A TOOL FOR AUDIT COMMITTEES

CENTER FOR AUDIT QUALITY

# PREPARING FOR THE NEW CREDIT LOSSES STANDARD

## ABOUT THE CENTER FOR AUDIT QUALITY

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high-quality performance by public company auditors; convenes and collaborates with other stakeholders to advance the discussion of critical issues that require action and intervention; and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, DC, the CAQ is affiliated with the American Institute of CPAs.



# PREPARING FOR THE NEW CREDIT LOSSES STANDARD

# INTRODUCTION

The Financial Accounting Standards Board (FASB) has issued a new accounting standard[1] that will significantly change how companies account for credit losses for most financial assets and certain other instruments.[2] One key change is the requirement to measure certain credit losses under a new model, commonly referred to as the current expected credit loss (CECL) model. For most calendar year–end public companies considered Securities and Exchange Commission (SEC) filers, the new standard is effective January 1, 2020.

The new standard has broad implications across the financial reporting ecosystem and affects companies holding financial assets and net investment in leases that are not accounted for at fair value through net income. As investors look to understand the impact of the new standard, it is important now for audit committee members, auditors, and preparers to plan appropriately for timely implementation.

The new standard affects accounting for loans, held-to-maturity (HTM) debt securities, accounts (trade) receivables, net investments in leases, certain off-balance-sheet credit exposures, reinsurance receivables, and other financial assets included in the scope.[3] It also makes changes to the impairment model for available-for-sale (AFS) securities. Implementation of the new standard is a significant effort and will affect many companies, not just banks.

1 Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments* (ASU No. 2016-13).

2 Accounting Standards Codification (ASC) 326-20-15-2.

3 Staff Accounting Bulletin (SAB) No. 74 (codified in SAB Topic 11.M), *Disclosure Of The Impact That Recently Issued Accounting Standards Will Have On The Financial Statements Of The Registrant When Adopted In A Future Period*, (commonly referred to as "SAB 74").

**"THE STANDARD DOES NOT SPECIFY A ONE-SIZE-FITS-ALL METHOD FOR MEASURING EXPECTED CREDIT LOSSES. RATHER, COMPANIES WILL NEED TO USE REASONABLE JUDGMENT TO DEVELOP ESTIMATION METHODS THAT ARE WELL DOCUMENTED, APPLIED CONSISTENTLY OVER TIME, AND FAITHFULLY ESTIMATE THE COMPANY'S ESTIMATE OF EXPECTED CREDIT LOSSES."**

**Wesley Bricker, SEC Chief Accountant**
**Remarks before the AICPA National Conference on Banks & Savings Institutions**
**September 21, 2016**

The Center for Audit Quality (CAQ) has developed this tool to help audit committee members execute their oversight responsibilities. The tool provides important questions to consider, such as the following:

+ How will accounting for credit losses change?
+ Is the company on track for successful implementation?
+ What are the significant judgments and estimates being made by management?
+ How is the company preparing investors to understand the impact to the financial statements?
+ What new processes and controls are being developed to consider accuracy of the adoption of the standard?
+ How will this impact regulatory matters such as regulatory capital?
+ Are the appropriate disclosures (including SAB 74) being developed?

The standard has three separate effective dates, dependent on the type of company.

+ Public business entities (PBEs) that meet the definition of an SEC filer must comply with the standard for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. In other words, for calendar year–end public companies (that meet the definition of an SEC filer), the effective date is **January 1, 2020**. This is important because companies must prepare estimates of credit losses using the CECL model at the beginning of the period for that adoption date. A calendar year–end company that is a PBE and an SEC filer would comply with the standard in its first quarterly report ending March 31, 2020.
+ PBEs that do not meet the definition of an SEC filer must comply with the standard for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. In other words, for these companies with a calendar year end, the effective date is **January 1, 2021**.

+ All other companies[4] must comply with the standard for fiscal years beginning after December 15, 2021, and for interim periods within those fiscal years.[5] In other words, for these companies with a calendar year end, the effective date is **January 1, 2022**.

