

RESUMING CECL COMPLIANCE PLANNING

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Community banks that put current expected credit loss standard (CECL) work on the back burner during the pandemic are finding they need to once again bring it to the front burner and begin planning and implementation steps.

As many bankers are discovering, CECL can be more than a straightforward change in accounting methods. It has the potential to create material changes in the capital and reserve amounts needed to backstop expected credit losses.

The new CECL rules require institutions to be more forward-looking and utilize predictive forecasting models to estimate potential losses. Although community banks have enjoyed a longer grace period compared to the large banks that have already implemented CECL, there are steps that need to be taken now to prepare for the January 1, 2023 start date.

UNDERSTANDING KEY DIFFERENCES

It is easy to get stuck in the weeds in the details of CECL. From a high-level view, CECL has some key differences as compared to incurred loss. Dun & Bradstreet groups these differences into three important changes for bankers to recognize.

- Focus on forward-looking data versus past performance
- Group or cluster HTM securities and loans by risk profiles
- Provide consistent assumptions for losses for monitoring, auditing, and for all other forward-looking solutions

TIPS TO GET STARTED WITH CECL

The focal point of CECL is developing and validating a forecasting model, which will need to take into account the size and complexity of an institution's credit and security portfolios. Those models need to be transparent and defensible.

Another important piece will be managing the data inputs for those models. Community banks need to start gathering data internally, as well as determine what external or third-party data sources they need to access.

Additionally, you need to think about how you are going to manage, store, and update data. Below are **six simple steps** to help you resume your CECL compliance preparedness.

1. **Form a CECL preparedness team.** There will be a lot of heavy lifting ahead in preparing and implementing this new strategy. Include a good cross-section of disciplines, perspectives, and expertise to make sure all issues are addressed, such as credit (loans), accounting (reserves & securities), technology (data & new tools), and compliance (audit and regulatory expectations). This is a key component in ensuring your implementation goes smoothly. Don't forget to include Board training.

2. **Create a realistic timeline.** The American Institute of CPAs (AICPA) recommends running one year in parallel. To accomplish this, you'll need to have your model configured by the end of this year.
3. **Look for third-party expertise.** This type of project can be daunting and time-consuming, even with the best-laid plans. Consider working with third-party experts that can help put you on a path to success. Consultants can bring expertise and resources that can help to create a more efficient transition to CECL compliance.
4. **Evaluate ALM and stress test.** Although often more applicable to large banks, a Loan & Capital Stress Test also can be a valuable tool to assess CECL readiness for community banks. Such tests help account for different potential loss rate scenarios. Additionally, you'll need to review the assumptions in your asset liability management (ALM) solution and other solutions using similar forward-looking assumptions, to ensure that these are consistent and defensible throughout your institution.
5. **Review lessons learned.** Community banks can gain some insight into the process and impact of CECL from the big banks, specifically the public disclosures, earnings calls, and reports from publicly traded companies. The AICPA is another resource that is tracking known CECL issues. Currently, that list includes more than 40 topics that range from appropriate considerations for a forecast period to how to account for troubled debt restructurings.
6. **Utilize available resources.** There are a variety of resources ranging from FAQs to webinars and audio presentations. Besides the AICPA website, you might want to check out PCBB's CECL Resource Library.

CECL is coming and it is important to be prepared. The steps above will get you on the right path. But, if you find you need extra help, contact Earl Charneske.

PCBB

Dedicated to serving the needs of community banks, PCBB's comprehensive and robust set of solutions includes: cash management, international services, lending solutions, and risk management advisory services.

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