
Attention: Chief Executive Officer of Each Tenth District State Member Bank, and Holding Company

In Brief: The Federal Reserve, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of the Comptroller of the Currency (the agencies) have issued initial guidance related to the new accounting standard for credit losses recently published by the Financial Accounting Standards Board (FASB). The joint statement expresses the agencies’ support for the adoption of the expected loss model, which will result in more timely recognition of credit losses. Institutions are encouraged to be proactive in their preparations for implementation of the standard leading up to its effective date.

Highlights: The agencies have issued a joint statement outlining initial supervisory views on the issuance of Accounting Standards Update No. 2016-13: Financial Instruments – Credit Losses (Topic 326). This new accounting standard establishes the current expected credit losses methodology (CECL) for estimating and reporting credit losses. This methodology replaces and improves upon the existing ‘incurred loss’ model, and should result in earlier recognition of credit losses in the financial statements of financial institutions.

The new accounting standard applies to all banks and financial institution holding companies regardless of size or complexity. The effective date of the standard varies based on an institution’s filing status and classification as a public business entity under GAAP; however, the earliest implementation date allowable will begin in 2019.

Under CECL, the estimation of credit losses will consider a broader range of data, including reasonable and supportable forecasts relevant to assessing collectability. The new standard is expected to be scalable, meaning that the agencies do not expect that smaller and less complex institutions will need to implement complex modeling techniques. Furthermore, the new standard allows a financial institution to leverage its current internal credit risk systems as a framework for estimating expected credit losses.

Institutions are encouraged to begin planning and preparing for the new standard as soon as possible. Senior management, under the oversight of the board of directors, should begin to assess the institution’s data needs and evaluate the standard’s estimated impact on capital. They are also encouraged to proactively engage their auditors and other service providers in discussions about CECL’s impact. Future supervisory guidance, outreach, and communication will be forthcoming during the implementation period.

Contact: Please direct any questions concerning the new guidance to Accounting Specialist Paul Oseland at (800) 333-1030, ext. 270-8632, or to your Federal Reserve Bank of Kansas City central point of contact at (800) 333-1010.

Internet Link: A copy of the Federal Reserve Supervision and Regulation Letter SR 16-12 is available on the Board’s public web site at: http://www.federalreserve.gov/bankinfereg/srletters/sr1612.htm