CECL IMPLEMENTATION GUIDE

Get Ready. Here Comes CECL.

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ABOUT WARREN AVERETT

Warren Averett offers depth and experience in a variety of industries, including healthcare, manufacturing, financial services, construction, real estate, aerospace and defense, life sciences and technology, nonprofit and public sector, with services that span beyond audit and tax to include wealth management, staffing and recruiting, technology consulting, financial outsourcing, retirement plan administration and investment management.

Warren Averett's 15 office locations include Birmingham, Huntsville, Montgomery, Mobile, Cullman, Anniston and Foley, Alabama; Panama City, Pensacola, Fort Walton Beach, Destin and Tampa, Florida; Atlanta, Georgia; and affiliate offices in Houston, Texas and the Cayman Islands. To learn more about the Firm, visit www.warrenaverett.com.

In June 2016, the Financial Accounting Standards Board (FASB) issued a new accounting standard to replace the "incurred loss" impairment methodology with the Current Expected Credit Loss (CECL) model, marking a significant shift in the way credit losses on many financial assets—especially loans—are recorded. It is effective beginning after December 19, 2019 for public business entities required to file with the SEC and after December 15, 2020 for all other public and non-public business organizations, with early application open to all institutions with fiscal years ending after December 15, 2018.

CECL applies to all banks, savings associations, credit unions and financial institution holding companies, both public and private, regardless of size, that are required to file financial statements in conformity with U.S. GAAP. The new standard may also affect insurance companies as well as any entities outside the financial services industry that have active financing activities. It applies to all financial assets measured at amortized cost, including:

- Loans held for investment
- Net investment in leases
- Off-balance sheet credit exposures

CECL also applies to investments and securities that are held to maturity, as well as reinsurance and trade receivables. The calculation methodologies for these assets will not be covered in this guide as it is intended to focus solely on loans, leases and off-balance sheet credit exposure.

CECL **does not** apply to trading assets, loans held for sale, financial assets for which the fair value option has been elected or loans and receivables between entities under common control.

While the new CECL standard is applicable to every organization required to issue financial statements in compliance with U.S. GAAP, financial institutions—the focus of our guide—face the heaviest implementation burden. For banks and other financial institutions, transitioning to CECL is a highly complex change management initiative that has far-reaching implications beyond the accounting department. Not only does CECL impact your internal accounting policies and procedures, it may have a material impact on your financials and how you manage your capital.

Is your financial institution ready for CECL? The key is not to underestimate the complexity of implementing the new standard.

The Biggest Change to Bank Accounting—Ever

Drawing from lessons learned during the global financial crisis, the FASB approved the final current expected credit loss model in June 2016 with the purpose of limiting the impact of potential losses in a future financial meltdown.

Before the financial crisis, there was some concern about the adequacy of loan loss reserves given that financial institutions were restricted under U.S. GAAP from recording "expected" credit losses that did not yet meet the "probable" threshold as required at that time.

In response, the FASB and its counterpart, the London-based International Accounting Standards Board (IASB), set out to develop a new accounting standard that incorporated forward-looking information to determine future losses. The IASB and the FASB could not agree on a new standard, so the IASB issued the IFRS 9 Financial Instruments in July 2014, while the FASB developed a framework for CECL to replace the existing incurred loss methodology in U.S. GAAP.

While the IASB standard recognizes expected credit losses when credit risk has increased significantly, CECL requires financial institutions to record expected lifetime credit losses at the time of origination. Institutions now must analyze past, present and future information to determine the appropriate reserve levels, considering changes in the underlying loan risk characteristics and economic conditions over the life of their loan portfolios.

The American Bankers Association has called CECL "the most sweeping change to bank accounting ever." One of the most significant changes is that management will need to develop and document "reasonable and supportable" forecasts to estimate expected credit losses over the life of the loan.

The availability and use of loan level data and macroeconomic data will be a key implementation challenge for many institutions.

Not only does CECL increase the complexity and cost of compliance and require more data, especially data that forecasts economic conditions or projects prepayment speeds, it may also require capital increases ahead of implementation. In the short term, it could put pressure on an institution's profitability and increase the volatility of its Allowance for Loan and Lease Losses (ALLL).

The silver lining is that, in the end, CECL implementation will bring about greater discipline in the management, measurement and forecasting of credit risk, potentially driving improved profitability in the long run. While smaller organizations may simply strive to comply with CECL, larger institutions see this transition as an opportunity, one much bigger than an accounting and financial reporting matter. They are building their CECL processes to provide greater insight into running a better business by way of enhancing credit policies and standards to continuously improve the credit quality of their portfolios over time. The new standard fundamentally changes how management will assess its credit losses in such a way that, if done correctly, will yield greater insight into an institution's risk profile and can provide meaningful insight to further manage the underwriting of prospective loans.

