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# **CECL Update**

2019 Banking Outlook Conference  
February 28, 2019

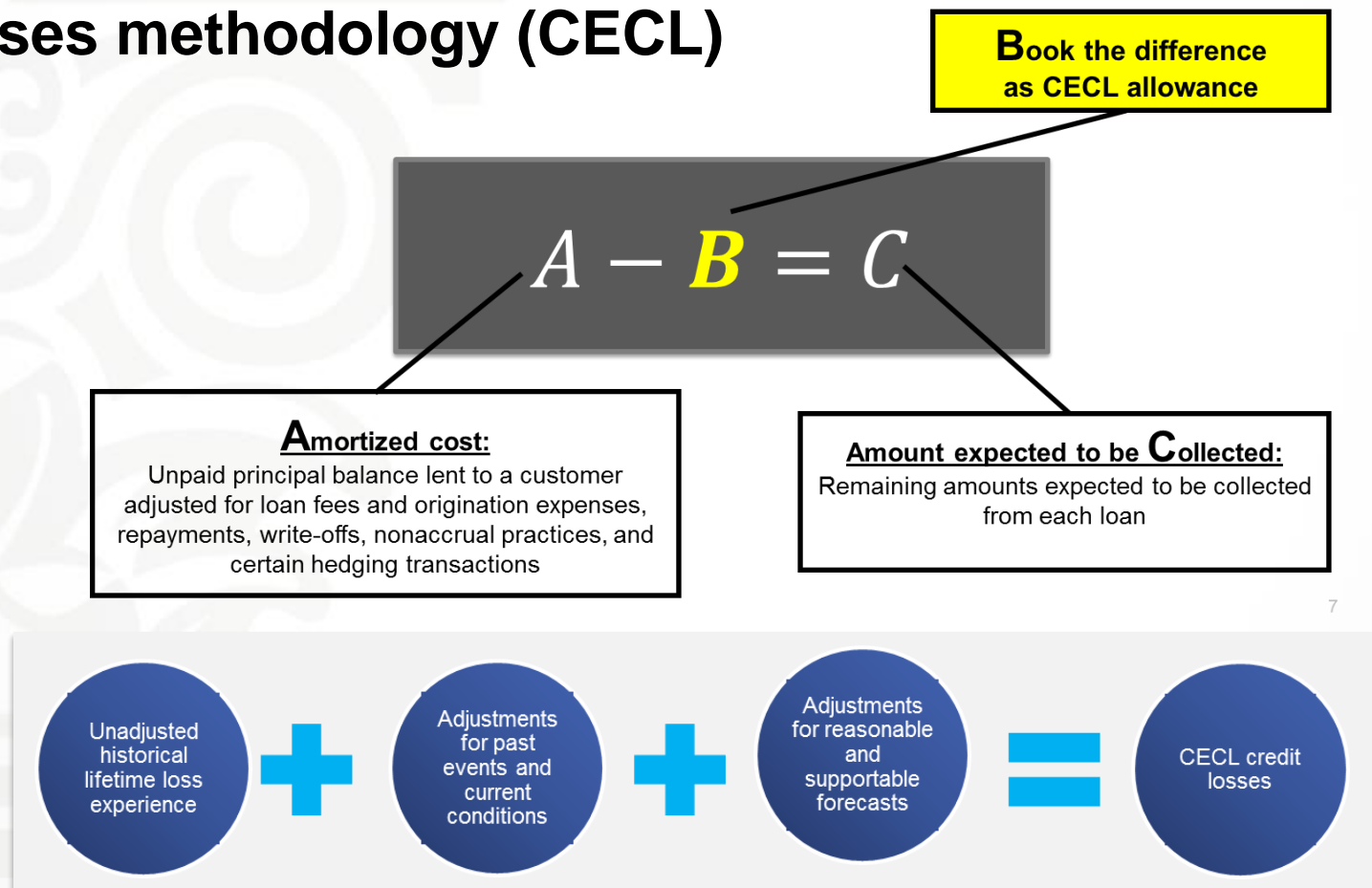
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# Accounting for Credit Losses

CECL – Current Expected Credit Losses Methodology

- Replaces the existing incurred loss methodology for estimating allowances with a current expected credit losses methodology (CECL)



# Scope

It's not just loans...

	Loans	Debt Securities	
<i>Amortized Cost Method</i>  <i>Various Fair Value Methods</i>	Held for investment (HFI)	Held to Maturity	
	CECL <small>PCD<sup>^</sup></small>	CECL <small>PCD<sup>^</sup></small>	
	Held for Sale	Available for Sale (AFS)	
	Lower of amortized cost or fair value <sup>**</sup>	NEW AFS credit loss model* <small>PCD<sup>^</sup></small>	
		Trading	Fair value-net income <sup>**</sup>

\* Under the new credit-loss model for AFS, credit losses will be recorded through an allowance.

\*\* No change to current U.S. Generally Accepted Accounting Principals (GAAP).

