (Liu, para. 1). Through this case, I learned that average American citizens are disadvantaged when it comes to investing compared to large investing firms colluding with domestic and foreign governments. Upon reflection, I realized how small financial losses of a few thousand dollars can devastate the average investor, while these losses are often ignored on a broader scale. I was also inspired to revisit my previous coursework concerning the 2008 financial crisis. I hoped that reforms would be enacted to ensure tighter regulation of U.S. financial markets and oversight, so I was disheartened regarding how this bubble could form unquestioned for so long. It is evident that the U.S. economy has sustained damages; I just wonder what can be done to soften the inevitable future crisis.

Trust in Government and Financial Institutions:

The China Hustle drastically shook my faith in financial institutions and the government. Following the 2008 financial crisis, I expected the Securities and Exchange Commission (SEC) to fall under an umbrella of governmental reforms to prevent negligent management practices and the formation of unstable financial bubbles. The Federal Reserve should have had a firmer interest in the outpouring of domestic dollars overseas. Through monetary policy, the Federal Reserve could have promoted disinvestment in Chinese securities by increasing taxation or passing reforms that either restrict or penalize investments. The SEC's disinterest in verifying the soundness of new corporations listed in public exchanges incited me to question the safety and stability of the U.S. market. A loophole in the stock listing procedure was exploited, allowing for reverse mergers to occur without substantial audits for each of the joining entities or a comprehensive review of the probable cause for such an alliance. I now see that many reforms in the U.S. financial system (such as the Dodd-Frank Wall Street Reform) are made to remedy, not spearhead, financial crises, creating an environment where fraud can flourish until inefficient rules and regulations are patched up. A laissez-faire approach to economics is the American hallmark, but irresponsible firms and investors are pushing my faith that actors in the American system will be stewards of the common good. The American financial system is a sinking ship whose leaks are being patched up as it approaches a glacier of certain economic disaster. I do not believe the disaster can be avoided, but perhaps more diligence in regulation, disclosure, and monitoring of the U.S.'s dealings in foreign markets can at least protect against further damage.

I could not distinguish if the spokesperson chosen for the film, Dan David, founder of GeoInvesting, was truly trustworthy or not. It appears to me highly unlikely that his initial motives centered on earning a quick profit came without a few moral qualms that he overlooked.

Fast money is usually dirty money, and I feel as a finance professional, he should have been aware that these overly optimistic claims likely came with a dark shadow of financial opacity. I still admire how committed he was to right his wrongs through Congressional proceedings and fighting for financial transparency in his investing firm. Short selling is only harmful when concealed information diminishes the risky aspect of the practice to investors while maintaining high returns. I believe faithful representation of all material events to a company needs to be published in a synchronous fashion to prevent disparities in investment information.

Special Purpose Acquisition Companies (SPACs):

A Special Purpose Acquisition Company (SPAC) is a typically short-lived publicly traded company that merges with privately traded companies by raising capital through the initial public offering (IPO) process (Bazerman and Patel, para. 2). This sounds remarkably similar to the reverse merger process discussed in the film. Reverse mergers revolve around a private company taking over a dormant public company's shell to become public. In contrast, SPACs identify the private company they want to merge with only after the capital has been obtained (Gustav, para. 6). Reverse mergers allowed unprofitable Chinese corporations to act like wolves in sheep's clothing to sneak into the U.S. market with little backlash or suspicion. Since the Chinese investment crash around 2012, reverse mergers have been subject to new scrutiny, allowing SPACs to take their place as an attractive option (Gustav, para.2).

Both SPACs and reverse mergers attempt to circumvent the traditional IPO process, which is subjected to more intense scrutiny and regulation. SPACs also offer the owners more ownership interest and voting rights on the firm's decisions (Gustav, para.4). While SPACs can provide rich capital sources to startups and innovative industries, particularly in the tech industry, they can also be breeding grounds for unbridled speculation. Given the unexpected collapse of securities listed through reverse merger companies, I think investors should be wary of SPACs and their promising returns. Even though the IPO listing process is costly, perhaps the regulations pertaining to IPOs should automatically be applied to any company listed on the exchange to prevent the abuse of the listing system.

