

The Final CECL Standard.

The final model & what's next for bankers

July 7, 2016

ROUNDTABLE DISCUSSION



Tim McPeak
Sageworks



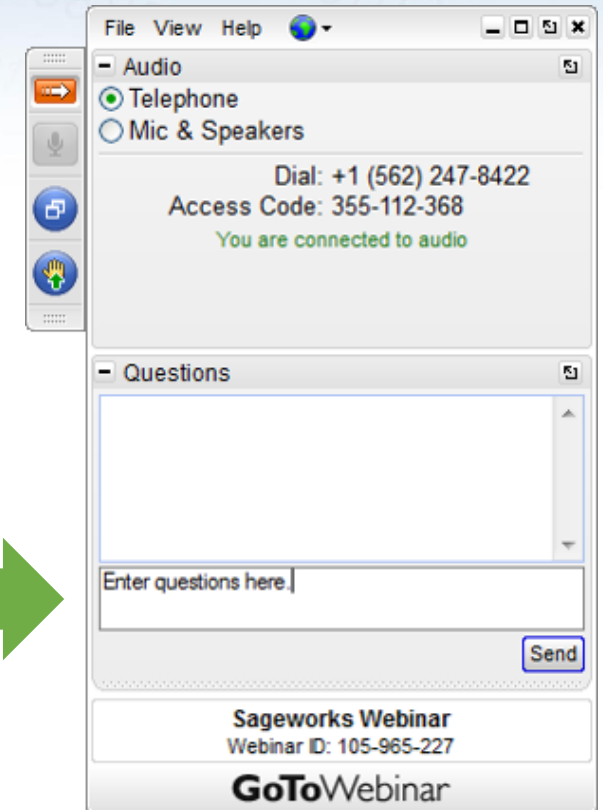
Todd Sprang
CliftonLarsonAllen



Graham Dyer
Grant Thornton

About the Webinar.

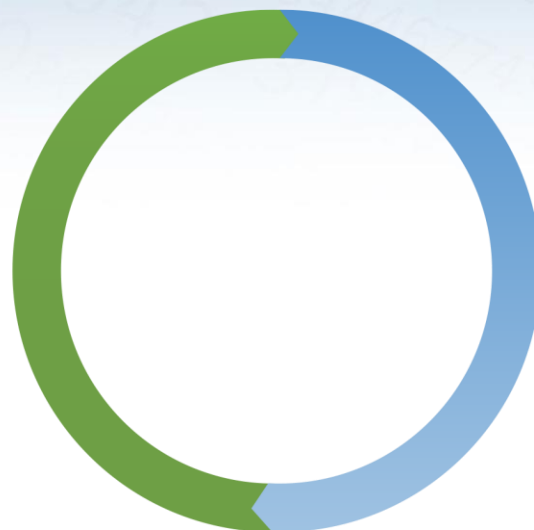
- Ask questions throughout the session using the GoToWebinar questions panel
- We will answer as many questions as we can at the end of the presentation



About Sagemworks.

We help institutions:

**Grow
Profitably**



**Mitigate
Risk**

- Loan portfolio and risk management solutions
- More than 1,000 financial institution clients
- Founded in 1998
- Risk management thought leader for institutions and examiners
- Featured in national and trade media

THE WALL STREET JOURNAL.



AMERICAN BANKER.

About CliftonLarsonAllen.

- A professional services firm with three, distinct business lines
 - » Wealth Advisory
 - » Outsourcing
 - » Audit, Tax, and Consulting
- Nearly 4,000 employees
- Offices coast to coast
- Serve more than 1,450 financial institutions



Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC.

About Grant Thornton.

- Grant Thornton is one of 6 global professional services firms, with 58 offices in the US across 29 states and the District of Columbia
- The financial services industry has been a core focus of Grant Thornton for over 90 years, and consists of approximately 80 dedicated partners and over 600 professionals supported by a national practice of subject matter specialists, including former officials from the FDIC, OCC and Federal Reserve
- Serves more than 350 financial institutions and over 2,200 financial services clients nationwide



Grant Thornton

An instinct for growth™

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About Today's Presenters.



