CRI CARR RIGGS & INGRAM
CPAs and Advisors

CURRENT EXPECTED CREDIT LOSS (CECL) MODEL

The Current Expected Credit Loss (CECL) model represents the most significant financial reporting change in decades for many financial services companies. Although not exclusive to financial services, those most significantly impacted by the forthcoming changes include banks, thrifts, credit unions, insurance entities, and other specialty finance companies.

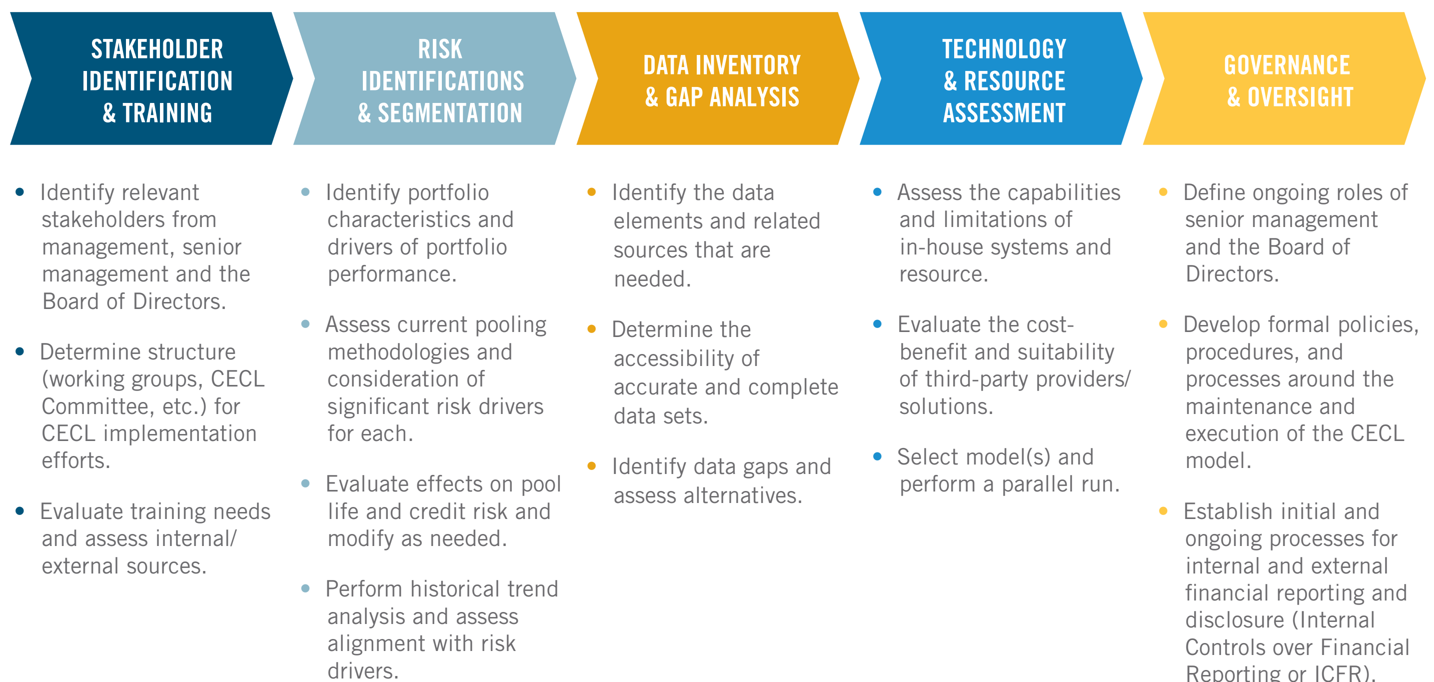
The CECL model replaces the current "incurred loss" methodology and requires application at the initial recording of the financial asset. It also considers both current conditions and the forecast of conditions that are reasonable and supportable in estimating the credit loss over the contractual life of the asset, adjusted for pre-payments. This results in an escalation in the timing of the recognition of losses associated with financial assets.

The implementation and ongoing application of the CECL methodology will significantly impact capital deployment, earnings projections, and credit risk management on a prospective basis.

THE NEW STANDARD AFFECTS:

Accounting for loans
Held-to-maturity (HTM) debt securities
Accounts (trade) receivables
Net investment in leases
Certain off-balance credit exposures
Reinsurance receivables
Other financial assets

CECL ROADMAP



STAKEHOLDER IDENTIFICATION & TRAINING

- Identify relevant stakeholders from management, senior management and the Board of Directors.
- Determine structure (working groups, CECL Committee, etc.) for CECL implementation efforts.
- Evaluate training needs and assess internal/ external sources.

RISK IDENTIFICATIONS & SEGMENTATION

- Identify portfolio characteristics and drivers of portfolio performance.
- Assess current pooling methodologies and consideration of significant risk drivers for each.
- Evaluate effects on pool life and credit risk and modify as needed.
- Perform historical trend analysis and assess alignment with risk drivers.

DATA INVENTORY & GAP ANALYSIS

- Identify the data elements and related sources that are needed.
- Determine the accessibility of accurate and complete data sets.
- Identify data gaps and assess alternatives.

TECHNOLOGY & RESOURCE ASSESSMENT

- Assess the capabilities and limitations of in-house systems and resource.
- Evaluate the cost-benefit and suitability of third-party providers/ solutions.
- Select model(s) and perform a parallel run.

GOVERNANCE & OVERSIGHT

- Define ongoing roles of senior management and the Board of Directors.
- Develop formal policies, procedures, and processes around the maintenance and execution of the CECL model.
- Establish initial and ongoing processes for internal and external financial reporting and disclosure (Internal Controls over Financial Reporting or ICFR).