Global Business Environment versus Citizens' Interests:

The film illustrated that the global business environment is much more complex than I first realized. Cultural differences shape the way business is conducted and have a pervasive impact on the ethical issues of reporting. It is difficult to trust outside information if U.S. auditors are barred from performing independent reviews. I was not aware just how differently top accounting firms functioned outside of the U.S.'s jurisdiction, and I thought the information should flow much easier through an entity operating under one name. The Chinese emphasis on getting ahead economically at the expense of foreigners was alarming to me; I was not aware of the measures they took to conceal and distort their actions. I was, however, even more concerned with the actions of American CEOs who knowingly entered into trade agreements with Chinese investors in exchange for profitable returns. The lack of concern for American citizens expressed by many executives and governmental agents calls into question how much stake an individual can truly have in a company or the economy. Lobbying and collusion only widen the information gap between the average investor and the top 1 percent. When unscrupulous short selling occurs, someone ultimately loses due to these information asymmetries. Unfortunately, in such a fast, overloaded environment, the average person's tiny share of ownership interest is easy to ignore, although the effect of the governing body's policies is felt deeply.

My Role in Society:

Professionally, I see the importance of financially transparent financial statements and auditors' opinions to give shareholders quantitative faith in companies without relying on spoken opinions. As a future auditor, I will try to give faithful, unbiased reviews of public or privately traded companies. I see how easy it is for the collusion of just a couple of individuals to spell disaster on a firm's reputation and damage consumer confidence. An auditor's opinion is so valuable that having the name of a top accounting company is enough to quiet concerns about the validity of financial claims. Auditors provide more value than just cutting costs to a firm; they provide an unquantifiable amount of confidence that there is safety in financial institutions.

Personally, I feel like I have a responsibility to investigate firms' ethical practices before buying securities from them. This case opened my eyes to the broader global business environment and sparked a desire to investigate more current events affecting financial and economic markets. I will attempt to be a more prudent, risk-averse investor and be wary of any investment that promotes a quick return on my investment. I also see the importance of understanding the way financial markets operate and hope to take more courses in the future that contribute to my understanding of the current environment.

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Signed,

Case 7: KPMG Ideation Challenge

Molly O’Connor

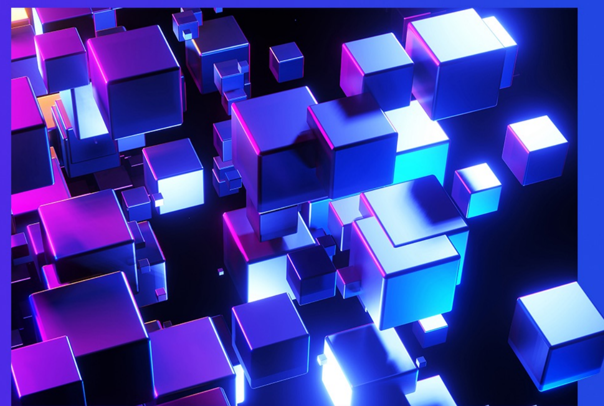
Honors ACCY 420- Fall

Dr. Vicki Dickinson

6 November 2023

KPMG

KPMG Ideation Challenge



FedEx and Generative AI

November 6th, 2023

Colin Hartman   Daniza Ivazova   Hannah Coyle   Molly O'Connor

Agenda

1:30 **FedEx Structure**
Daniza Ivazova

1:32 **FedEx Pain Points**
Molly O'Connor

1:36 **Generative AI Impacts**
Hannah Coyle

1:38 **Generative AI Solutions & Challenges**
Colin Hartman

FedEx Structure

FedEx is an American multinational conglomerate holding company focused on transportation, e-commerce and business services based in Memphis, Tennessee.

- FedEx business strategy is to be a highly reliable, cost competitive market leader in transportation and e-commerce.
- Founder Fred Smith often speaks about the fact that "Information about the package is as important as the package itself". This means that the data and information generated through operations is a key to growth and revenue.
- FedEx is consistently in the top tier of best places to work for overall operations as well as IT. Attracting and retaining key talent is a critical component of FedEx's growth strategy

$90B

FY2023 Annual FedEx Revenue

Key Issues Regarding FedEx's Financial Position

CEO Raj Subramaniam replaced founder Fred Smith, resulting in a broad evaluation of FedEx's operational effectiveness.