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Agenda.

CECL DISCUSSION WEBINAR

- Overview of CECL
 - » Implementation effective dates
- First impressions
- CECL discussion topics:
 - » Methodologies
 - » Reasonable and supportable forecasts
 - » Regulators/Auditors
 - » Implementation challenges
- Q&A

What is CECL?

- FASB released proposal December 2012
- CECL = Current expected credit losses
- What's changed from Incurred Loss Model?
 - » Forward-looking requirements
 - » "Probable loss" threshold removed
 - » Greater need for accessible, loan-level data
 - » Longer loss horizon
 - » Makes ALLL more institution-wide calculation
- Purpose: Quicker recognition of losses. Changes in ALLL reserve balances will reflect changes in credit quality and flow through bank earnings (["Fed Perspectives," 2015](#))

"Current Expected Credit Loss Model (CECL) and Supervisory Expectations with Steve Merriett the Fed's Chief Accountant". FedPerspectives. October 30, 2015. <https://bsr.stlouisfed.org/perspectives/>

Effective Dates.

1 SEC-Filing Institutions
December 15, 2019

2 PBE Non-Filers
December 15, 2020

3 All Other Entities
FY after Dec. 15 2020
& interim periods 2021

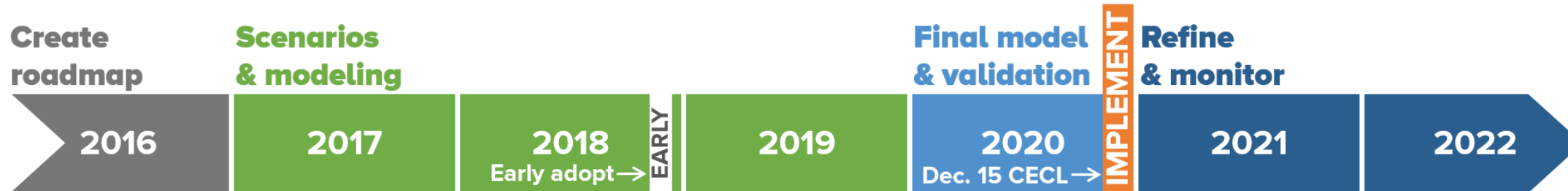
Optional: All Entities
December 15, 2018 – Early CECL Adoption

Example Implementation Timelines.

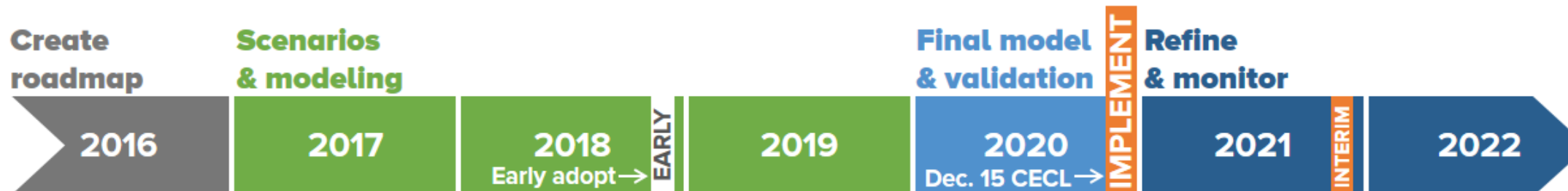
1. SEC Filing Institutions.



2. Non-SEC Filing Public Business Entities.



3. All Other Entities + Not-For-Profit Organizations.



***Effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.*

Poll.

