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CFO in a Box

Ten Things You Need to Know about CECL

	What You Need to Know	Topic Reference
1	The Accounting Standards Update 2016-13 provides guidance on measurement of credit losses. While the pronouncement is 291 pages, the 72 pages covering Topic 326 are the most important.	
2	CECL eliminates the threshold or delay of recognizing losses until the loss is "probable", and instead reflects the current estimate of all expected credit losses	ASU 2016-13 Summary
3	Credit unions are required to implement CECL 12/31/2021 (first call report cycle)	326-10-65-1
4	CECL represents the net amount expected to be collected over the life of the loan	326-30-30-1
5	Expected credit losses shall be measured at the pool level if there are similar risk characteristics, or at the individual loan level if the loan does not share similar risk characteristics (but not both).	326-20-30-2
6	Various methods may be used to determine the allowance for credit losses	326-20-30-3
7	Credit losses must be considered on the contractual life of the loan	326-20-30-6
8	All available information relevant to assessing collectability must be considered: • Internal, external information, or both • Past events and current conditions • Reasonable and supportable forecasts • Relevant qualitative and quantitative factors (Q-factors)	326-20-30-7
9	Off-balance sheet credit exposures must be measured (ex: line of credit available) unless they are unconditionally cancellable by the Credit Union	326-20-30-11
10	Fair value (less cost to sell) of collateral dependent loans may be used when foreclosure is probable	326-20-35-4

CECL stands for Current Expected Credit Losses, the new "expected loss" standard that will replace the existing "incurred loss" method of allowance for loan and leases loss evaluation. The financial Accounting Standards Board (FASB) began working on the standard in 2008 in response to the financial crisis and identified weaknesses in the current GAAP that delayed recognition of credit losses.

CECL is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of a portfolio of loans and available for sale debt securities. While the same amount of loss will ultimately be recorded, CECL changes the timing of loss recognition. Although early adoption of CECL is permitted, most credit unions will implement this new standard in 2021. The reason CECL is a hot topic today is because credit unions need to start gathering historical data now based on the new standard.

Implementation Time Line:

Date	Methodology used to report information on the 5300 Call Report
12/31/2020	Existing "incurred loss" method of evaluating the ALLL CECL allowance for credit losses method will be also be calculated at this time. The difference between CECL and the "incurred loss" method will be the basis for a prior period adjustment in 2021 (A)
03/31/2021	Existing "incurred loss" method of evaluating the ALLL
06/30/2021	Existing "incurred loss" method of evaluating the ALLL
09/30/2021	Existing "incurred loss" method of evaluating the ALLL
12/31/2021	CECL allowance for credit losses method The difference between CECL and the "incurred loss" method measured at 12/31/2020 (A) will be posted as a prior period adjustment to retained earnings

__Debra Taylor Templin, CPA__ has more than 25 years' experience within the credit union industry, including ten years as Chief Financial Officer and seven years as Chief Executive Officer. As a virtual CFO, Debra is able to deliver high level results that blend traditional values with progressive needs.