PCD<sup>^</sup>

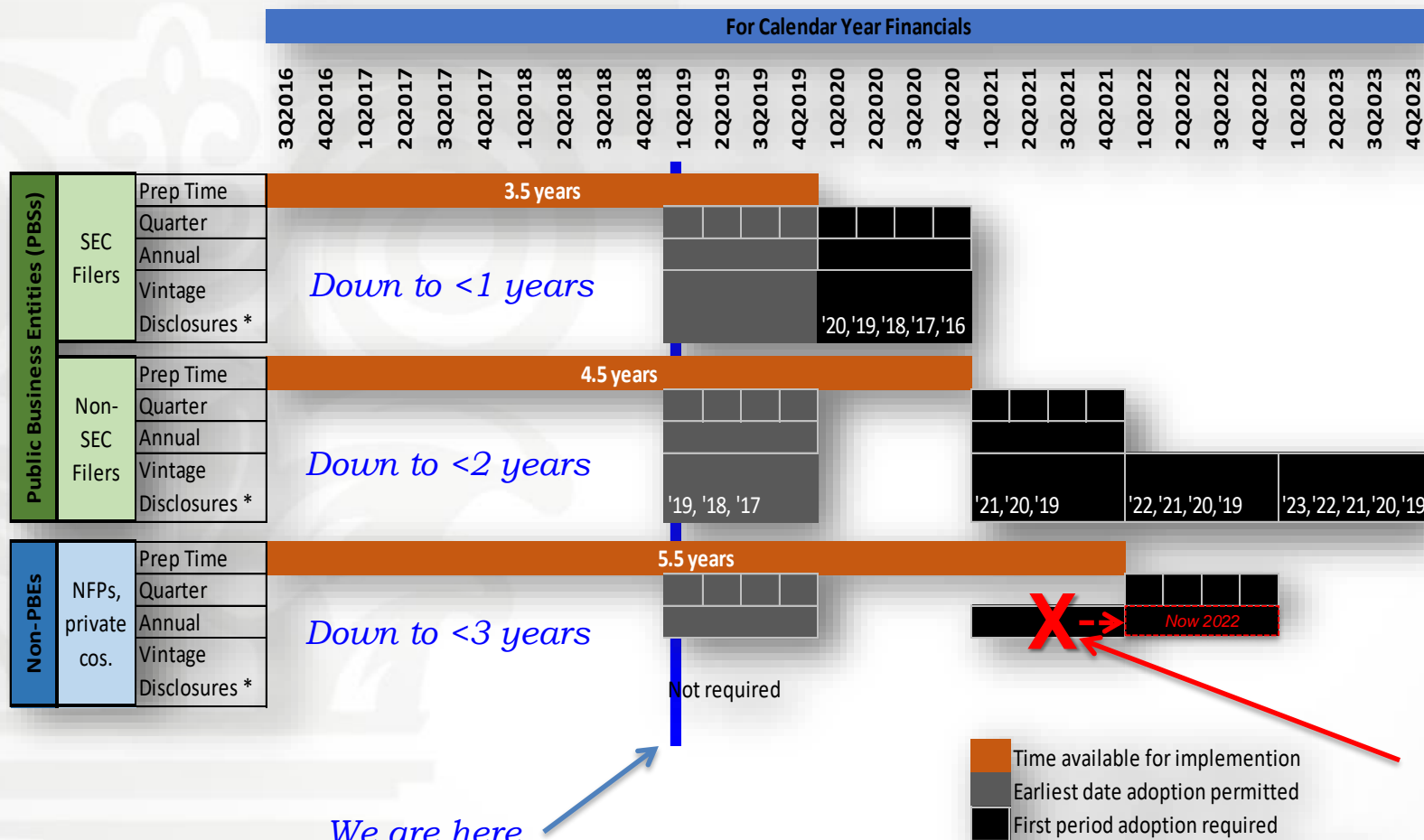
Allowance for purchased credit deteriorated (PCD) financial assets is determined in similar manner; however, initiation allowance is added to purchase price, rather than as a provision expense.



# Effective Dates

Time keeps on ticking...

- Effective date based on entity characteristics



# Interagency Happenings

Yes – there is a lot of touchpoints!

- **Policy Setting**

- FAQs and other publications
- Regulatory Capital Phase-in
- Capital stress testing
- Reporting

- **Outreach**

- Industry/FASB efforts to address implementation practices and issues



# Institution Preparation

Avoiding paralysis by analysis



## Do's

Become familiar and educate BOD and staff

Determine the effective date

Identify functional areas for participation

Discuss with internal &  
external stakeholders

Review current allowance and credit risk  
management practices to leverage

Identify systems & identify and retain data  
for your firm

Evaluate and plan for capital impact

Make an actionable plan with accountability

## Don'ts

Don't wait to prepare – CECL is coming

No artificial inflation of ALLL to smooth  
impact of adoption

No “cookie jar” reserves

Don't overlook CECL's scope

Don't confuse complexity with success