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