+ Early application is permitted for all companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.[6]

This publication has been organized into four sections and, while not all-inclusive, provides examples of questions audit committees may ask of management and auditors related to the company's implementation efforts.

***Understanding the Standard*** provides a brief overview of the standard's core principles.

***Evaluating the Company's Impact Assessment*** suggests questions that audit committees may consider when discussing with management and auditors the impact the new standard will have on the company.

***Evaluating the Implementation Plan*** assists audit committees in their efforts to understand and evaluate management's implementation plan.

***Other Important Implementation Considerations*** provides audit committees with other considerations, such as transition methods and new disclosure requirements.

## WHY DID THE FASB ISSUE THIS ACCOUNTING STANDARDS UPDATE?

Current generally accepted accounting principles (GAAP) requires an *incurred loss* methodology for recognizing certain credit losses that delays recognition until it is probable that a loss has been incurred. Both financial institutions and users of their financial statements expressed concern that current GAAP restricts the ability to record credit losses that are expected but that do not yet meet the *probable* threshold.

The global financial crisis underscored those concerns because users analyzed credit losses by utilizing forward-looking information to assess an entity's allowance for credit losses on the basis of their own expectations. Consequently, in the lead-up to the financial crisis, users were making estimates of expected credit losses and devaluing financial institutions before accounting losses were recognized, highlighting how the information needs of users differed from what was required by GAAP. Similarly, financial institutions expressed frustration during this period because they could not record credit losses that they were expecting but that had not yet met the probable threshold.[7]

4 An emerging growth company (EGC) is an issuer with less than $1.07 billion in total annual gross revenues during its most recently completed fiscal year. If an issuer qualifies as an EGC on the first day of its fiscal year, it maintains that status until the earliest of (1) the last day of the fiscal year of the issuer during which it has total annual gross revenues of $1.07 billion or more; (2) the last day of its fiscal year following the fifth anniversary of the first sale of its common equity securities pursuant to an effective registration statement; (3) the date on which the issuer has, during the previous three-year period, issued more than $1.07 billion in nonconvertible debt; or (4) the date on which the issuer is deemed to be a "large accelerated filer" (as defined in Exchange Act Rule 12b-2). See Rule 405 of Regulation C under the Securities Act and Rule 12b-2 of the Exchange Act.

5 ASC 326-10-65-1.

6 This is the earliest application date but not the only early application date. See ASU No. 2016-13.

7 Ibid.

# I. UNDERSTANDING THE STANDARD

The new standard introduces two new subtopics,[8] applies to all companies, and applies to most financial assets that are not measured at fair value through net income (such as loans, debt securities, and accounts [trade] receivables).

The CECL model must be applied at the initial recording of the financial asset while considering both current conditions and forecasts of conditions that are reasonable and supportable to estimate the expected credit loss over the contractual life of the asset, adjusted for prepayments.[9] The complexity in the application of this standard is on the modeling and generation of the estimate of lifetime credit losses. This requires a segregation of the portfolio based on similar risk characteristics anchored in a robust risk assessment, an evaluation of the historical performance of the asset (and similar assets), current economic and other conditions, and expectations about future conditions. In many cases, companies may utilize specialists (which could involve third parties) to comply with the standard.

Audit committees should be aware of the following:

+ ***Scope:*** The CECL model should be applied to most financial assets measured at amortized cost and certain off-balance sheet exposures, except those excluded from the scope.

+ ***Estimation method:*** The allowance for credit losses may be determined using various methods. For example, a company may use discounted cash flow methods, loss-rate methods, roll-rate methods, probability-of-default methods, or methods that utilize an aging schedule. In most circumstances, a company is not required to utilize a discounted cash flow method to estimate expected credit

8 ASC 326-20, *Financial Instruments—Credit Losses—Measured at Amortized Cost*, and ASC 326-30, *Financial Instruments—Credit Losses—Available-for-Sale Debt Securities.*

9 ASC 326-20-30-6.

losses. Similarly, in most cases a company is not required to reconcile the estimation technique it uses with a discounted cash flow method.[10]

- ***Historical data:*** The company's methodology for determining historical credit loss experience may vary depending on the company's size, the range of its activities, the nature of its financial assets, and other factors.[11] Historical credit loss experience of financial assets with similar risk characteristics generally provides a starting point for a company's assessment of expected credit losses. Historical loss information can be internal or external (or a combination of both).[12] Additional and more granular historical loss information and experience, above what is used in the current incurred loss model, will likely need to be collected to provide a basis for the expected loss estimates. It will be important for companies to consider the internal control implication for all data and information used in the model. For those that do not collect the data already, there could be incremental costs for collecting and analyzing this data going forward.