- Weak demand over the past 4 quarters has lead to a total of $4 billion annually in cost-cutting measures being implemented over the next two fiscal years

Sales and profit fell last quarter from the year-ago period.

- Revenue: $22.8 billion vs. $23.74 billion expected in Q2 of 2023
- Gross Profit growth has been negative for the last 4 quarters

FedEx has several rounds of layoffs in the last quarter

- FedEx has cut 29,000 U.S. jobs over the past year mostly in Supply Chain facilities and company Ship centers.
- Management intends to reduce 10% of directors and officers in the near future.

Generative AI Impacts All Aspects of FedEx Operations

Customer Management

IT Systems

Operations

Generative AI already impacts broad segments of FedEx business, including delivery navigation and route optimization.

Today, we will be focusing on employing AI to optimize IT systems to reduce FedEx's pain point of high operating costs.

FedEx Opportunity - Reduce Operating Expense from IT

FedEx has announced goals with their Drive program to reduce costs by $4 billion by FY25.

FedEx key competitor, UPS, has significantly lower expense ratios which is a significant strategic advantage.

Both companies are heavily invested in their IT solutions. A significant component of FedEx and UPS costs comes from Information Technology.

The cost of FedEx Information Technology must be reduced for FedEx to remain competitive and achieve their profitability goals.

How can we help FedEx not only achieve these short-term Drive goals, but also increase operational flexibility and position FedEx for the future?

Our Proposal:

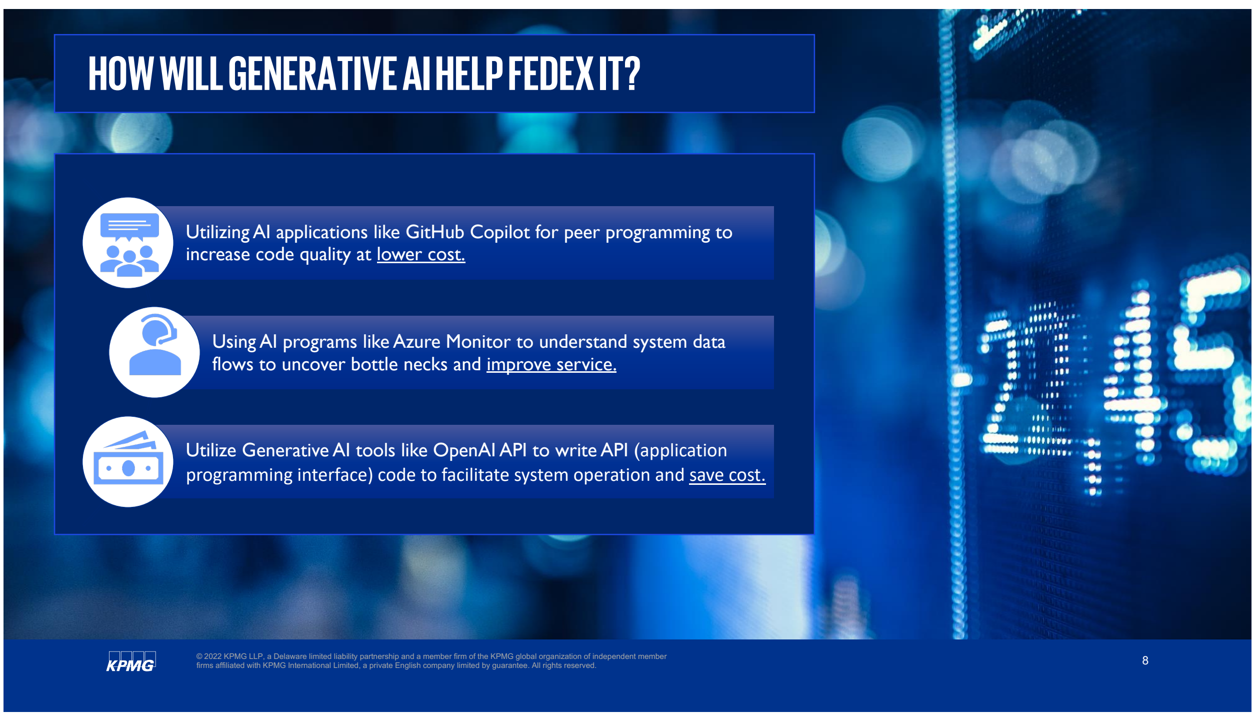
Employ Generative AI tools to enable the identification of critical systems and data flows to create an achievable plan to streamline IT core business systems within 4 years.