Ultimately, CECL implementation requires a philosophical change in mindset: from a backward-looking to a forward-looking approach in setting allowances for credit losses.
It is not just a method of increasing provisions against the loan portfolio; it creates an opportunity to gain a better understanding of the loan portfolio.

The New CECL Model

Segments or pools are created based on common loan characteristics. A combination of both internal and external information, including macroeconomic variables, are used to establish a relationship between historical losses and other variables.

To reflect current asset-specific risk characteristics, adjustments to the historical data will need to be considered. These adjustments are usually done through a combination of both qualitative and quantitative factors.

The forecast period to project expected credit losses should be reasonable and supportable. Document the rationale and provide evidence supporting the reliability and accuracy of various economic scenarios and forecasts.

Entities are to revert to unadjusted historical loss information when unable to make reasonable and supportable forecasts. The approach used to determine a "mean reversion level" must be well documented.

The result should represent the current expected credit loss over the remaining contractual term of the financial asset or group of financial assets.

THE OLD VERSUS THE NEW

What worked for your institution under the ALLL model will not work for CECL. Whereas the incurred loss methodology recognizes credit losses when such losses are probable or have been incurred, CECL removes the concept of "probable" and requires recognition of credit losses when such losses are "expected." FASB expects lifetime losses to be recorded on day one. In other words, an event does not have to have occurred but can be expected in the future.

For example, the impact of prepayments has been muted in historical ALLL calculations, but prepayments have a larger impact on loss calculations for financial assets with long contractual maturities and, therefore, are more important in a CECL context.

ATTRIBUTE	CURRENT ALLL MODELING	ALLL MODELING WITH CECL
Strategic Focus	Incurred loss and probable loss	Expected loss
Segmentation	Loan profile characteristics	Behavior-based
Prepayment	No impact	Prepayment affects the life of the portfolio
Scenarios	Not required	Not required
Loss Calculation Method	Historical loss method	Forward-looking approach

IMPLEMENTATION TIMELINE

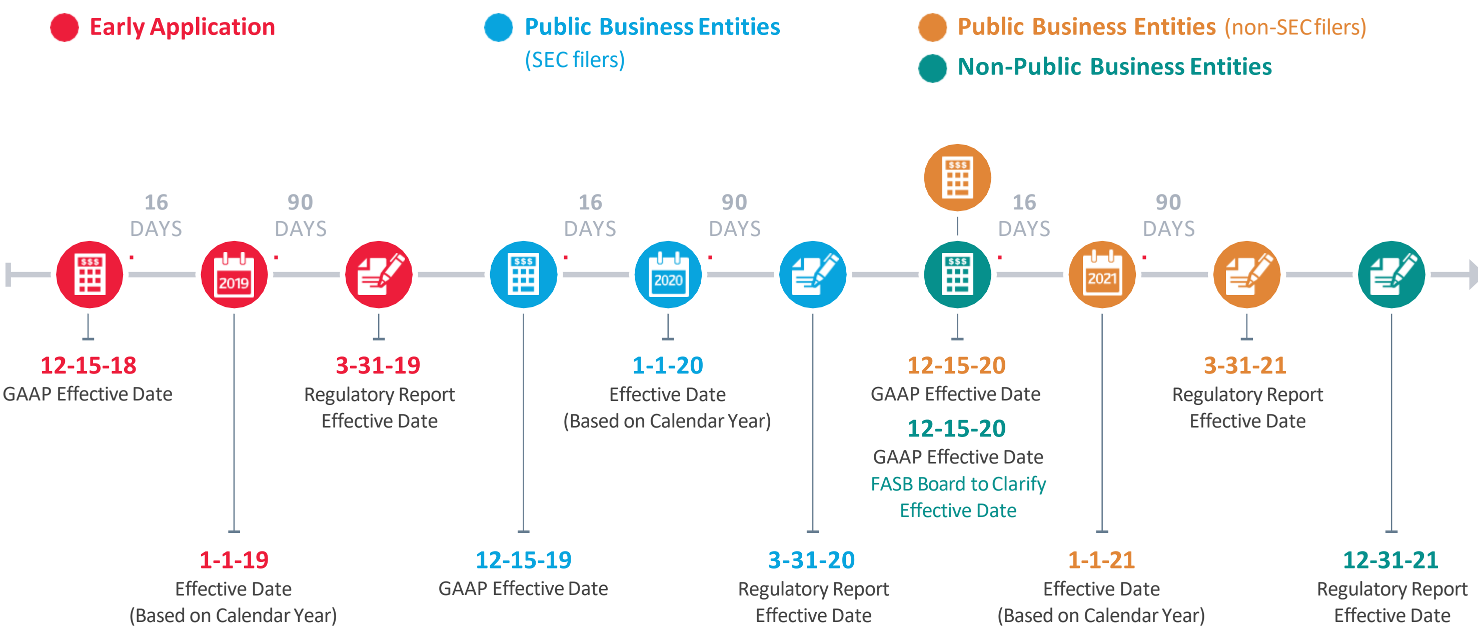
Public business entities (PBEs) that are SEC filers must adopt CECL in the fiscal years beginning after December 15, 2019, including interim periods. Non-SEC PBEs must adopt CECL in the fiscal year beginning after December 15, 2020, including interim periods. All other financial institutions must adopt CECL in the fiscal year beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is allowed for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