- ***Reasonable and supportable forecasts:*** When a company uses historical loss information, it shall consider the need to adjust historical loss information to reflect the extent to which management expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical loss information was evaluated.[13] When developing an estimate of expected credit losses on financial asset(s), a company should consider available information relevant to assessing the collectability of cash flows. Considering available information does not require an exhaustive search, but the forecast will need to be supportable.[14]

- ***Pooling of financial assets with similar risk characteristics:*** A company should aggregate financial assets based on similar risk characteristics (e.g., credit score, credit ratings, risk ratings, financial asset type) to evaluate financial assets on a collective (pool) basis.[15]

- ***Purchased financial assets with credit deterioration (PCD):***[16] The accounting for these assets under the new standard will make the allowance for credit losses more comparable

## ALLOWANCE FOR CREDIT LOSSES

The new standard affects most financial instruments measured at amortized cost, and the greatest impact likely will be to the allowance for loan and lease losses. The current accounting is based on an incurred loss model (which recognizes losses when it is probable and reasonably estimable that a loss has been incurred). This incurred loss method of accounting has come under criticism as being insufficient and not timely, because it doesn't necessarily provide insight into the portfolio's future risks. This can be more problematic during periods of rapid economic downturn, such as the most recent financial crisis. CECL requires a forward-looking model that identifies expected credit losses starting on Day 1 of the financial asset at origination or acquisition.

Under current US GAAP, the allowance calculation is typically comprised of a *pool allowance* (ASC 450-20) for homogeneous pools and a *specific allowance* for individually impaired assets (ASC 310-10-35). Often, a historical loss rate (and/or additional assumptions that can be quantitative or qualitative) is applied to the identified pools to estimate an allowance.

10 ASC 326-20-30-3. The FASB introduced a question-and-answer document pertaining to the weighted-average remaining maturity method for estimating the allowance for credit losses in January 2019.

11 ASC 326-20-55-2.

12 ASC 326-20-30-8.

13 ASC 326-20-30-9.

14 ASC 326-20-30-7.

15 ASC 326-20-55-5.

16 ASC master glossary.

**"""I WANT TO EMPHASIZE THE POSITIVE IMPACT AN AUDIT COMMITTEE HAS ON IMPLEMENTATION WHEN IT UNDERSTANDS MANAGEMENT'S IMPLEMENTATION PLANS AND THE STATUS OF PROGRESS, INCLUDING ANY REQUIRED UPDATES TO INTERNAL CONTROL OVER FINANCIAL REPORTING. THE AUDIT COMMITTEE PLAYS A VITAL ROLE IN OVERSEEING A COMPANY'S FINANCIAL REPORTING, INCLUDING THE IMPLEMENTATION OF NEW ACCOUNTING STANDARDS."**

**Wesley Bricker, SEC Chief Accountant**
**Remarks before the AICPA National Conference on Banks & Savings Institutions**
**September 17, 2018**

between originated assets and purchased financial assets, as well as reduce complexity with the accounting for interest income.[17] Under the new guidance, the definition of PCD assets is different from the currently used vernacular of purchased credit-impaired assets. The new PCD model requires a balance sheet gross-up (amortized cost and allowance) for the Day 1 allowance. Any changes in estimates subsequent to purchase will result in changes in the allowance. These are significant changes from current GAAP under ASC 310-30 for purchased credit-impaired assets.

+ ***Troubled debt restructurings (TDRs):*** The new standard does not change the definition for when a TDR occurs but affects the timing of when the related allowance is recorded.[18] The allowance related to TDRs is no longer recorded when the TDR occurs, but when the TDR is reasonably expected to occur.