Use Generative AI to lay out the critical path

AI can be employed to help create the minimum viable IT product needed to move **customers** to a more efficient FedEx IT experience. When the critical systems are optimized, FedEx can be faster, leaner and more profitable.

Starting a journey is not the same as finishing

Companies fail not because they don't know what to do, they fail from not completing what needs to be done. AI can make the planning, building and delivery possible over the next 4 years.

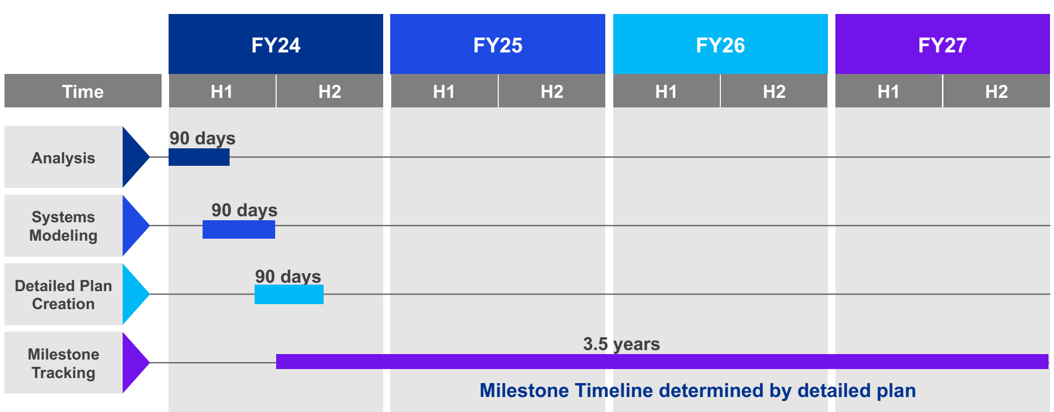


Our Plan

Analysis	Systems Modeling	Plan Creation	Milestone Tracking	Results Delivered
• Understand the current environment • Develop program scope limits • Determine AI tools to employ for modeling	• Utilize AI tools to analyze system data • Determine critical data paths for different customers • Determine the critical Minimum Viable Product (MVP) for FedEx IT	• Establish an achievable plan with timeline • Determine cost of plan and ensure funding • Clearly document what is needed, by whom, at what time to enable success	• Track progress to and achievement of critical milestones • Document milestone cost and value delivery	• Report quarterly, annual and total value delivery for the IT modernization plan • Including cost savings and customer migrations

KPMG 9

Timeline



KPMG 10

AI Opportunity Alternatives for FedEx

Use AI to enable the consolidation of FedEx Ground, Express, Freight and Logistics into one operation

Since the acquisition of Caliber System Inc. in 1998, FedEx has maintained separate operating companies for Express, Ground and Freight.

A proposal for our team to create a plan to utilize AI in the consolidation of the FedEx federated operating companies into one operating model was considered but not selected. FedEx is currently deep into the consolidation with critical milestones to be achieved by May of 2024.

Use AI to identify critical sales opportunities

FedEx top line revenue being down 7% year over year shows a critical need to drive increased revenue. Recently, FedEx has created a department called Dataworks with the stated goal of:

> ”Applying powerful insights generated from the rich data produced by the FedEx network, we’re building solutions to make supply chains smarter for everyone, and removing barriers for our customers, their customers, and for the FedEx of tomorrow."

As FedEx has recognized this as a critical need, a proposal of this type would likely be rejected.