Transitioning to CECL is extremely complex and time consuming, with extensive data requirements and enterprise-wide interdependencies that require a holistic, cross-functional approach and potentially a data governance overhaul. Depending on the complexity of an institution's loan portfolio, and the sophistication of its risk management infrastructure, IT environment and accounting processes, implementation can take anywhere from three to six months—if not longer. And CECL isn't a one-and-done project: maintaining a steady-state program requires ongoing monitoring and management.

If you feel overwhelmed by CECL, you're not alone. Many financial institutions, especially smaller banks that are not subject to the Federal Reserve's stress testing exercises, are unprepared to meet the CECL deadline. The largest banks and bank holding companies are likely in a better spot, as they are subject to the Federal Reserve's Comprehensive Capital Analysis and Review (CCAR), an intensive annual stress testing assessment that helps identify downside risks and the potential effect of adverse conditions on their capital adequacy. As part of CCAR testing, these banks use a model for their loan portfolios to estimate expected credit losses during an economic downturn, which they can use as a starting point from which to build a new statistical model to comply with CECL. The main difference between CCAR and CECL is that the first predicts losses during a downturn and the latter does so over a prolonged economic outlook.

For small and large institutions alike, active project management and change control will be imperative to staying on budget and on time. Don't underestimate the amount of time that review and approval of model outputs and the ultimate CECL reserve amounts will take. Make sure you involve external auditors and examiners early and often to avoid surprises late in the game that may cause unexpected delays or do-overs.

CECL Effective Date Schedule



DATA DUE DILIGENCE

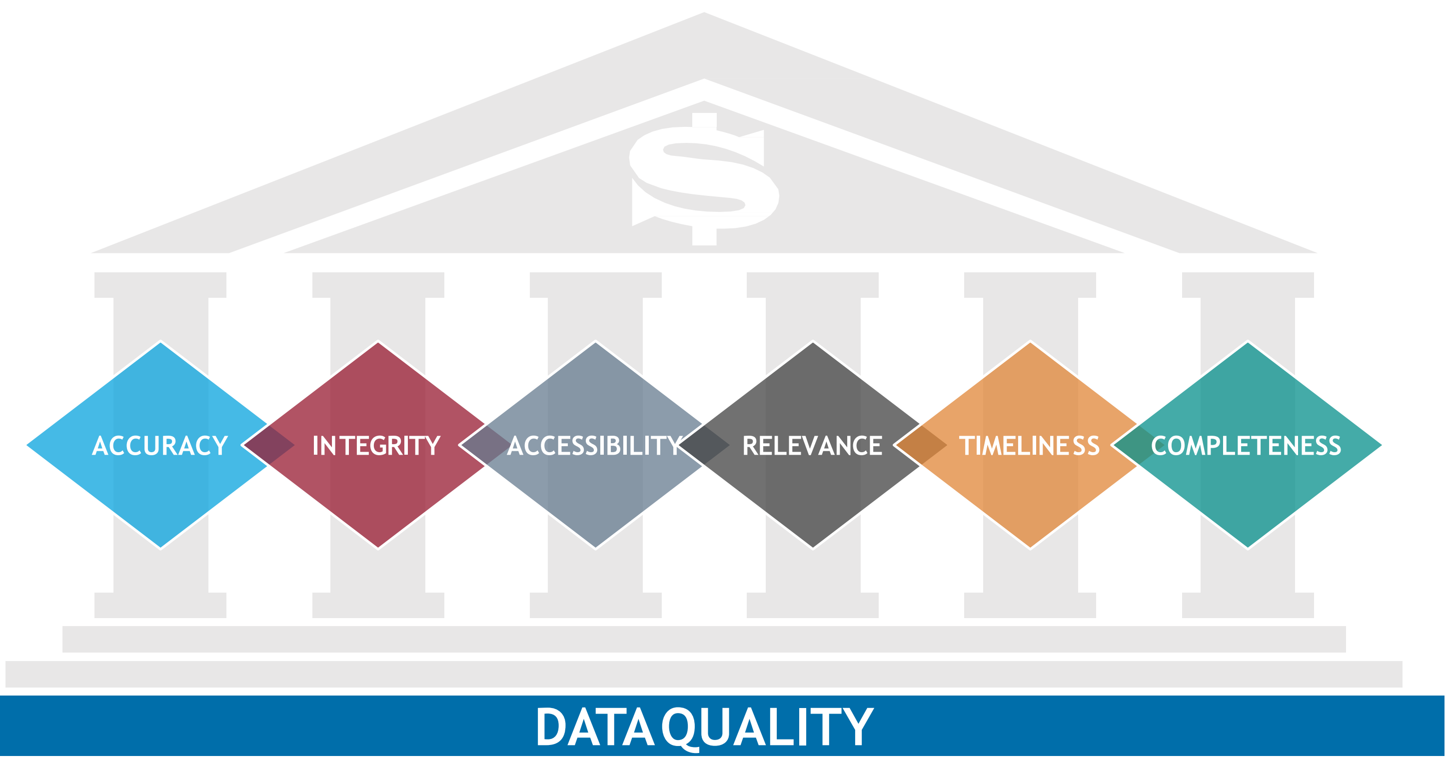
The process to comply with the new standard is arguably as much about technology, data and information governance as it is about accounting. To put it into perspective, the estimated loss model may require **1,000 times** more data than historical loss models. The availability, accessibility and integrity of that data—some of which will be generated internally, some of which may need to be purchased from third parties—is essential to a CECL-compliant estimate. Pay attention: auditors and examiners will closely review the appropriateness, accuracy and scope of all data and information used.

