



CECL Is Still On The Horizon - Three Considerations

CECL risk management pandemic

Summary: With the pandemic, CECL may not be top of mind. So, we have three considerations to keep you on track.

While most of the globe has been explored, Pitcairn Island off of New Zealand, and Palmerston Island in the South Pacific are relatively uncharted territories.

Speaking of uncharted territory, the pandemic definitely blew all of us off course from our plans for the year. Further, we remain in uncharted territory as we budget and plan for 2021, with trillions of stimulus dollars pumped into the economy and a continued shortage of coin. With all of this and more, CECL may not have been top of mind. Yet, it is still coming. For most non-SEC filers, CECL starts in 2023. To help bring it back to the forefront, we bring up some important considerations as you continue planning.

Realistic implementation schedule. Many of the SEC-reporters commented that they needed the full year of parallel testing as FASB recommended. With the amount of uncertainty generated from this pandemic, a year sounds reasonable. So that takes up most of 2022. But before running in parallel, there are several tasks that will take some time including: segmenting properly, communicating assumptions, and keeping your board and your auditors informed of your decisions. Remember too that this is not the only project or task you have either. The best time to thoughtfully work on CECL is in between year-end prep and audit season (Q1) and before the budget season (late Q3 and Q4). This leaves Q2 next year to work on CECL and any other special projects that were delayed from 2020.

What if CECL is delayed? But what if you're thinking - "that CECL thing" - it will get canceled or delayed further for us small banks? You might be right, but recent delays in CECL have carried a stick. For instance, with the large banks, if you opted to delay CECL implementation, you still had to make estimates based upon the CECL standard. As we're living in a period of high uncertainty, if you decide to wait longer, consider a CECL insurance policy - having a low-cost solution or a contract that allows you to cancel without penalty if your institution becomes exempt.

After the spreadsheet. For those of you who have planned ahead and have already built your CECL models on spreadsheets, congratulations! Now is the time to honestly assess your work. Does it make sense? Have you shared your methodology with your accountants? Have you had your model validated? Most smaller banks might not have enough loss history and find that they need some help with industry data to augment data. Now is the time to fill in any gaps or at least identify who or how those gaps are to be filled

Regardless of where you are in the schedule for CECL - this year-end is a good time to assess your progress and plan. If you need help, remember that we are the only bank that created its own CECL solution. We are going through this with you. Contact us today.

THREE TIERS TO FIT YOUR CECL NEEDS

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