+ ***AFS debt securities:*** Under the new standard, credit impairment will be recognized through an allowance for credit losses, unlike existing guidance, which requires credit impairment to be recognized through a direct write-down of the security. Therefore, reversals of previously recognized credit losses through net income will be permitted.[19]

+ ***Disclosures***

  - ***Transition disclosures:*** Public companies are required to disclose the impact of new accounting standards.[20] These companies should generally consider the following disclosures:

    - A brief description of the new standard, the date that adoption is required, and the date that the company plans to adopt, if earlier

17 See ASU No. 2016-13.

18 ASC 310-40.

19 ASC 326-30-35-3.

20 SAB 74 (codified in SAB Topic 11.M).

- A discussion of the methods of adoption allowed by the standard and the method expected to be utilized by the company, if determined

- A discussion of the impact that adoption of the standard is expected to have on the company's financial statements, unless not known or reasonably estimable. In that case, a statement to that effect may be made.

- Disclosure of the potential impact of other significant matters that the company believes might result from the adoption of the standard (such as technical violations of debt covenant agreements, and planned or intended changes in business practices) is encouraged.[21]

- ***New disclosures:*** PBEs now have a new required *vintage disclosure*[22] that is optional for non-PBEs. In addition, companies will have to decide how to disclose information about models, significant assumptions, and whether to include sensitivities. The implementation of the new standard will impact disclosures related to credit risk and the measurement of credit losses including, but not limited to, the following:

    - Purchased financial assets with credit deterioration[23]

    - Collateral-dependent financial assets[24]

    - Available-for-sale, debt securities in unrealized loss positions without an allowance for credit losses

+ ***Communication:*** Companies should communicate with investors early and often about the new standard. New terms may be developed, or existing terms may have new meanings. Some currently used metrics and relationships may become obsolete or require different interpretation. For example, generally under current US GAAP the loan loss provision increases when there is an increase in delinquent loans. Under the new standard, loan loss provisions are to be recorded at loan origination; therefore, an increase in loan delinquencies may not necessarily have a corresponding effect on the credit losses. Performance of the existing loan portfolio that is inconsistent with expectations or the credit quality of new originations will likely be the main drivers of changes period over period. Investors and others need to be alert to these changes.

+ ***Banking regulators and the impact of US GAAP on regulatory capital for financial institutions:*** Upon initial adoption, the earlier recognition of credit losses under the new standard likely will increase allowance levels and lower the retained earnings component of equity, thereby lowering common equity Tier 1 capital for regulatory capital purposes. However, the actual effect of implementation on regulatory capital will vary by institution and depend on many factors, such as current and future expected economic conditions, the level of an institution's allowance balances, its portfolio mix, its underwriting practices, and its geographic locations and those of its borrowers, and the effect of these factors on the collectability of an institution's held-for-investment loans and HTM debt securities on adoption.[25]

21 ASC 250-10-S99-6.

22 Disclosure based on year of origination or vintage. See ASC 326-20-50-6.

23 ASC 326-30-50-19 and ASC 326-30-50-10.

24 ASC 326-20-50-20.

25 Federal Deposit Insurance Corporation, Frequently Asked Questions on Accounting and Auditing: Current Expected Credit Losses (CECL) Question #18.

# II. EVALUATING THE COMPANY'S IMPACT ASSESSMENT

The new standard is expected to have a significant effect on many companies. However, the degree of impact will depend on a variety of company-specific factors. Management may perform a preliminary high-level *impact assessment* to consider what impact the new standard will have on the company (e.g., limited, moderate, or significant). The impact assessment may be useful to guide the implementation plan, including consideration of needed resources.

The following questions may help audit committees evaluate management's impact assessment:

1. How has the standard's impact on the company been assessed?

2. Were all relevant parties involved in assessing and understanding the potential impact of the standard, such as accounting, tax, communications, financial reporting (including internal control over financial reporting), financial planning and analysis, investor relations, risk, credit, operations (data retention for forecasting), treasury, and information technology?

