

Office of the Chief Accountant

CECL: 2017 OCC Mutual Forum

October 18, 2017

23. What should institutions expect from their examination teams prior to the effective date of the new accounting standard? [December 2016]

During the early part of the implementation phase for the new accounting standard, examiners may begin discussing the status of an institution's implementation efforts.²⁶ Throughout the implementation phase, examiners will tailor their expectations based on the size and complexity of the institution and the effective date of the new accounting standard applicable to the institution. In doing so, examiners will be mindful of the scope and scale of changes necessary for each institution to make a good faith effort to achieve a sound and reasonable implementation of the new accounting standard. For further information on planning and preparing for the new accounting standard, including examples of initial implementation efforts, refer to the response to question 22.

Until CECL's effective date, the agencies will continue to examine credit loss estimates and allowance balances using examination procedures applicable to ensuring compliance with an incurred credit loss methodology consistent with existing U.S. GAAP, the guidance in the December 2006 Interagency Policy Statement on the Allowance for Loan and Lease Losses, and the agencies' policy statements on allowance methodologies and documentation.²⁷

<https://www.occ.treas.gov/news-issuances/bulletins/2016/bulletin-2016-45.html>

22. What should institutions do to prepare for the implementation of CECL? [December 2016]

To plan and prepare for the transition to and implementation of the new accounting standard, each institution is encouraged to:

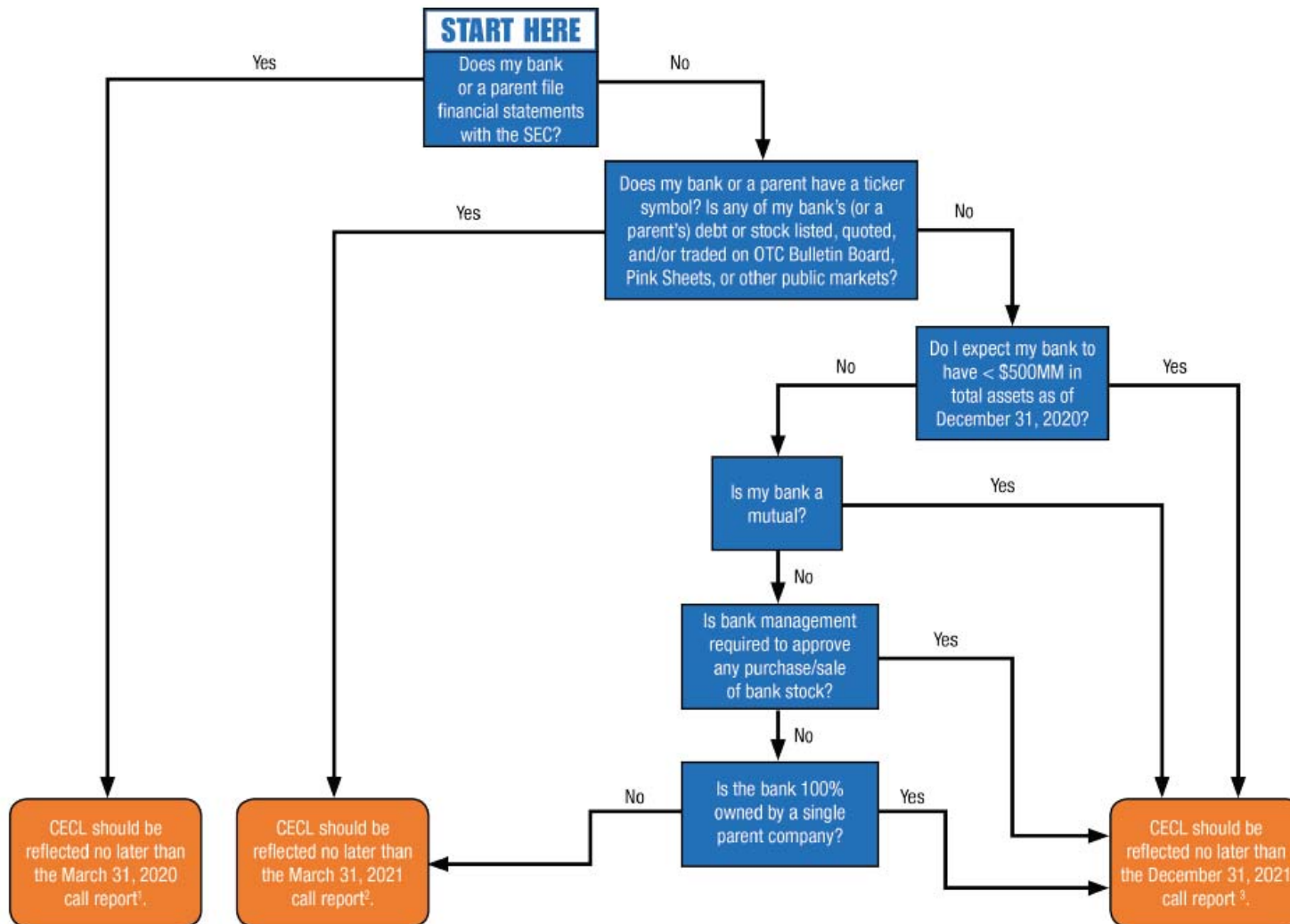
- Become familiar with the new accounting standard and educate the board of directors and appropriate institution staff about CECL and how it differs from the incurred loss methodology;
- Determine the applicable effective date of the standard based on the PBE criteria in U.S. GAAP;
- Determine the steps and timing needed to implement the new accounting standard;
- Identify the functional areas within the institution that should participate in the implementation of the new standard;
- Discuss the new accounting standard with the board of directors, audit committee, industry peers, external auditors, and supervisory agencies to determine how to best implement the new standard in a manner appropriate for the institution's size
- Review existing allowance and credit risk management practices to identify processes that can be leveraged when applying the new standard;
- Determine the allowance estimation method or methods to be used;
- Identify currently available data that should be maintained and consider whether any additional data may need to be collected or maintained to implement CECL. Examples of types of data that may be needed to implement CECL include: origination and maturity dates, origination par amount, initial and subsequent charge-off amounts and dates, and recovery amounts and dates by loan; and cumulative loss amounts for loans with similar risk characteristics;
- Identify necessary system changes to implement the new accounting standard consistent with the new standard's requirements and the allowance estimation method or methods to be used; and
- Evaluate and plan for the potential impact of the new accounting standard on regulatory capital.