Challenges

Implementing AI for system optimization creates several challenges for FedEx

FedEx developers will have to change.

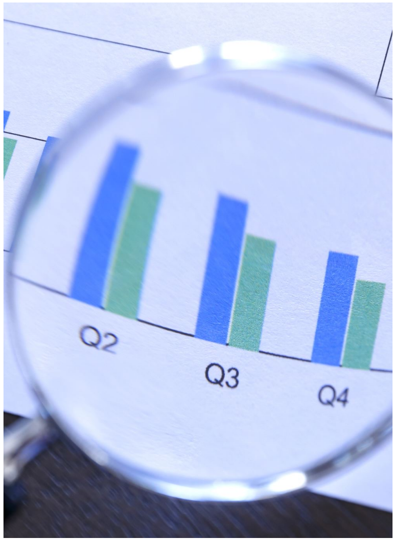
For an organization that has built up a very large IT organization, AI presents a significant personnel challenge as downsizing and retraining are needed to manage through the change.

FedEx IT systems may not be as proprietary as they once were.

As Generative AI is a learning system, the more it learns, the more similar the outcomes will be across all users of the AI. Having a technical advantage as a differentiator may diminish over time as these systems learn every companies' best practices.

Additionally, business priorities may change, limiting funding and focus

This could cause insufficient resources to complete the plan. It is critical that the cost and benefit of this program is calculated accurately and communicated effectively.



Thank You

Presented by

MOLLY O'CONNOR
DANIZA IVAZOVA
COLIN HARTMAN
HANNAH COYLE

KPMG

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Appendix

Drive

FedEx Drive will consolidate its operating companies into one organization, creating efficiencies that will enhance the company's ability to meet the evolving needs of customers and ultimately build a stronger, more profitable enterprise.

DRIVE transformation spans 14 domains across four major areas: Customer, Surface Network, Air Network & International, and General and Administrative (G&A). FedEx expects DRIVE to generate $4.0 billion of permanent cost reductions in fiscal 2025.

Each area is expected to generate savings in fiscal 2025 as follows:

$1.2 billion in Surface Network
$1.3 billion in Air Network & International
$1.5 billion in General & Administrative
DRIVE is also enabling the implementation of Network 2.0, which is expected to generate an incremental $2 billion of savings in fiscal 2027.

FedEx continues to project costs of up to $2 billion by the end of fiscal 2025 to implement its business optimization initiatives including the DRIVE and Network 2.0 programs.

The Honor Code: “On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help (including the use of AI-generated material) on this case study.”

Signed,

Case 8: Environmental, Social, and Governance Reporting

Molly O’Connor

Honors ACCY 420- Spring

Dr. Vicki Dickinson

16 November 2023

Case Introduction and Summary:

This case looked at Environmental, Social, and Governance (ESG) reporting from multiple angles: first, by considering who stands to profit or suffer from ESG legislation, then looking at the broader macroeconomic implications of ESG reporting on the economy. ESG reporting requires for-profit businesses to adhere to specific reporting standards regarding climate-related metrics to offer investors more transparent information on which to form their investment decisions. According to the Securities and Exchange Commission (SEC), companies must report information relating to climate-related risk governance and strategies, greenhouse gas emissions, and indirect emissions to offer transparency to investors ("SEC Proposes Rules," para. 2). Articles and video resources by Deloitte and Ernst & Young (EY) highlighted the growing importance of serving consumers' desire for sustainability in commerce and the demands ESG places on attestation services to provide fair reporting. Additionally, the articles in *PR Newswire* and *Forbes* discussed the evolving nature of ESG regulation and the importance Chief Financial Officers (CFOs) are placing on reporting these metrics. The documentary *Planet of the Humans* offered a different perspective on green reporting, claiming that renewable energy companies are not as sustainable as they proclaim. This film provided a unique perspective regarding whether one should unquestioningly trust industry assertions; however, I found it hostile toward capitalist ideals and, overall, needlessly pessimistic. I believe there have been great strides in green technology fueled by a drive to reduce industries' environmental impact and cut down on wasteful byproducts.