3. What factors were considered in management's impact assessment? These factors may include the following:

   a) Company industry

   b) Extent of impacted financial statement line items (e.g., allowance for credit losses, AFS and HTM debt securities, receivables, loans, off-balance sheet exposures such as financial guarantees)

   c) Lessons learned from the implementation of other recent accounting standards, such as leases[26] and revenue recognition[27]

26 ASU No. 2016-02, Leases (Topic 842).

27 ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606).

   d) Data availability and data governance (including third-party service providers)

   e) Impact on information technology, systems, and internal control

   f) Methodology (development of reasonable and supportable forecasts)/modeling of credit losses (internal vs. external support)

   g) Whether the company has the right in-house expertise. If not, does outside expertise need to be hired or contracted?

4. How has management assessed the potential impact that the new standard may have on the following:

   a) Planning and analysis forecasting?

   b) Investor relations and communications?

   c) Regulatory compliance (including systems, processes, and controls)?

   d) Accounting for taxes?

   e) Impact on financial statements of borrowers?

5. When will management provide pro forma financial statements, including disclosures, and investor communications to the audit committee to demonstrate the expected impact of the new standard on the financial statements (including multiple scenarios based on potential economic environmental impacts)? •

# III. EVALUATING THE IMPLEMENTATION PLAN

Companies should develop an implementation plan and communicate it to the audit committee. Audit committees should consider asking the following questions regarding management's implementation plan.

## THE IMPLEMENTATION PLAN

1. How are milestones established/monitored? Are the milestones appropriate?

2. How will the audit committee be apprised of status? Audit committees may want to consider requesting a quarterly progress report from management.

3. How is management updating the audit committee on the progress of outside constituents who are supporting management in implementation (e.g., internal auditors, outside legal counsel, IT vendors, outside consultants, data providers)?

4. Does management need to engage third parties? What are the views of third-party vendors (consultants, etc.) that have been engaged by management regarding the implementation plan, if applicable?

5. How does the company's implementation plan compare to other companies and best practices based on the audit committee members' experience, if applicable?

6. What information needs to be collected to implement the new standard, and what is the anticipated level of effort to collect that information?

7. Is the company's CECL parallel run (including methods, models, assumptions, processes, and controls as if the standard was effective) on schedule?

8. Are regulatory changes and updates to the standard being monitored?

## CULTURE AND RESOURCES

9. Does a strong tone at the top support the effort required to implement the new standard? Is implementation receiving the appropriate

resources (in-house and third-party) and priority?

10. If third-party resources are being used for implementation, have sufficient internal resources been engaged in the process to take ownership of the implementation of the new standard, as well as the accounting post-implementation (including data and models)?

11. Does the implementation team have adequate levels of experience and company knowledge to understand the new standard's impact? Will significant judgments about implementation be made and approved centrally (e.g., at corporate headquarters) or throughout the company (e.g., at a business-unit level)?

## SYSTEMS AND DATA

12. Have data shortfalls (e.g., vintage information, prepayment history) been identified? If so, what is being done to resolve these shortfalls (e.g. outside data sources)?

13. Are existing systems adequate to account for credit losses under the new standard?

14. Is a new system or improvements to existing systems needed? What is the status of the system implementation, if applicable?

15. How is data controlled, stored, and abstracted?

16. Does the company plan to use in its model any external or internal data not previously subject to internal controls? If so, how has management assessed the relevance and reliability of that data?

## CONTROLS

17. How is management's assessment of internal control over financial reporting impacted?

18. Is management appropriately designing and testing the internal controls related to the standard's adoption? How will internal controls related to disclosure of the adoption impact be documented and tested?

19. How will changes to controls related to the adoption of the new standard be evaluated to determine whether disclosure is needed?

20. If manual processes are necessary, what controls are in place to evaluate completeness and accuracy of accounting, including any data inputs?

21. Who is responsible for changing, updating, and reviewing processes, controls, and related documentation impacted by the new standard?

22. Do existing control deficiencies, including significant deficiencies or material weaknesses, impact control considerations in implementing this new standard?

