

“CECL Update: Frequently Asked Questions”

(We’ll get started at the 3pm ET/ 2pm CT)

- **Reminders:**

- Please send in your questions at any time: fedperspectives@stls.frb.org
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 - Conference code: 1756 0245#

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Current Expected Credit Loss (CECL) Update: Frequently Asked Questions (FAQs)

October 3, 2017

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Welcome

- **Logistics**

- Call-in number: 888-625-5230
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- **Webinar**

- You can choose to listen to the audio through your PC speakers or dial in through the phone option. **Please note:** If you experience problems with the PC audio at any time, you can dial in using the number and code above.
- Polling
- **Materials** button

- **How we'll take questions**

- Use the **Ask Question** button in the webinar
- Email us at rapidresponse@stls.frb.org
- Ask a live question by pressing *1 on your phone

- **Legal Disclaimer**

- The opinions expressed in the presentations are intended for informational purposes and are not formal opinions of, nor binding on, the Federal Reserve Bank of St. Louis or the Board of Governors of the Federal Reserve System

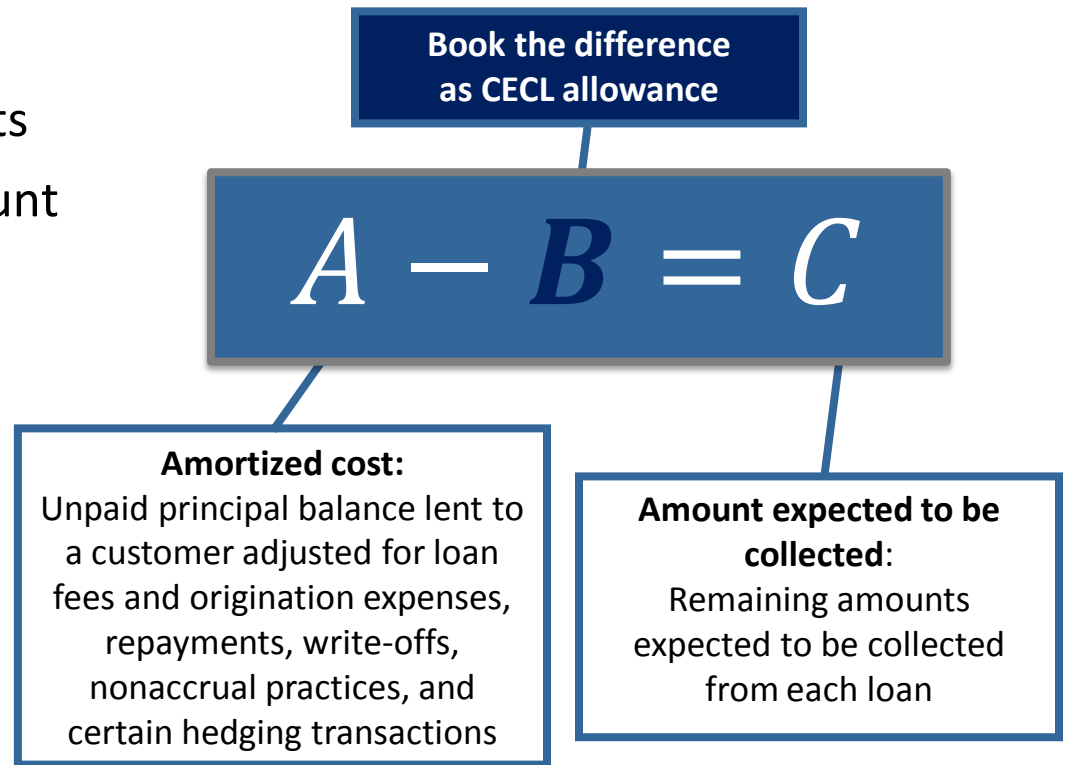
Goals of Today's Session

- Understand the basics of CECL and the current state of implementation
- Obtain answers to FAQs related to CECL
- Identify CECL issues currently in discussion by the standard setter, industry, audit firms, and banking regulators
- Answer your questions

CECL Overview

What is CECL?