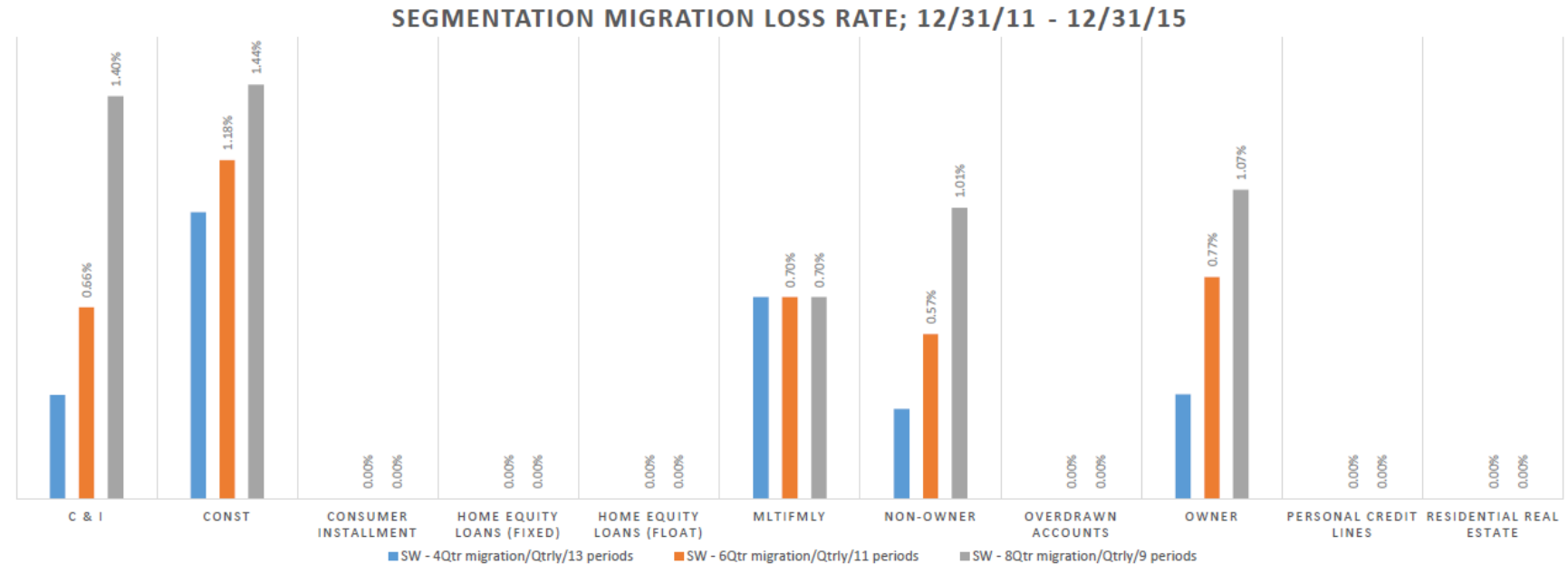
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CECL Discussion.

Please submit questions in the control panel

Lifetime Loss Methodologies.

- Current models vs. new models
 - » Changing inputs
- Duration calculations and the role of prepayments
- Importance of segmentation
- Impaired loans?
- Purchased loans?



Reasonable & Supportable Forecasts.

- Shifting to forecasts
- How should changes be supported?
- The role of external data
- Different scenarios for different approaches / more than one approach for different portfolios