## ACCOUNTING POLICY AND SIGNIFICANT ACCOUNTING JUDGMENTS

23. Who is responsible for new accounting policy decisions and how does the company plan to revise written accounting policies?

24. How is the company keeping current on developments from the FASB (e.g., ASU updates) and SEC? What other resources, such as the AICPA Credit Losses Task Force, the AICPA Depository and Lending Expert Panel, and the FASB's Transition Resource Group, has the company considered?

25. Who has reviewed significant assumptions and judgments? Have significant judgments been documented and communicated to the audit committee? Has management considered alternative assumptions or outcomes? If so, why did management reject them?

26. Have accounts been evaluated for appropriate presentation based on the new standard?

## MODELING AND ASSUMPTIONS

27. Has management created robust processes to develop the expected credit loss model and model validation controls to verify that the model is performing as expected?

28. Has management's risk assessment appropriately considered how assets are pooled and unique risks associated with the asset pools?

29. Has management documented the determination of key assumptions and the rationale for including those assumptions in

the model? Does the documentation include the source of the data and the controls relevant to its completeness and accuracy?

30. How do significant modeling methodologies and assumptions used compare to other business units within the company, to peers, and to competitors? What controls has management put in place to evaluate internal consistency where appropriate? If not consistent, has management documented why?

31. Have specialists (internal and external) been identified to assist with the development of the estimate? What controls are there around the data that was provided to the expert and output given by the expert?

32. Have model governance processes and controls been put in place to determine that the model is—and will remain—fit for purpose? Is management sharing the results of these reviews with the audit committee? Has a governance committee been considered?

## INVOLVEMENT OF STAKEHOLDERS

33. How has an internal communication plan been established (such that key stakeholders are aware of how the new standard will impact the company)? Are key decision makers aware of the judgments and process/control changes that need to be made at a business-unit level?

34. How will training be rolled out to appropriate personnel?

35. What is the plan to communicate the impact of the adoption of the new standard to investors? In addition to robust transition disclosures, how will the company manage investor expectations?

36. Are other stakeholders impacted that should be considered (e.g., federal or state regulators, underwriters)?

37. How has the internal auditor been involved in the implementation process?

## QUESTIONS FOR THE EXTERNAL AUDITOR

38. How does the company's external auditor view the company's impact assessment? How has the external auditor been involved and what are the auditor's views on the impact of adopting the standard, changes to critical accounting policies and practices, and the company's overall readiness?

39. What is the external auditor's view as it relates to the implementation plan? Will it satisfy the auditor's plan and timeline to complete the audit in a timely manner?[28]

40. Has the external auditor assessed the design and implementation of controls, considering the following:

    a) Data integrity?

    b) Reasonableness of assumptions?

    c) Reasonableness of modeling methodology?

41. Has the external auditor reviewed significant judgments (e.g., assumptions used, modeling methodology)? What are the external auditor's perspectives?

28 PCAOB Auditing Standard 1301.13f.

# IV. OTHER IMPORTANT IMPLEMENTATION CONSIDERATIONS

## TRANSITION METHOD

The new standard should be applied on a modified-retrospective transition approach that requires a cumulative-effect adjustment to the opening retained earnings in the statement of financial position as of the adoption date. A prospective approach is required for certain aspects for debt securities for which an other-than-temporary impairment had been recognized before the effective date. A prospective approach is also required for PCD assets where, upon adoption, the amortized cost basis should be adjusted to reflect the addition of the allowance for credit losses. Loans that are currently purchase credit impaired under the existing standards will be considered PCD for adoption and there is no transition adjustment.[29] AFS debt securities will now be required to recognize an allowance for credit losses, replacing the existing other-than-temporarily impaired model.[30] Amounts previously recognized in accumulated other comprehensive income as of the adoption date that relate to improvements in cash flows expected to be collected should continue to be accreted into income over the asset's remaining life.[31]

The following questions may be helpful to audit committees as they engage with management and auditors (where appropriate) during the transition and implementation.

1. How have internal controls over the transition adjustments been considered in the overall assessment of internal control over financial reporting?

