

Introduction to FASB's CECL

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Overview

- ▶ What is CECL?
- ▶ CECL Impact
- ▶ Actuarial Opportunity?

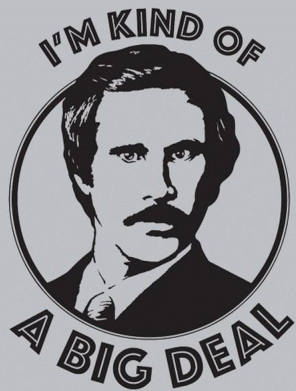



What Is CECL?



What is CECL?

- ▶ Current Expected Credit Loss (CECL)
- ▶ #1 on Forbes “Five Things Every Financial Services Professional Needs To Know For 2018”
- ▶ “This standard is expected to have a huge impact on the costs to prepare and audit the ALLL, how investors analyze the ALLL, and how banks manage their capital.”
—ABA
- ▶ “the biggest accounting change in banking history”
— Bank Administration Institute





What is CECL? (cont.)

- ▶ **Financial Institution contra asset for loan losses**
 - ▶ Allowance for Loan & Lease Losses (ALLL)
 - ▶ ALLL=NPV CF's not collected over lifetime
 - ▶ Income adjustment (as a credit loss expense)
- ▶ **Pre-CECL**
 - ▶ Recognize ALLL if it is probable that a loan loss will be incurred and the amount of the loss can be reasonably estimated
 - ▶ " restricts the ability to record credit losses that are expected, but do not yet meet the "probable" threshold."—ASU 2016-13
- ▶ **Post-CECL**
 - ▶ Recognize current estimate of lifetime expected credit losses
 - ▶ Expectation is earlier recognition



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