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