- A valuation account
- Deducted from amortized cost basis of financial assets
- Used to present “net amount expected to be collected”
- Changes flow through net income



Existing U.S. GAAP Versus CECL

| | Existing U.S. GAAP | CECL |
|--|---|--|
| When are losses recognized? | When it is probable a loss has been incurred (+ four other models) | No recognition threshold , current expectations are updated at each reporting date |
| How much loss is recognized? | Recognize the amount of loss that has been incurred | Recognize an allowance to reduce the net carrying value to the amount expected to be collected over the contractual term |
| What information is used in determining loss? | <ul style="list-style-type: none"> • Past events • Current conditions | <ul style="list-style-type: none"> • Past events • Current conditions • Reasonable and supportable expectations about the future |

Scope

| Loans | | Debt Securities | |
|---|---|---|---|
| <i>Amortized Cost Method</i> Held for investment | CECL P C D | Held to maturity | CECL P C D |
| | <i>Various Fair Value Methods</i> Held for sale | Lower of amortized cost basis or market ** | Available-for-sale (AFS) P C D |
| Trading | | | Fair value-net income ** |

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

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

P
C
D Allowance for purchased credit deteriorated financial assets is determined in similar manner; however, initial allowance is added to purchase price, rather than as provision expense.

Source: Based on the Financial Accounting Standards Board’s Federal Financial Institutions Examination Council presentation

Effective Dates

| Entity Type | U.S. GAAP Effective Date | Regulatory Report Effective Date* |
|---|---|---|
| Public business entities (PBEs) that are U.S. Securities and Exchange Commission (SEC) filers | Fiscal years beginning after December 15, 2019, including interim periods within those fiscal years | Q1 2020 |
| Other PBEs** (non-SEC filers) | Fiscal years beginning after December 15, 2020, including interim periods within those fiscal years | Q1 2021 |
| Non-PBEs | Fiscal years beginning after December 15, 2020, including interim periods beginning after December 15, 2021 | Q4 2021 |
| Early application | Early application permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years | Permissible no earlier than March 31, 2019 |

* For institutions with calendar year-ends

** A PBE that is not an SEC filer would include: 1) an entity that has issued securities that are traded, listed, or quoted on an over-the-counter market and 2) an entity that has issued one or more securities that are not subject to contractual restrictions on transfer and is required by law, contract, or regulation to prepare U.S. GAAP financial statements and make them publicly available periodically (e.g., pursuant to Section 36 of the Federal Deposit Insurance Act and Part 363 of Federal Deposit Insurance Corporation regulations).

Previous Ask the Fed/*Fed*Perspectives

- **Ask the Fed:**

- CECL Update: Current Supervisory Views (October 5, 2016)
- Loss Data, Data Analysis, and the Current Expected Credit Loss (CECL) Model (October 22, 2015)

- ***Fed*Perspectives:**

- Current Expected Credit Loss (CECL) Update: Current Supervisory Views (October 5, 2016)
- An Overview of the Current Expected Credit Loss Model (CECL) and Supervisory Expectations (October 30, 2015)

FAQs

Interagency FAQs

- Developed to assist institutions and supervisory staff
- Agencies strongly support CECL.
- FAQs will continue to be added or updated periodically:
 - Latest complete set of FAQs can be found in [SR Letter 17-8, “Frequently Asked Questions on the Current Expected Credit Losses Methodology \(CECL\)”](#)

Key Details

Measurement methods

Collateral-dependent financial assets

Portfolio segmentation

Qualitative factors

Data

Types of data

Data availability

Complex models needed?

Use of third-party service provider

Interaction with Regulatory Measures

Regulatory capital

Stress testing

Changes to regulatory reports

Current State of Implementation

Regulatory and Examination Approach

Regulatory tone and process

Examination approach

Regulatory agencies coordination

Current Hot Topics

Troubled debt restructurings

Credit cards

Reasonable and supportable

Zero credit losses

To Ask a Question

- Use the chat feature in the webinar
(*Ask Question* button on bottom of screen)
- Email your question to: fedperspectives@stls.frb.org

Thanks for joining us.

<https://www.stlouisfed.org/perspectives/>