

# MANAGEABLE CECL IMPLEMENTATION TIMELINE

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The Current Expected Credit Loss standard, Accounting Standards Codification 326, or intimately known as CECL, has been a hot topic in the banking industry since the Financial Accounting Standards Board's first CECL exposure draft in 2012. The CECL standard was issued in June 2016, and Accounting Standards Update No. 2019-10, issued in November 2019, finalized delays to the required adoption date for SEC smaller reporting companies, public business entities that are non-SEC filers, and non-public business entities. While implementation is commonly perceived to be “a ways out,” the time is now to get the plan in place to ensure proper implementation.

As a reminder, the standard has the following updated effective dates:

- SEC filers (not smaller reporting companies) – fiscal years beginning after 12/15/19 (including interim periods). With relief in the CARES Act, institutions required to adopt CECL in the first quarter of 2020 were provided with an option to delay CECL implementation until the earlier of December 31, 2020 or the date on which the national emergency concerning COVID-19 terminates.
- SEC filers (smaller reporting companies) – fiscal years beginning after 12/15/2022 (including interim periods) - 2023 for calendar year ends
- Public business entities, as defined, that are not SEC filers – fiscal years beginning after 12/15/22 (including interim periods) - 2023 for calendar year ends
- All others – fiscal years beginning after 12/15/22 (including interim periods) - 2023 for calendar year ends
- Early adoption is permitted for fiscal years beginning after 12/15/18 - 2019 for calendar year ends

The following timeline, which is broken-down into six-month manageable phases, is designed to prevent late-inning scrambling and assumes that the institution is a non-early adopter of the standard and is not a SEC filer that does not qualify as a smaller reporting company.

## **PRE-PLANNING – due by June 30, 2020**

- Create a “CECL Committee”
- Analyze standard and understand where the Bank needs to be
- Review existing allowance for loss calculation and credit risk management practices to identify processes that can be leveraged

## **PLANNING & RESEARCH – due by December 31, 2020**

- Develop internally detailed plan and timeline (“road map”)
- Weigh benefit of modifications to existing approaches, systems and applications versus investing in new
- Gather data by loan type and determine pools
- Identify risk drivers for each pool
- Identify internal and/or external resource needs

## **SCENARIOS & MODELING – due by June 30, 2021**

- Determine appropriate method to estimate losses for each loan pool
- Determine and obtain necessary historical loss experience on the pools being evaluated
- Apply reasonable and supportable forecasts to historical loss experience and current conditions
- Discuss plans with regulators and auditors

## **DATA TESTING – due by December 31, 2021**

- Test data integrity of historical loss data, credit risk data, and forecasts
- Test that forecasts are well supported and used accurately
- Develop new processes and internal controls for ongoing testing

## **PARALLEL RUNS & VALIDATION – due by June 30, 2022**

- Run parallel systems – you should now be able to quantify the estimated effect on earnings and capital upon implementation
- Manage investor expectations
- Prepare to disclose the impact of adoption
- Consider impact on forecasting, budgeting and capital planning
- Refine documentation of the allowance for loss calculation and have documentation ready to hand over to regulators and auditors
- Ensure regulators and auditors are “on board” with plan

## **MONITORING & FINAL – due by December 31, 2022**

- Monitor regulatory interpretations and application of standard
- Establish a recurring plan for ongoing monitoring and refinement
- Prepare to implement as of January 1, 2023

As indicated in the above timeline, the first deadline was June 30, 2020. Is your institution on track?

Baker Newman Noyes’ professionals in our financial institutions practice are dedicated to remaining current on the regulatory and accounting trends impacting our clients, and to keeping our clients informed of those trends and how they might impact our clients’ businesses. Should you have questions about CECL, the implementation systems and procedures in preparation for CECL, or any other areas in which we can be of assistance, please contact your BNN advisor at 800.244.7444.

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