FEDERAL RESERVE BANK of KANSAS CITY

January 12, 2017

Supervision and Regulation (SR) Letter 16-19: Frequently Asked Questions on the Current Expected Credit Losses Methodology (CECL)

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 frequently asked questions and answers (FAQs) regarding the new accounting standard for credit losses issued by the Financial Accounting Standards Board (FASB). These FAQs supplement the agencies' initial supervisory views outlined in SR 16-12: *Interagency Guidance on the New Accounting Standard on Financial Instruments – Credit Losses*.

Highlights: The agencies have jointly issued the first in a series of FAQs related to implementation of FASB's Accounting Standards Update No. 2016-13: *Financial Instruments – Credit Losses (Topic 326)*. This new accounting standard establishes the current expected credit losses (CECL) methodology for estimating and reporting credit losses. This new accounting standard applies to all banks and financial institution holding companies regardless of size or complexity.

In addition to introducing the CECL methodology, Topic 326 makes certain changes to the accounting for available-for-sale debt securities and purchased credit deteriorated assets. Although there are differences between CECL and current U.S. generally accepted accounting principles (GAAP), the agencies expect the new standard to be scalable to institutions of all sizes, meaning that the agencies do not expect that smaller and less complex institutions will need to implement complex modeling techniques. The effective date of the standard varies based on an institution's filing status and classification as a public business entity under U.S. GAAP; however, the earliest implementation date allowable will begin in 2019.

Institutions are encouraged to discuss these FAQs with key stakeholders, including senior management and the board of directors. They are also encouraged to proactively engage their auditors and other service providers in discussions about CECL implementation and potential impact.

The agencies will periodically update the FAQs. Institutions are encouraged to regularly review this letter and the Board's public website for newly issued and revised FAQs. Until the new standard becomes effective, institutions must continue to follow current U.S. GAAP on impairment and the allowance for loan and lease losses.

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 16-19 is available on the Board's public web site at: https://www.federalreserve.gov/bankinforeg/srletters/sr1619.htm