The CECL standard is designed to be flexible and does not prescribe the use of specific estimation methods, so the volume of data and the complexity of the analysis will vary. Data needs may, in part, be driven by your desired approach to CECL modeling, as noted in an Interagency Joint Statement on December 19, 2016:

> *"To implement the new accounting standard, institutions should collect data to support estimates of expected credit losses in a way that aligns with the method or methods that will be used to estimate their allowances for credit losses. Depending on the method selected, institutions may need to capture additional data. Institutions also may need to retain data longer than they have in the past on loans that have been paid off or charged off."*

In an earlier Interagency Joint Statement from June 7, 2016, regulators clarified that they "do not expect smaller and less complex institutions will need to implement complex modeling techniques." However, in a February 2018 webinar geared towards "smaller, less complex community banks," regulators made a point to say that while CECL **calculations** could potentially be spreadsheet-based, housing and maintaining loan data over time could not.

Even with some level of scalability, data gathering and analysis for CECL will be a major undertaking—especially if your institution lacks a comprehensive information governance program. Implementing or updating a data retention and disposition strategy **prior** to CECL implementation is a great way to enhance the ability to quickly develop an early understanding of what information is available and begin to contain the likely scope and ultimate cost of the entire implementation process. Moreover, if the underlying data or data analysis has errors, the decision-making based on that data will be riddled with errors too.



Getting Started

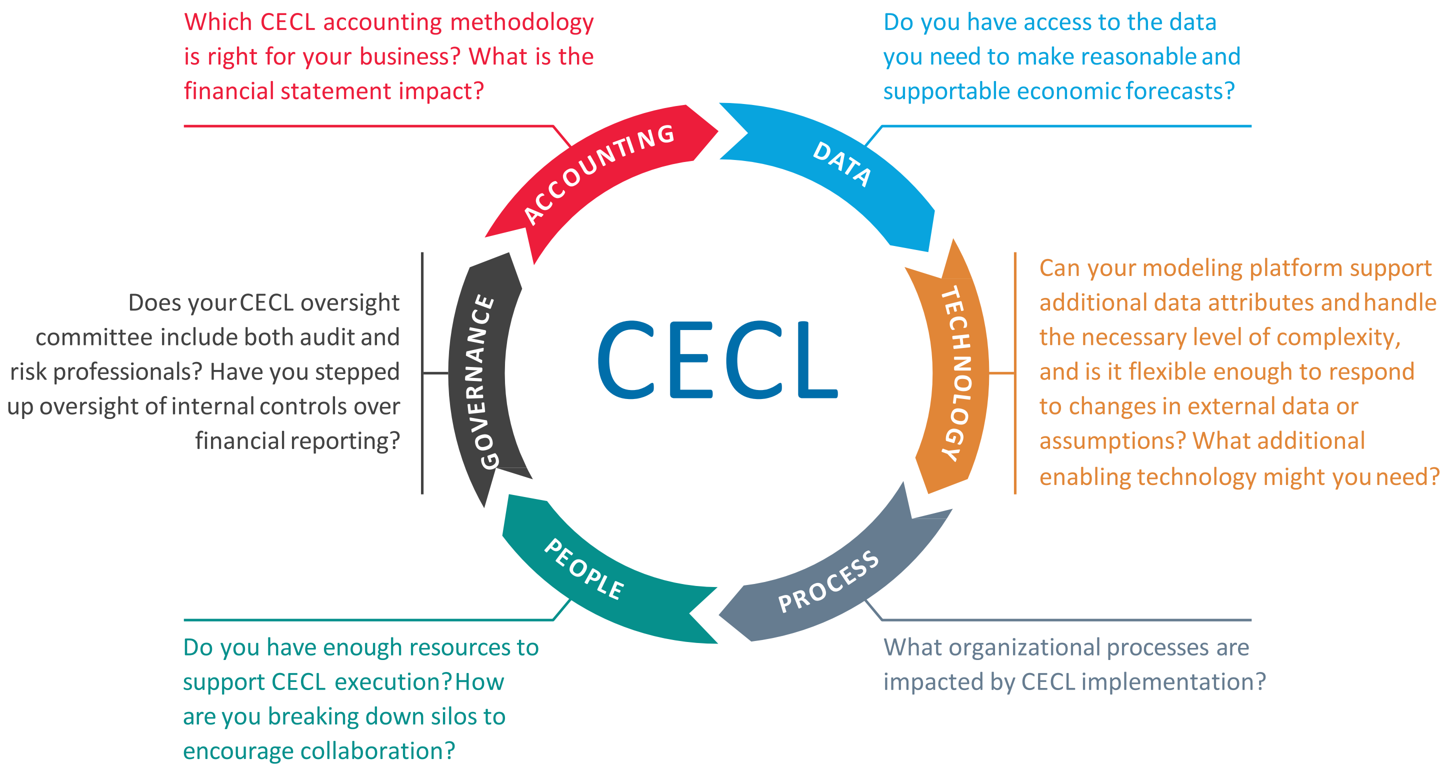
For CECL to succeed, financial institutions need to understand how the new standard affects systems, technology and processes and where interdependencies exist.

