AICPA Guidance On CECL

regulatory CECL risk management

Summary: The American Institute of CPAs is planning to shed some light in its upcoming release of guidance on CECL. As the only bank in the AICPA Task Force Meetings, we share some thoughts on the main points covered.

PwC finds that while 81% of Boomers say their primary bank is where they hold their checking account; that dips to 74% for Gen X and only 65% for Millennials. Technology & behavioral changes show fewer people have such accounts or still use them.

As above, changes are occurring all around banking and one area creeping along is CECL. Bankers continue to search for guidance from regulators and auditors so today we share news that the American Institute of CPAs (AICPA) is planning to shed some light in its upcoming release of guidance on the subject.

As the only bank in the AICPA CECL Task Force Meetings, we found many of the topics to be consistent with our expectations, as we all await the final AICPA Guidance later this summer.

The main topics addressed in these meetings won't surprise bankers: 1) **validation & controls around data;** 2) **well-documented and supported methodologies and Q factors**, with the appropriate governance and controls; and 3) **bank management responsibilities**. We will be covering each of these topics in depth in the coming weeks, as we predict that the AICPA guidance will align closely, but here is a summary.

One of the most important things to note is that there was a clear message that CECL is a "fresh start" from the current incurred loss (ICL) approach.

The AICPA notes that loss estimates will be assessed under ASC 326 (CECL), so it is important that institutions remember not to anchor Q factor concepts to the ICL Q factor concepts of the past. The nuance is that while Q factor categories may be alike, the measurement objectives of CECL are different from ICL. So, it should not be assumed to use the same or similar adjustments.

After getting into this mindset, data is an important place to start, of course. The AICPA notes that data must be reliable, relevant and consistent. This means that the data must be as complete as possible.

Of course, most institutions will have data gaps, so supplementing those data gaps also needs to be relevant and appropriate for your business. That means local external data could be better than national external data. No matter what, of course, internal controls should be in place when choosing any external data, including using the same assumptions for forecasting scenarios.

Once your data is complete and meets the necessary criteria, you will need to choose the best model and methodologies for your institution. The AICPA notes that all decisions need to be well-documented & supported, so model transparency is critical.

Also, Q factor adjustments are to be used where there are model limitations, so Q factors must be challenged overall and also period over period. Whether model development is done in-house or with a third party, the auditors expect the same things from bank management. It is important to understand fully and be able to explain the inputs, assumptions and reasoning for any decisions. No matter your approach, the AICPA emphasizes that management must have full command over data, model validation, and management controls - including appropriate system and organization controls (SOC) reports. More soon.

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