CECL

Ross Crouch

Senior Examiner,
Supervision and Risk Management

The Path To CECL

- A response to the 2008 Financial Crisis
  - “Too little, too late”

- Final standard issued in 2016
  - ASU 2016-13 established ASC 326
  - Replaces guidance in ASC 310 and 450

- Effective as of 2023 for non-public banks

CECL Observations

- As of 2Q22, 234 organizations have already adopted CECL
  - 115 are under $10 billion in total assets
  - 77 are between $10 and $50 billion
  - 42 are over $50 billion

- Most CECL adopters are SEC registrants

Adoption Impact

- Across this size range, and excluding foreign organizations, the average impact to the allowance is an increase of roughly 25 to 40 percent
    - Impact is just under 30% for banks under $10 billion
- 41 of the 234 CECL adopters reported a decrease in the allowance at implementation
    - Roughly 22% of banks under $10 billion reported a decrease in the allowance

Examiner Expectations

"The agencies expect supervised institutions to make **good faith efforts** to implement the new accounting standard in a sound and reasonable manner. After the effective date of CECL, the agencies will assess the implementation of the accounting standard and consider the need to issue additional supervisory guidance to aid in the **development of practices** for the sound application of the standard."

-SR 16-19

Benchmarks

“Because allowance levels depend on… institution-specific factors, the agencies cannot reasonably forecast the expected change in allowance levels across all institutions. For similar reasons, the **agencies will not establish benchmark targets or ranges** of allowance levels upon adoption of CECL or for allowance levels going forward.”

SR 16-19

It’s Just Accounting

- CECL is an accounting standard; it does not change the bank’s actual risk profile

- Actual losses (charge-offs) are the same under CECL as they are under the incurred method
  - Provisioning for those losses should occur sooner under CECL

CECL Volatility

- By design, CECL is inherently more volatile than the incurred method

- The allowance grows in anticipation of risk, and shrinks as risk passes or fails to materialize

- CECL adopters have raised and released reserves on several occasions since 2020

Implementation Considerations

- The initial adjustment to the allowance is accounted for as a change in accounting principle
- No impact on earnings at adoption
- An optional 3-year capital phase-in for transition available

CECL Resource Center

- https://www.supervisionoutreach.org/cecl

CECL Resource Center

Have a CECL question? Email us at CECL@frb.org

HOME ABOUT IMPLEMENTATION METHODOLOGY SCALE ELE RESOURCES

Current Expected Credit Losses (CECL) – Expected Loss Estimator (ELE) Tool

On **Thursday June 16, 2022, at 2:00 p.m. ET**, staff from the Federal Reserve hosted an Ask the Fed® webinar on the ELE tool for determining expected credit losses under CECL.

The ELE tool takes a financial institution's loan-level data and assumptions as entered in by financial institution management and automates the Weighted-Average Remaining Maturity (WARM) method. This session walks through the spreadsheet-based tool intended to assist community financial institutions in implementing CECL.

The Ask the Fed® session and the ELE spreadsheet-based tool are available on the CECL Resource Center ELE page.

News and Updates

FASB Proposes Expanded Disclosures and Improved Accounting Related To The Credit Losses Standard November 23, 2021

Federal Reserve Board of Governors COVID-19 Supervisory and Regulatory FAQS February 16, 2021

Webinars and Tools

Webinars

Ask the Fed: CECL Expected Loss Estimator (ELE) Tool June 16, 2022

Ask the Fed CECL Scaled CECL Allowance for Losses Estimator SCALE Method July 15, 2021

New Transition Provisions to Delay the Impact of CECL on Regulatory Capital

Ask the Regulators: Applying Model Risk Management to CECL Models at Large Banks September 3, 2019

Ask the Regulators: Weighted-Average Remaining Maturity (WARM) Method April 2019

Ask the Regulators: Practical Methods Smaller, Less Complex Community Banks Can Use as a Starting Point for CECL March 2018