The new standard calls for an iterative approach where the cross-functional impacts are monitored closely. All departments throughout the institution must be aligned with the approach and collaborate to ensure stringent compliance with project plans and timelines.

It is helpful to start with a target state in mind to provide an organizational framework for testing various estimation approaches and to establish criteria for measuring success. Success will look different for every institution, depending on business goals, current and desired level of sophistication and effort required.

The key elements of a successful CECL implementation include:

- A cross-functional oversight committee with clearly defined roles and responsibilities
- An integrated process that joins the allowance estimate with data, disclosures and analytics in a controlled, scalable and repeatable manner
- A dynamic reporting framework that conveys a cohesive narrative explaining what happened and why, period over period
- A controls framework that includes full audit trails, role-based permissions, segregation of duties and data lineage

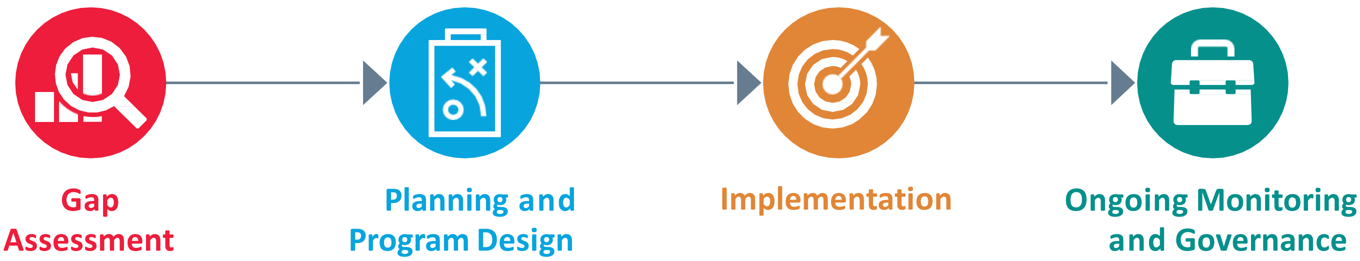


PUTTING TOGETHER YOUR CECL TEAM

A cross-functional change management team will be essential to facilitating interdepartmental coordination and enterprise-wide accountability. Engagement teams will typically have anywhere from three to 10 people and should involve personnel from operations, risk management, credit and the head of accounting, such as a controller or CFO. Additionally, a representative from the IT department should be involved to address the data and technology needs, along with any potential integration and security considerations. Ensuring that you have representation from all business areas on your steering committee and getting input from each team member early on will help drive success. The team needs to understand what the ultimate goal is: developing a model that is sophisticated enough to capture the complexities of the underlying loan portfolio and provide necessary disclosures.

Don’t forget your auditors and examiners. While not a formal member of your team, you should consider meeting with them regularly to discuss your progress and solicit their feedback and advice.

Your CECL Implementation Roadmap



CECL GAP ASSESSMENT CHECKLIST:

- ☐ **Challenge asset segmentation**
- ☐ **Review available loan loss data**
- ☐ **Examine loan loss models and execution protocols**
- ☐ **Compare calculation options**
- ☐ **Compare modeling options**
- ☐ **Evaluate accounting policies and procedures**

Once you have defined a target state, you can evaluate your current state to determine which existing ALLL processes you can leverage or refine and where you have holes. The goal of this gap assessment is to identify and prioritize areas for remediation and build out your detailed implementation plan.