CECL: Effective Dates

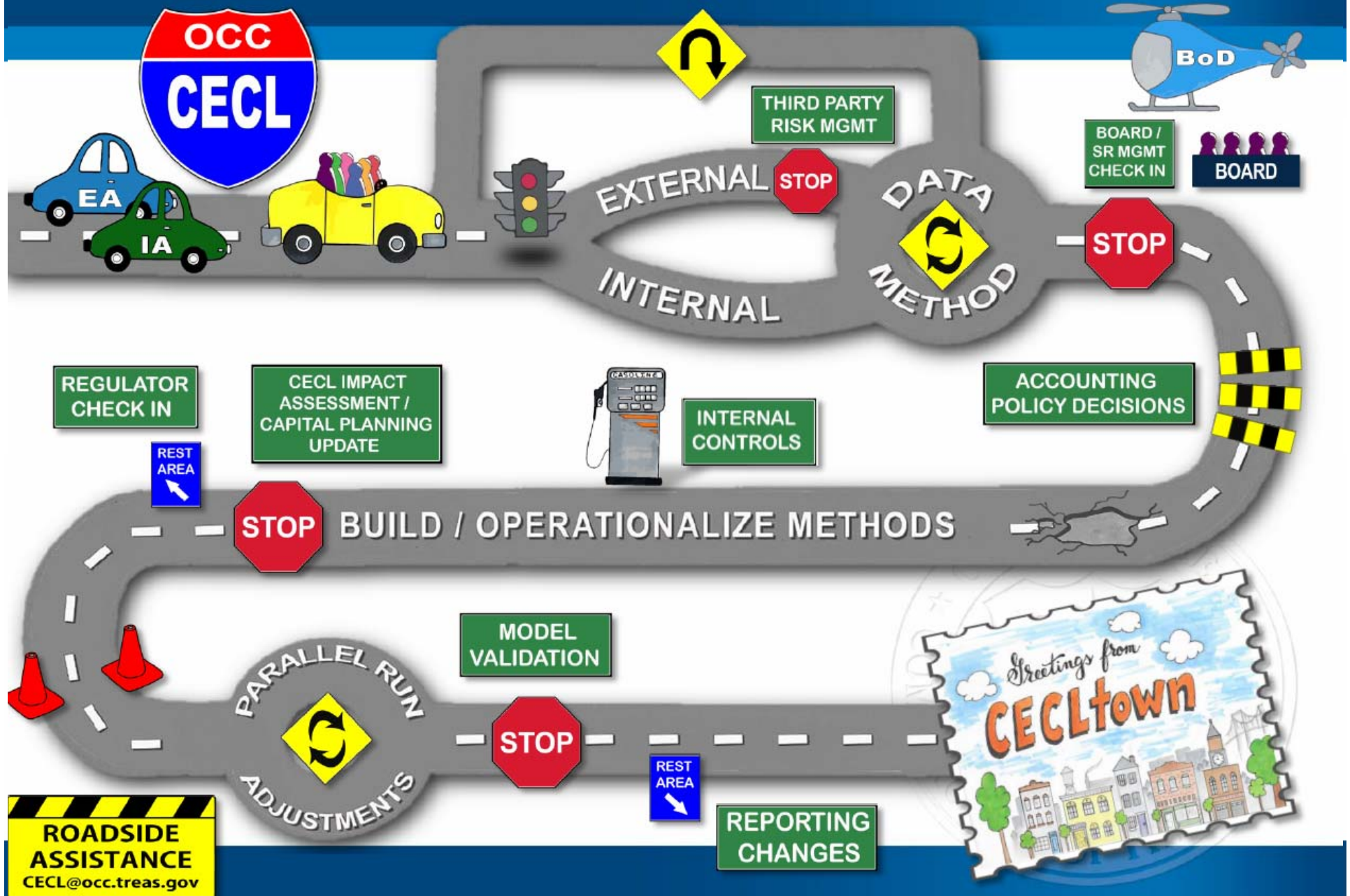
| Entity Type | U.S. GAAP Effective Date | Call Report Effective Date* |
|--|--|---|
| Public Business Entities (PBEs) that are SEC Filers | Fiscal years beginning after 15 December 2019, including interim periods within those fiscal years | Q1 2020 (31 March 2020) |
| Other PBEs** (Non-SEC Filers) | Fiscal years beginning after 15 December 2020, including interim periods within those fiscal years | Q1 2021 (31 March 2021) |
| Non-PBEs | Fiscal years beginning after 15 December 2020, including interim periods beginning after 15 December 2021 | Q4 2021 (31 Dec 2021) |
| Early Application | Early application permitted for fiscal years beginning after 15 December 2018, including interim periods within those fiscal years | Permissible <u>no</u> earlier than 31 March 2019 |

* For institutions with calendar year ends.