## DISCLOSURES

2. Has the company disclosed the potential effects of the future adoption of the new standard[32]

29 ASC 326-10-65-1-d.

30 ASC 326-30-35-2.

31 ASC 326-10-65-1-e.

32 SAB 74 (codified in SAB Topic 11.M).

in interim and annual filings leading up to the effective date? If quantitative amounts are not known, has the company provided qualitative or directional disclosures?[33]

3. What is management's strategy for identifying, drafting, and communicating to the audit committee any new disclosures required as a result of the standard?

4. To the extent that information for new disclosures is not currently available, how will the company develop new processes and controls to obtain required information?

## OTHER IMPORTANT CONSIDERATIONS

5. What is the impact on statutory reporting? Does the company have reporting requirements under both US GAAP and International Financial Reporting Standards (IFRS), or report to an IFRS parent? Note the US GAAP and IFRS models are not converged.

6. What is the impact on regulatory reporting?

**"ANTICIPATED IMPACTS OF THE STANDARD MAY NEED TO BE COMMUNICATED EXTERNALLY AS WELL. NOBODY LIKES SURPRISES. TRANSITION DISCLOSURES ENABLE INVESTORS TO UNDERSTAND THE ANTICIPATED EFFECTS OF THE NEW STANDARD. DRAWING FROM EXPERIENCE WITH IFRS 9 [INTERNATIONAL FINANCIAL REPORTING STANDARDS] TRANSITION REPORTS, I BELIEVE THE FOLLOWING CONCEPTS CAN HELP INVESTORS UNDERSTAND THE ANTICIPATED EFFECTS:**

+ *Easy-to-understand explanation of new terms and key concepts;*
+ *Specific descriptions of the methodology and significant judgments made by management;*
+ *Tabular presentation of the economic assumptions utilized; and*
+ *Quantified effects of moving from incurred to expected credit losses, disaggregated by lending portfolio."*

**Wesley Bricker, SEC Chief Accountant**
**Remarks before the AICPA National Conference on Banks & Savings Institutions, September 17, 2018**

33 ASC 250-10-S99-6.

# RESOURCES

## REGULATORY AND OTHER PROFESSIONAL ORGANIZATION RESOURCES

- AICPA: Expert Panel—Depository and Lending Institutions Resource Page
- FASB: Transition Resource Group for Credit Losses Resource Page
- Federal Deposit Insurance Corporation: Accounting and Auditing Resource Center
- Financial Executives International: *A Guide to Implementing Internal Control over Financial Reporting for the Current Expected Credit Loss (CECL) Standard* (November 2018)

## PUBLIC ACCOUNTING FIRM RESOURCES

- BDO: *CECL Implementation Guide: Get Ready, Here Comes CECL* (2018)
- Crowe: *Inside the New Credit Loss Model—Requirements and Implementation Considerations* (August 2016)
- Deloitte: *US Current Expected Credit Losses (CECL) Implementation Insights* and *Defining the CECL Parallel Run*
- EY: Financial Reporting Developments, *A Comprehensive Guide, Credit Impairment under ASC 326* (October 2018) and Technical Line—*What's Changing under the New Standard on Credit Losses* (October 2018)
- Grant Thornton: *CECL Implementation—A Readiness Health Check* (March 2019) and *Meeting the CECL Data Challenge* (October 2018)
- KPMG: *Credit Impairment Handbook* (March 2019) and *Meeting Your CECL SAB 74 Disclosure Responsibilities: How to Explain the Expected Impact of CECL on Your Financial Statements* (2018)
- Moss Adams: *CECL Accounting Guide*
- PwC: *Loans and Investments Guide* (October 2018)
- RSM: *Financial Instruments: In-Depth Analysis of the New Standard on Credit Losses* (August 2016)

# WE WANT TO HEAR FROM YOU

**So that we can provide resources that are informative and best address the needs of our stakeholders, we would appreciate your response to three short questions.**

**CLICK FOR SURVEY**

SURVEY LINK: http://thecaq.qualtrics.com/jfe/form/SV_6f1jFlcKsVg8Kmp

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**WE WELCOME YOUR FEEDBACK**
Please send comments or questions to
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