Forecasting losses

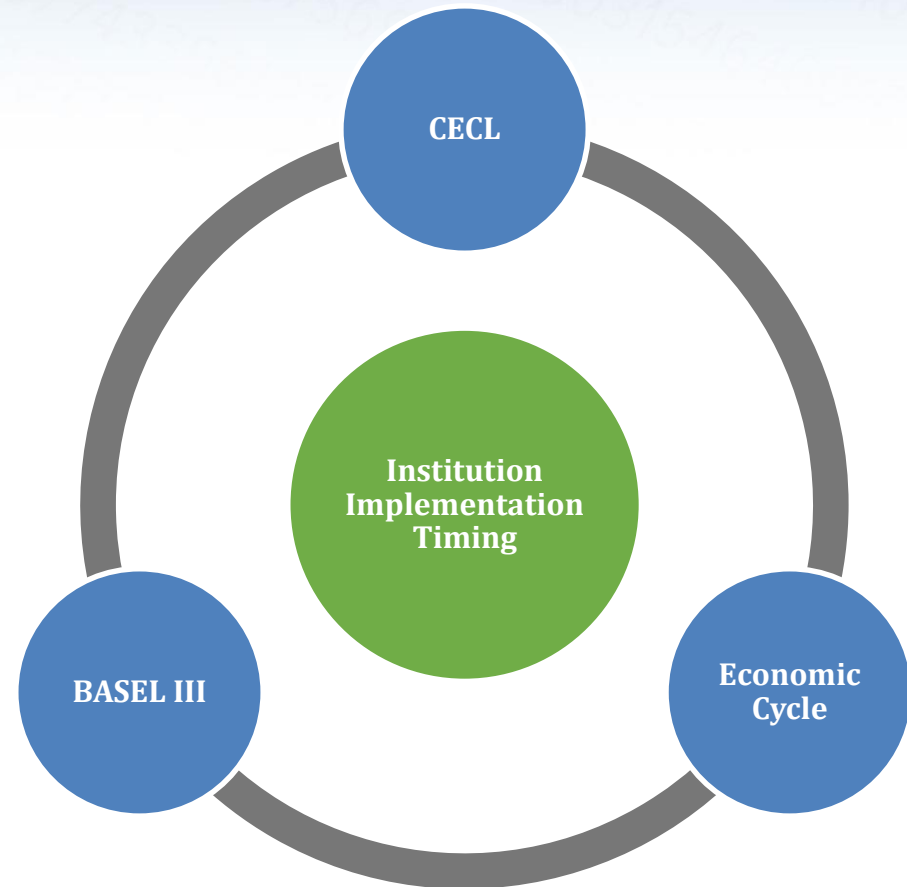


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Implementation Timing.

- Effective dates and other factors to consider
 - » Economic cycle
 - » CECL
 - » BASEL III



Regulators and Auditors.

- What do you think an external audit looks like in a CECL world?
- When do we expect something from regulators?
- Regulators may be more lenient with smaller institutions?
- Role of TRG moving forward



Implementation Challenges.

- What do we think will be the hardest part for bankers in preparing?
- Institution-wide scope
- What do we think the impact may be?
 - » Smaller banks vs. larger banks
 - » Consumer markets
- What are the positives of CECL?



Next Steps for Bankers.

- How should bankers get started in preparing for implementation?
- Utilize available resources

**Access FASB's
CECL Standard
(ASU 326)**

**Access the
Interagency
Statement
on CECL**

**Register for
FASB's CECL
Webinar (7/21)**

**Read FASB's
News Release**

Poll.

Please select an option

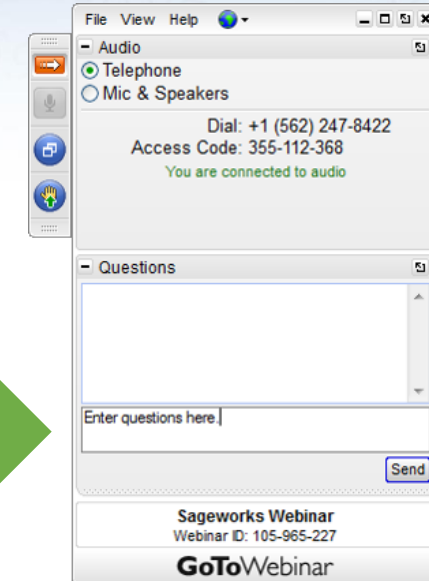
2016 Risk Management Summit.

- Topics include:
 - » CECL
 - » Current ALLL best practices
 - » Stress Testing
- Speakers from CliftonLarsonAllen, Grant Thornton, Sageworks and more
- sageworks.com/summit



Questions & Answers.

Please submit questions in the questions box on the GoToWebinar panel.



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Additional Resources.

- CLAAconnect.com – Learn more about CliftonLarsonAllen
- grantthornton.com – Learn more about Grant Thornton
- Sageworksanalyst.com – Learn about Sageworks
- ALLL.com – Everything ALLL, including news articles, whitepapers and peer discussions
- ALLL Forum for Bankers – LinkedIn group for ALLL news & discussion

Endnotes.

- “Current Expected Credit Loss Model (CECL) and Supervisory Expectations with Steve Merriett the Fed's Chief Accountant”. FedPerspectives. October 30, 2015. <https://bsr.stlouisfed.org/perspectives/>

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