Certainly, the nature of business is bound to change with new ESG standards, and some agents are bound to prosper, and others may feel the pressure of enhanced regulation. Through this case, I learned to consider ESG reporting as a dynamic issue and project how these standards may influence the future. A drive to a more sustainable future is important, but I also understand that the costs of compliance may strain the economy at this time. A genuine commitment to a clean, transparent future is ideal for all stakeholders in the long run. Still, I question whether technology and data analytics are adequate to answer ever-evolving reporting demands and whether political agendas authentically work toward sustainability.

Agents Profiting from ESG Legislation:

I believe financial institutions, such as banks, stand to profit considerably from ESG requirements. Nonfinancial data is frequently used by investors to base their decisions, and the long-term profitability promised by ESG likely will lead to an influx in investing in greener companies. This will ultimately benefit investors in openly green industries, banks providing capital to these firms, and the front-running companies looking to develop new strategies to remain competitive. If financial institutions receive tax incentives from the government for compliance, their profits will increase correspondingly. Asset managers with money tied up in pension and index funds will likely see the direct effects of ESG regulation because it impacts their ability to distribute and access funds. According to an article by *ABC News*, ESG adoption consistently yields stronger returns than traditional investing (Zahn, para. 16). I question if this correlation is due to conflicts of interest between industry and politicians or simply attributed to investor confidence.

Banks are advocates of sustainability to individual consumers as well; for example, the Deloitte article voiced that banks are offering features to encourage customers to sustainably offset purchases ("'Want a Carbon Offset,'" para. 3). I think all companies that are savvy enough to take advantage of the demand for green industry practices will see enhanced profitability in the short and long term, for there is a clear paradigm shift in what consumers value in a goods provider. ESG investing may, therefore, be a stable source of growth because it has its basis in value considerations and will likely weather dips in the business cycle. This green appetite is evident, with sustainable products maintaining a five-year compounded annual growth rate of 9.48 percent; additionally, many shoppers also take advantage of built-in software features to track their sustainability when purchasing goods online ("'Want a Carbon Offset,'" para. 6). Consumers are becoming more aware of the importance of sustainability, or at the very least, do not want to endorse companies that are outwardly unsustainable. Technology start-ups and mature companies alike stand to benefit from this new desire for sustainability by utilizing advances in quantifying the footprint of transactions and adding capabilities to support customer retention.

Governmental and Political Drive for ESG Regulation:

Congress may profit from ESG investing in the form of state contracts and pensions, as well as through relationships with other public institutions (Elbein, para. 14). ESG reporting has become a politically charged area of contention in recent years. Republicans claim ESG reporting is restrictive and not relevant information for decision-makers; they claim that it just places a burden on industry and taxpayers. Democrats see ESG reporting as necessary for stakeholders and the longevity of the United States economy. I think ESG reporting has been weaponized by both parties, reduced to a tool that fits within the existing political narrative of 'climate-change deniers' versus alleged 'social activists.' Individual politicians on one side may promote this legislation to secure votes and project their image as being green and sustainable. Politicians may also receive kickbacks from companies who comply with these standards. Conversely, saying ESG threatens capital markets may conjure support from those who wish for minimal governmental interference. There is a risk that politicians do not actually care about the deeper implications of ESG reporting and are just using it as a political tool to garner more votes.

Recently, some Republican states withdrew their pension funds from ESG-related firms and banned transacting with any company with an ESG agenda (Zahn, para. 27). The tax burden in these states increased; as a result, significantly slowing the momentum for ESG reporting in the first quarter of 2023 (Howey, para. 3). ESG reporting may harm successful firms that do not wish to divert precious financial capital into the costly burden of compliance. I am not sure if it is right to force these firms to comply, especially if this can hamper their operating capacity. I believe given the current instability in the economic and political environment, ESG concerns do not take precedence. America needs to secure a robust financial position to remain competitive and to achieve these goals; therefore, I think ESG compliance should be optional to not needlessly divide the country based on the inclusion or exclusion of a handful of metrics. Perhaps restraining the regulatory requirements of the SEC is in order because it has a large umbrella of regulatory influence and the power to influence required financial disclosures.