Asset segmentation

As part of your current state analysis, you'll want to review how your current loan portfolio is broken out for the purpose of ALLL estimations and whether its segmentation is optimal for CECL. The CECL standard calls for portfolio segments to be pooled by similar risk characteristics that most impact credit performance and states that segmentations must be "as granular as possible while maintaining statistical significance." Some financial institutions leverage the FDIC call code segmentation as a starting point, but it may not be granular enough or provide the right metrics to accurately reflect your portfolio.

Risk characteristics may include, but are not limited to:

- FICO ratings
- Loan-to-value ratio
- Origination exceptions
- Collateral type
- Payment structure
- Loss history
- Industry or geography of the borrower

Even if your current segmentation strategy is adequate, you must be able to prove it accurately reflects the credit risk profile of your assets with supporting documentation that shows how you made those determinations and provide evidence the segments share sufficiently similar risks.

Assessing data readiness

It cannot be overstated: data is the crux of a successful CECL implementation, and it's where your gap assessment should begin. You will want to examine the data that your institution already has and determine what additional data you will need to effectively forecast credit risk.

Your financial institution likely already possesses much of the data it will need to comply with CECL, but it will not be enough. Under CECL, you'll need enough data to forecast the potential losses of, for example, a 30-year mortgage on the day it is originated. This will require a vast amount of granular, high-quality look-back or historical data, prepayment expectations, coupled with robust forward-looking economic data, that will allow you to establish trends that could point to what will happen with that mortgage over its life. Since CECL requires forecasting losses from when a loan is originated, the underlying factors driving those forecasts should be documented and tracked to avoid material misstatements.

Data preparation alone often requires a considerable investment of time and effort that can span months. The following are four factors that will enable your institution to assess its readiness:

- Internal data completeness
- Internal data reliability
- Internal data accessibility
- Externally-sourced forecasting elements accessibility

The following internal and external data points, at a minimum, must be taken into consideration and used to support the configuration of your CECL quantitative models:

Internal data: asset segmentation, collateral type, maturity date, original balance, current balance, rate, rate type, peer data, payment type, payment frequency, cost centers, original LTV, current LTV, loan review results, call reports, FICO credit rating, region, non-performing assets, charge-off amount, recovery amount, days delinquent, disposal or recovery expenses.

External data: gross domestic product, purchase price index, home price index, money supply, consumer confidence survey, unemployment rate, consumer price index, forward looking yield curves, housing starts, peer data.

Choosing the right CECL methodology

After you have completed a data inventory and identified the gaps, you can then figure out which methodology to forecast credit losses is the best fit for your institution. CECL is principle-based, not prescriptive, which allows your financial institution to use its own judgment in developing estimation methods that best address its circumstances, and there are several methods to choose from.

In fact, your institution may already be using methodologies that can help in estimating expected credit losses, such as discounted cash flows, loss rate, probability of default or provision matrix models.

Since CECL requires forecasting credit risk over the life of a loan, the new methodology you select should also assess the risks that are relevant to your specific market and take into consideration your portfolio's composition. Before selecting a method, you should organize and understand the data needed to comply.

To choose the best methodology, a variety of models should be tested to find out which one provides the right level of granular data needed for compliance. Additionally, different estimation methods can be applied to different groups of financial assets. To properly apply an acceptable estimation method, your institution's credit loss estimates must be well supported.

CECL Methodology	Description
Loss Rate	The average charge-off method is the approach currently used most commonly for evaluating impairment on pools of financial assets under the incurred loss model. This method is used for calculating an estimate of losses based primarily on experience, and the data needs of this method are modest compared to those of other methods. There are two types of loss models: Aggregate Look-Back and Vintage Historical Average.
Discounted Cash Flow	This is based on the present value of expected future cash flows discounted at the loan's effective interest rate. Expected cash flow assumptions used are based on best estimates of reasonable and supportable assumptions and projections. The effective interest rate includes the accretion or amortization of premiums and discounts and might not be explicitly displayed in the asset accounting or servicing system.
Probability of Default	The probability-of-default method is used to estimate credit losses by considering three components: • Probability of default (PD) – probability of default over a given time period • Loss given default (LGD) – loss amount at the time of default for a particular exposure • Exposure at default (EAD) – balance of the relationship at default

PLANNING AND PROGRAM DESIGN

Determine data requirements

According to the American Bankers Association, most existing data systems only store the last 12 or 13 months of loan information, but under CECL, historical data requirements may span five years or even longer. Not only does your institution need to ensure it has enough storage space for up to a thousand times more data than it did under the incurred model, it must ensure that the data is secure and easy to access. Based on your institution's data readiness assessment, you'll need to update your enterprise-wide information governance program, considering the following:

- **Due Diligence and Planning.** Ensure that there is a comprehensive understanding of how data is used and where it's stored, and confirm that all accounting and regulatory policies are followed.
- **Security, Integrity and Privacy.** Protect data according to industry standards, regulations and internal requirements, while ensuring that the data is what it purports to be and that privacy standards are maintained.
- **Availability and Transparency.** Ensure that data is accessible and easy to find to support business initiatives and that it provides visibility into policies.
- **Management and Enforcement.** Develop policies and procedures to manage data throughout its lifetime.
- **Alignment.** Determine that the use of data is aligned with business functions and employs technologies that are aligned with the organization and its needs.
- **Governance.** Develop policies that reflect the current state of the business, but also provide flexibility to maintain updates and deliver those updates throughout the organization.