CECL Decision Tree

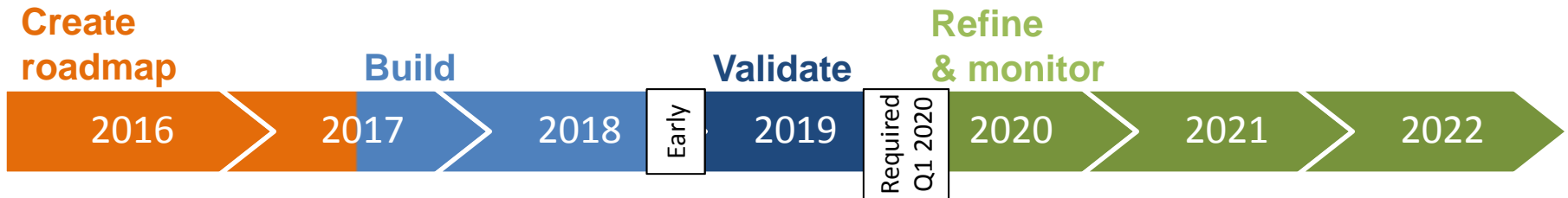


The Road to CECL



CECL: Implementation

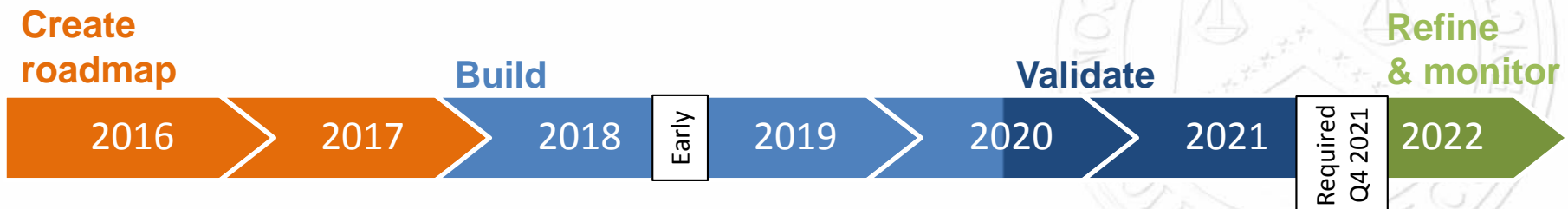
1. SEC Filers



2. Non-SEC Filing Public Business Entities



3. All Other Entities



CECL: Implementation

Create
Roadmap

Build

Validate

Refine &
monitor

Create Roadmap

- Become familiar with final standard
- Establish cross-functional implementation team
- Develop implementation plan and timeline
- Discuss plan with Board, external auditor, peers, and regulators
- Review current allowance and credit risk management practices to identify processes that can be leveraged
- Determine the allowance estimate method (or methods) to be used
- Consider data availability and needs

CECL: Implementation

Create
Roadmap

Build

Validate

Refine &
monitor

Data Considerations

- Identify currently available data that should be maintained
- Stop over-writing data that may be useful in measuring credit quality over the life of the loan (i.e. risk grades, past due status, etc.)
- Perform a data gap analysis
- Determine how/when to begin collecting additional data, if needed
- Establish controls over the completeness and accuracy of this data

CECL: Implementation

Create
Roadmap

Build

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Data Considerations

Examples of types of data that may be needed to implement CECL include
Loan-level

- origination and maturity dates
- origination par amount
- initial and subsequent charge-off amounts and dates
- recovery amounts and dates
- renewal or modification dates

Cumulative loss amounts for loans with similar risk characteristics

CECL: Implementation

Create
Roadmap

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Build

- Evaluate quantity and quality of historical data
- Address any needed data-archiving improvements and/or system changes
- Build or update methodologies
- Address accounting policy questions
- Consider information needed for disclosure requirements (if applicable)
- Plan for the potential impact on capital
- Present projected impact on earnings and capital to the board and senior management
- Develop process documentation and establish controls

CECL: Implementation



Validate

- Consider parallel run and adjust method/model as needed
- Test the control environment for new methods/models
- Update projected impact on earnings & capital and consider disclosure requirements
- Review instructional and form changes for call reports

Refine & monitor

- Assess accuracy of method/model and refine inputs and approach as necessary
- Continue to provide the Board and senior management with updates on reserve levels and any changes to models/ processes
- Respond to any concerns raised by external auditors and/or regulators

CECL Questions?

Please send them to:

CECL@occ.treas.gov

