Using Extra Time Wisely With FASB's CECL Delay

regulatory CECL risk management

Summary: FASB has made it clear that CECL is complex enough to propose extending the deadline. Knowing that, we provide you with a few things to remember as you assess your timeline.

One interesting area of governmental research comes from the Bureau of Labor Statistics (BLS), which tracks how people spend their time. It finds the winner is personal care, including sleep, where we spend about 9.6 hours. That is followed by leisure/sports (5.3), working/work related (3.6), household (1.8) and eating/drinking (1.2).

Speaking of how bankers spend their time, we recently provided readers with the reason FASB has proposed extending the effective date for CECL - to give everyone more time for a complex rule. If you missed it, you can read the article, FASB Proposed CECL Delay but No Time to Waste here.

Since FASB has made it clear that CECL is complex, you will want to use the extra time to assess where you are in your timeline and what obstacles you may still need to overcome. One of the biggest is ensuring you have enough data.

Here are a few other things to think about as you continue to move forward on CECL.

Holistic Approach Needed - In addition to having a heavy data-gathering requirement, CECL is a complicated change-management project. It has implications that reach far beyond the accountants, so successful compliance can't happen unless an institution looks holistically at how it sets reserves and examines the entire process from end to end.

Choosing Methods Takes Time - It takes time to choose the right modeling methodology. After all, there are 7 methods, including probability of default, discounted cash-flow, historical loss rates, and WARM/WARL for instance. These are all acceptable to regulators, as long as institutions document the details and come to supported, reasonable conclusions. Companies can even mix and match methods, to address the needs of different loan portfolios. Figuring that out will take time, of course.

Testing Is Key - No matter which method or combination is initially chosen, it is important to note that a model can only calculate expected credit losses accurately by doing multiple runs. Knowing for sure may take as long as six months. Financial institutions should run the current loan loss reserve model and the chosen CECL model in parallel, so you have time to compare results, back test and fix anomalies, as they arise.

Incorporating New Assets - Projecting asset volumes and loss rates on a quarterly basis is a big job. It is made tougher when you must incorporate data from new assets, so the entire operation must work in concert. Loan officers, accounting, the CFO, finance, IT, and the risk and credit departments will all be involved. Every one of these people will need training, an awareness of what CECL involves, and time to automate and adjust current processes to make everything work correctly. Some of the toughest changes an institution can make involve asking people to work differently, so start soon to avoid pressure.

For banks seeking assistance, we offer you a resource in our CECL Resource Library or you can also contact our CECL experts today. We are here to help financial institutions on this issue, so please reach out, as needed.

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