Determine data storage requirements

Integrating risk and finance data across a broad range of business functions is a major challenge for most financial institutions today. Many institutions use disparate data management systems for various types of data that provide a fragmented view and don't account for myriad data use cases. If you lack a unified data management system, you will likely need to perform an extensive data mapping exercise.

Alternatively, your organization may decide to use CECL implementation as a trigger to kick off a larger data transformation initiative. It's an opportunity to evaluate your current data architecture and IT systems based on the way you use information now and the way you want to use information in the future. Can you easily integrate third-party data? Can you process and contextualize data in real time? Can you easily add new features when you add new applications or business processes? CECL aside, these questions are critical to the continued success of your institution.

Choose the right tools

Your institution can decide between leveraging existing technologies and tools or acquiring new capabilities. There are a number of third-party software solutions designed specifically for financial institutions that integrate data from all core business functions into a single place to empower better decisions and streamline operations. It's important to consider all inter-departmental needs when determining which vendor's software will best position you to achieve your CECL goals.

Regardless of which tools you use, CECL success is predicated on a disciplined process, clean data and organized teams. Data should be available in usable and exportable formats and stored in a secure database that can be updated and backed up frequently and that can be integrated into the spreadsheet environment or a more sophisticated analytics platform. A system capable of detecting and flagging errors or stale data is ideal.

Get to know the new disclosures

There are several new disclosures that financial institutions must make under CECL. They include:

- The process by which management estimated current expected credit losses and the factors taken into consideration
- Credit quality by vintage year
- For collateral-dependent loans, the type of collateral, how the collateral secures the asset and a description of the assets secured

Examine financial reporting risks and update internal controls

Your institution also needs to plan for the potential adverse impacts CECL could have on its earnings and capital and present that information to the board of directors and senior management. It must also consider Sarbanes-Oxley implications and develop documentation on processes and establish the necessary controls to ensure those processes are being followed correctly. Your financial institution should also consider governance model standards included in the Federal Reserve's SR 11-7 supervisory letter.

Also, because CECL requires losses to be forecast at loan origination, many institutions may require more time to close their books each quarter and at year-end.

Testing and execution

Estimation methods for the new accounting calculations can range anywhere from simplistic approaches to sophisticated models. Most larger institutions will use predictive models leveraging advanced data analytics. However, smaller institutions, especially those under $10 billion in assets, are weighing the costs and benefits of a variety of CECL-compliant approaches, which fall on a spectrum between model-based and analytical.

A model-based approach leverages predictive models to forecast future borrower behavior based on statistical analysis of historical loss information. A modeled approach streamlines the reserving process and offers the most potential crossover use for risk management purposes. However, these benefits are not without cost. The initial and ongoing investment in developing and maintaining models can be a significant barrier.

An analytical approach consists of personnel using subjective judgment to arrive at the expected credit loss based on analyses performed in spreadsheets. An analytical approach requires relatively low up-front investment and is easy to implement. However, a primarily analytical approach will resemble the qualitative adjustment process under the current collective reserve, which many institutions consider to be onerous due to the high level of subjective judgment and manual nature of the process.

Regardless of the method used, the same objectives must be met: relevant variables need to be identified, the relationship between the variables and losses need to be estimated and the entire end-to-end process will be subject to Sarbanes-Oxley (SOX) controls.

After performing the initial calculation, you will need to make qualitative adjustments. Modeling “what-if” scenarios with multiple data variables will take time and involve many departments. The frequency of data changes and additional inputs will also put stress on modeling and timing. Throughout the testing process, audit trails and validity of historical data must be considered and documented. Testing and documentation must consider cross-functional interactions and feedback.

CECL IMPLEMENTATION CHECKLIST:

- ☐ **Install program management and communication activities**
- ☐ **Assess resource and training requirements**
- ☐ **Implement or update, and test loan loss models and data quality**
- ☐ **Execute modified loan loss reserve processes**
- ☐ **Determine the potential impact on earnings and capital and put a strategy in place to respond to and alleviate adverse impacts**

Prepare your people

CECL implementation will require disciplined change management—not just because it requires an overhaul of accounting processes and IT systems, but because it heralds a new way of thinking. Make sure every member of the CECL engagement team understands their roles and responsibilities. Another critical piece of the people puzzle will be fostering collaboration between functional areas that may have historically operated in silos.