Agents Harmed by ESG Legislation:

I believe firms participating in the mining and refinery of nonrenewable resources may be most harmed by ESG reporting standards. These industries may suffer under the costs of compliance in terms of gathering, reporting, and assuring data. Particularly, firms in these industries often have lengthy supply chains linking many agents, making it difficult to quantify emissions and coordinate silos of production to adhere to standards. This could raise issues in America because a large portion of energy production is derived from these resources. The cost of utilities and gas prices for the average American may be negatively impacted by the constraints placed by compliance. With energy costs already rising due to global supply chain interruption, I question whether it is the right time to implement these standards.

ESG reporting may also place a burden on small or medium-sized firms with a lack of resources to shoulder the significant upfront costs required for ESG compliance. With expanding ESG regulatory requirements, there are difficulties in generating the necessary reporting data. A couple years after the first ESG requirements were announced, a recent Deloitte poll determined that under 46 percent of firms are confident that their organization team is appropriately equipped to adequately report ESG metrics (Michlewicz, para. 2). This difficulty comes partly from the inherent challenges of quantifying ESG data. As one of the *Forbes* articles noted, data required for Scope 3 analysis, which looks at indirect emissions of greenhouse gasses along the supply chain, is difficult to obtain because it is sometimes held by private companies (McGowan, para. 4). At this current time, I do not think adequate technology exists to generate an appropriate estimate of this indirect and tough to quantify data. Undoubtedly, the effect of a single company on the environment is negligible, and I question how much weight these metrics should carry for decision-making if they don't accurately depict the full scope of an individual firm's emissions.

On a broader scale, ESG reporting could also have potential negative impacts on domestic businesses, namely if global competitors, such as China and India, have lower standards for reporting. If American companies are subject to expanding compliance requirements in the future, United States industries may be less strategically positioned in the global economy. In terms of ethical considerations for the planet, hopefully, technology will evolve to make real— not just on-paper— reductions in emissions possible. Realistically, however, the costs of adherence and current limitations inherent in ESG reporting may constrain business and harm the economy in the short term.

Additional Risk Areas in ESG Reporting:

Another less apparent issue with reporting risks in ESG analysis regards how the benefits of sustainability are not easily translated into a cost estimate. Assuming firms actually desire to make a change, the most meaningful sustainability measures may also be the most damaging to gross margin over short time horizons, but that does not mean they will be unprofitable in the long term. Operating costs may be reduced because of effective sustainability measures, and these metrics may serve as advertising to attract capital providers. However, the currently reported metrics, while offering transparency, do not necessarily translate into action undertaken by firms to become more sustainable; some firms are simply displaying what they are emitting without promising changes in practices. A truly sustainable future is an expensive future: the relative costs and benefits of capturing and reporting data must be weighed to promote a more sustainable future while not suffocating capital markets under bureaucratic legislation.

For instance, ESG reporting is challenging because new rules are continuously being created on a regional, national, and international scale. Standards that continuously change are a burden for companies that must make sure their data is managed and reported on a timely basis in accordance with standards. The cost of storing and transforming ESG is considerable, and with the dynamic nature of the reporting environment currently, it is difficult for companies to streamline a process to make the transformation of this data cost-effective while constantly tweaking processes.

If ESG reporting becomes the new standard, I believe that the unification of reporting under a simplified global standard of emissions would make climate data more meaningful to the end user. It’s hard to compare two companies in geographically different locations if the metrics they are reporting are inconsistent and materiality thresholds differ. For the data to become truly pertinent to investors, there must be some uniformity in reporting. Consumers agree with this sentiment, as noted in the Deloitte article, the industry is partnering with stakeholders to create uniform standards for certifying carbon credits to boost reporting credibility ("'Want a Carbon Offset,'" para. 9). I believe this uniform system will add meaning to reporting metrics, because, as of now, it is difficult to compare the environmental impact of two businesses, even within the same industry.

