



Developing A CECL Communication Strategy

CECL risk management investors

Summary: For bankers coming to the end of their CECL build phase and now seeing dry runs of reports, some may find dialog with investors picking up too. We explain how to set up your communication strategy.

When it comes to birthdays, did you know: the most common birth date in the US is October 5; the least common is May 22; almost 2B birthday cards are sent in the US each year; and in a group of 23 people there is a 50% chance that two have the same birthday. You also need to use the right ingredients to make a decent birthday cake.

Many community bankers we know have been slowly gathering the proper ingredients to mix and eventually bake that cake known as CECL. For those estimated 5% to 7% who are far enough along to think about communication strategy, this BID is for you. For those who are still in motion and moving along, this might be a good one to reference when you eventually get there or in the months prior.

For bankers coming to the end of their CECL build phase and now seeing dry runs of reports, some may find dialog with investors picking up too. Because CECL is new and different, your communication strategy will likely need to use qualitative and quantitative information to tell a complex story about an estimate with significant stakes for your market valuation. You'll need to invest substantial time in developing a communication strategy, starting early to identify the questions that investors may ask and crafting intelligent, accurate answers.

"Nobody likes surprises," points out SEC chief accountant Wesley Bricker. "Transition disclosures enable investors to understand the anticipated effects of the new standard."

What should you be telling your shareholders? Start with a simple explanation of CECL terms and key ideas. Then, describe the methodology and any new judgments that your bank's management will need to make. Add a visual depiction of the economic assumptions that go into CECL compliance and a description of CECL's effects on each lending portfolio, and you've got a great mix starting to take shape toward explaining what's happening and what it means for your institution.

Investors who still have questions will likely focus on three individual areas: the methods and measurements your bank will use, CECL's effect on the bank's current and future strategies, and your implementation status and communication plan. Questions might include: What's the effect of CECL on the bank's current and future capital plans? How does it affect bank capital (primarily at adoption and during the first post-adoption transition)? How far along is the bank's CECL implementation? Will CECL mean that your bank cancels or delays new products?

There are plenty of others, because after all, this is a big shift. Shareholders will be reassured to hear that you're on track to comply with the new rule on time and extra confidence may come from understanding the extent of any planned dress rehearsals.

CECL is also a complex story that could have a huge effect on market valuations and possibly the ability of banks to even raise capital at reasonable pricing (depending on perceived risk in portfolios and volatility

associated with each one). Good luck to all as you work the ingredients, and don't hesitate to contact us for help if you need it or want to discuss something that has cropped up along the way.

CECL SOLUTION - WITH YOU, EVERY STEP OF THE WAY

CECL is one of the biggest challenges for community bankers these days. Our experts are ready to guide you every step of the way through this integration with no software to maintain. Learn more about our [CECL Solution](#).

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