Function / Department	Role
All Departments	• Assess, design, implement, document and monitor internal control over all CECL processes and control over financial reporting (SOX 302 and 404) • Conduct assessment of risk and internal controls
CEO/CFO	• Own the entire CECL process • Ensure good corporate governance and tone from the top, making regular updates to the Board and Audit Committee • Sign-off on related accounting and financial certifications as required by various laws and regulations • Participate in regular discussions with auditors and regulators on CECL progress and expectations
Board/Audit Committee	• Ensure sufficient training and understanding of CECL by all members/directors • Ensure solid corporate governance and internal control from the top down • Meet with external auditors for independent discussions on management’s CECL efforts and results • Provide guidance to the internal audit team and review internal audit testing results
Internal Audit	• Stay involved throughout the entire process to assess management’s control of the process • Provide feedback to Audit Committee on overall preparation, risks and progress • Oversee testing of various CECL modelling controls and outputs

Function / Department	Role
Controller/Chief Accounting Officer	• Set interpretation of GAAP • Develop and implement CECL accounting policy • Operationalize accounting processes that impact CECL calculations/data/reporting from each department into the general ledger and ultimately into financial reporting • Update financial statement presentation and disclosure on both a quarterly and annual basis • Facilitate accumulation of historical data • Weigh in on system/software selection for data analysis and modelling • Coordinate with external auditors and solicit input and feedback • Factor in SOX 302/404 considerations • Provide input on and document the accounting impact of various CECL modelling activities
Finance/Treasury/CFO	• Own CECL system/software selection process • Facilitate the accumulation of various economic data points required for CECL • Develop assumptions and projections to be used in CECL modeling related to prepayment and default rates • Oversee administration of CECL modelling and interpret results • Consider analyst/investor needs and disclosures
Chief Credit Officer	• Facilitate the accumulation of various data points and historical data • Collaborate on the analysis of CECL output for adequacy of reserves • Analyze CECL results for continuous improvement in lending risk management—focusing on leveraging insights gleaned from predictive analytics to improve prospective loan underwriting policies and procedures.
Risk Management/Chief Risk Officer	• Ensure the Board and Audit Committee are well versed and educated on risks associated with CECL • Ensure the integrity of the entire CECL process • Ensure that appropriate corporate governance and Sarbanes-Oxley controls are being considered and put into place by management in respective departments • Ensure relevant committee charters are enhanced to consider CECL • Review and ensure adequate “credible challenge” documentation • Ensure all inter-departmental dependencies are considered
Legal	• Set interpretation of various guidance and position papers put forth by regulatory bodies • Review and provide input on financial statement disclosures • Involve risk management on various committee charters and overall corporate governance
Information Technology	• Weigh in on system/software selection for data analysis and modeling • System/software installation, control and oversight • Data back-up, maintenance, integrity • Provide ongoing user support as needed
Investor Relations/CFO	• Prepare for discussions and presentations with analysts and investors • Consider the messaging for explaining CECL results to the marketplace

ONGOING MONITORING AND GOVERNANCE

Testing on a quarterly and annual basis is necessary to make sure your institution’s model is updated to reflect internal and external changes, such as changes in the portfolio or changes in the economy, and to identify any areas of the program that may need to be modified or require additional resources. Additional developments may require you to make adjustments to your assumptions or method of estimation.

The validity of your CECL model depends on the integrity of the underlying data. In addition to adhering to your institution’s information governance policies and protocols, you will regularly need to assess the availability and sufficiency of the data informing your CECL calculation. Like any other GAAP requirement, constant control testing and risk assessment will be necessary to ensure continued compliance long after the program has been implemented.

The Key to a Successful Transition

A successful transition program will leverage your institution's existing processes and tools, facilitate collaboration between your stakeholders and offer options and access to technology.

The FDIC recommends that senior management, under the oversight of the board of directors, work closely with staff in their accounting, lending, credit risk management, internal audit and information technology functions during the transition period leading up to and beyond CECL's effective date.

Another key to success will be for your team to fully understand and own CECL, even if you work with an outside service provider. Regulators are being very flexible regarding CECL implementation, allowing institutions a lot of leeway in deciding how to forecast credit losses.

If your in-house team is knowledgeable about the purpose and objectives of the new accounting standard, it will be easier to design a CECL program that is tailor-made for your institution's specific needs.

Transitioning to CECL successfully will require much more than just a CECL-compliant estimate. Success will require taking an integrated view of the end-to-end reserving process and leveraging the right tools and the right people to get the job done efficiently and effectively.

About Warren Averett's CECL Solution

Warren Averett's CECL team brings together senior professionals with deep financial industry, accounting, IT and operational experience to help your organization prepare for CECL.

We provide support across the CECL implementation lifecycle and can help your organization:

- Accelerate implementation and steady-state compliance
- Facilitate collaboration between stakeholders
- Leverage existing processes and tools
- Explore options and access to the right technology

For more information about the new standard or questions about how your organization should approach CECL implementation, please contact:

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