The article published in *PR Newswire* raised another critical concern; trailing behind ESG reporting as a priority for financial teams was the impact of inflation ("CFOS Rank ESG," para. 6). It is difficult to fully immerse one's company into sustainability measures in an increasingly uncertain financial environment. However, this immersion may be necessary. As noted by EY, the evolving geopolitical landscape may necessitate the diversification of energy resources to improve security and sustainability. Industry practices need to be subject to strategic ESG planning measures to fortify businesses against macroeconomic uncertainty. How can one balance this internal financial strain and external push for sustainability? Generative AI may play a more significant role in compliance and regulatory reporting. If this technology can continue to evolve at its current rate, I expect the burden of reporting to be significantly lifted from for-profit companies to the benefit of stakeholders.

Impact of ESG Legislation on National Debt:

ESG legislation will serve to increase the national debt because government subsidies and spending on sustainability programs will create a larger budget deficit. In 2021, following ESG legislation, Congress passed a bill containing significant funds for clean energy, environmental goals, and battling socioeconomic inequality (Visram, para. 8). This increased the deficit and boosted individual investor confidence in the merits of sustainable investing in the following year. Funding for sustainability projects on the national and local level may also increase the relative national debt as Congress seeks to position America's industries more sustainably. Large projects such as solar and wind farms may strain the national debt and offer questionable returns. Additionally, divesting in former methods of energy production such as oil and gas may contribute to higher inflation.

The narrative surrounding ESG reporting is changing, however. Given the backlash from Republican states regarding pension funds, ESG debt fell significantly in the first quarter of 2023, making up only 2.5 percent of bonds as opposed to 6.08 percent in last year's first quarter (Howey, para. 9). The resulting tax burden on these states may have potentially negative impacts on the broader economy in the following years; Americans in these states will shoulder additional costs in a time of rising inflation, increasing individual debt. If ESG loses momentum, there may be less strain on America's debt burden; however, with new legislation on the horizon, this may not be the case.

Impact of ESG Legislation on American Jobs:

ESG legislation has the potential to take away American jobs in certain industries and generate opportunities in other sectors. With changes occurring on the business level, some industries may not be able to keep up with the cost burden of adhering to regulations. Unemployment may rise in extractive or unsustainable industries and government spending may go towards compensating those displaced from their jobs. There is the potential for new job creation, especially in tech services and assurance services that offer businesses solutions relating to compliance requirements. ESG reporting generates extreme data flows, and jobs will be needed to analyze, sort, and present the data in a meaningful way. Perhaps new jobs will be created in the renewable energy sector as well, creating new growth in different markets.

Personal Beliefs Regarding ESG Legislation in Public Accounting:

While personally I question whether ESG reporting is beneficial to the economy, I nevertheless have a professional curiosity to navigate this new environment. I am reticent but still excited to contend with ESG in the context of public accounting. Especially if I end up in consulting, I will be confronted with new regulatory challenges and must come up with innovative solutions to clients. This challenge is exciting and requires a comprehensive understanding of the broader political and economic environment. I also see advisory or consulting as a potentially lucrative avenue. Professional accounting services definitely stand to profit from ESG reporting requirements. With enhanced regulatory requirements comes an enhanced need for assurance providers to attest to clients' claims. With ESG-conscious goods and services increasing their share in the market, there needs to be appropriate assurance services in place to vet these claims. This also opens another avenue for planning and consulting for financial services to help clients remain competitive in a rapidly evolving reporting environment. EY published recommendations regarding how firms can expect to navigate in the future and plan towards success, for instance, by fortifying supply chains, taking advantage of technology, and mitigating risks in ESG reporting ("ESG Evolution," para. 11).

Conclusion:

In summary, I believe ESG reporting has good intentions, reducing emissions and offering investor transparency. However, it comes with substantial costs to individual companies, lacks reporting gravitas due to its difficulty to measure and report, and is subject to political headwinds that may manipulate ESG legislation for individual gain. Benefitting most from ESG reporting are industries managing large funds and backed by the government, while among those the most hurt are small firms struggling under the cost of compliance. The future of ESG reporting is uncertain, but it is likely here to stay- with changes to be announced over the next coming years. I am preparing to enter a profession with an expanding rulebook in the hopes that I can help industries evolve along with compliance.

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Signed,