FASB adjusts CECL deadline for private banks

By Michael Cohn
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The Financial Accounting Standards Board is proposing to modify the effective date of its Current Expected Credit Losses standard for non-public companies, giving many private banks and credit unions an extra year to get ready for the new rules, even though the effective date is technically only changing by one second past midnight.

At a meeting Wednesday, FASB clarified its original intent to provide nonpublic companies with an extra year to implement the standard, according to FASB spokesperson Christine Klimek. Nonpublic companies that are calendar year-end companies are now required to adopt the standard on Jan. 1, 2022, whereas because of the technical language in the transition they would have been forced to adopt on Jan. 1, 2021, even though it was for the "annual period" given the requirement to make the adjustment at the beginning of the year.

FASB says it isn't a delay, like the one-year delay in the effective date of the revenue recognition standard it granted back in 2015. Instead, it is characterizing the change as a clarification. "In short, we didn't 'delay' the effective date," said Klimek. "The board just clarified its original intent."

FASB tentatively decided to provide separate and staggered effective date requirements for SEC filer public business entities, non-SEC filer PBEs, and all other entities (non-PBEs) by amending paragraph 326-10-65-1 to require that non-PBEs adopt the amendments in Update 2016-13 for fiscal years beginning after Dec. 15, 2021, and interim periods within those fiscal years.

The proposed change came at the request of industry groups like the American Institute of CPAs, the American Bankers Association and the Credit Union National Association. FASB concluded it had received enough information and analysis to make an informed decision on the issues and that the expected benefits of the proposed amendments would justify the expected costs. FASB has directed its staff to draft a proposed accounting standards update for vote by written ballot with a 30-day comment period.

The Credit Union National Association said it wrote to FASB in May urging it to clarify CECL's effective date for credit unions. During Wednesday's meeting, FASB Chairman Russell Golden agreed with comments in CUNA's letter that FASB originally intended to provide credit unions and similar types of entities additional time to implement the standard. While FASB staff has not yet released the details of the proposed change, based on discussion during the meeting, CUNA said it expects the clarification will fully remedy the issue.

CECL was adopted in June 2016, and uses an "expected loss" measurement for the recognition of credit losses, CUNA pointed out. FASB intended to create tiered effective dates to provide implementation flexibility for smaller and less complex financial institutions, a move CUNA supported.

While FASB appears to have sought to provide additional implementation time for nonpublic business entities, the standard as it was originally issued would have effectively required non-PBEs to adopt the standard at the same time. State and federal chartered credit unions are considered non-PBEs.

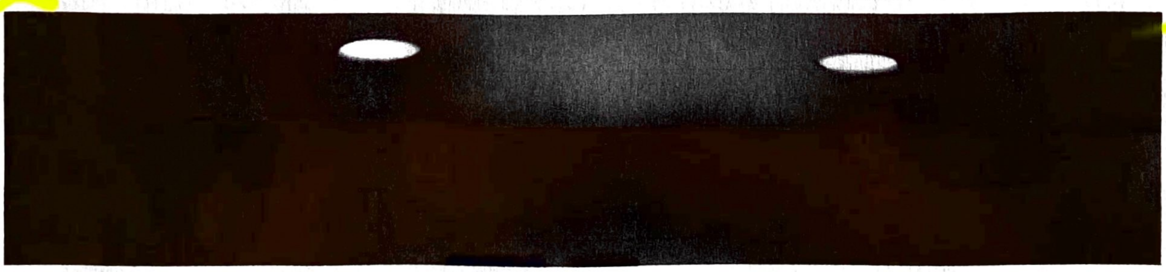
CUNA's letter supported a recommendation from the AICPA, which also called for clarity regarding non-PBEs.

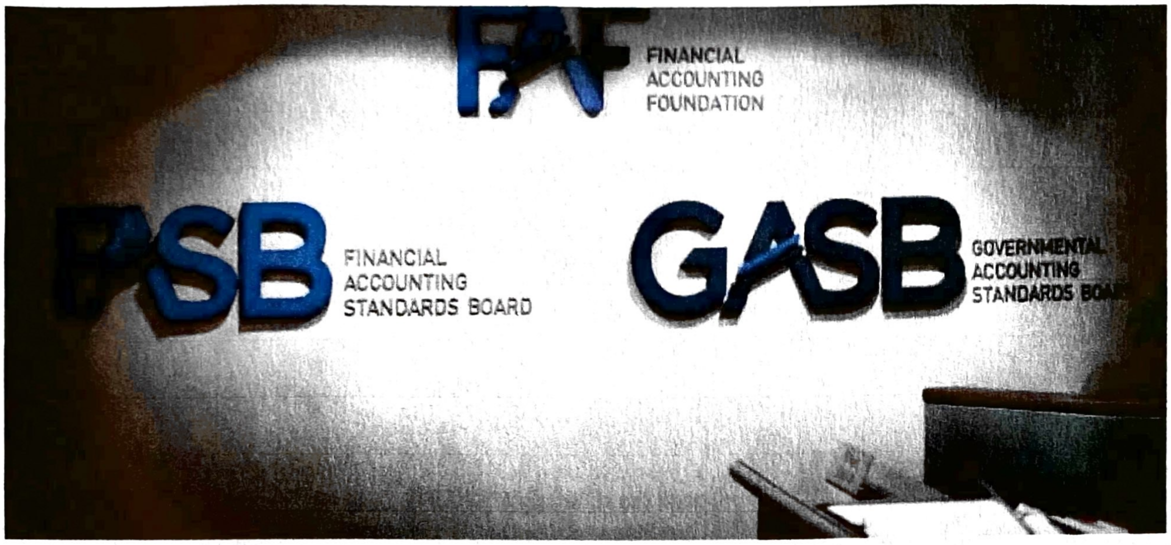
The American Bankers Association said it issued a discussion paper about the matter, pointing out that under the current rules, while non-PBE banks would not adopt CECL in their call reports until Dec. 31, 2021, the requirement to prepare an "opening balance" means that banks would have to effectively run both CECL and their current accounting systems through all of 2021. The ABA pointed out that FASB's standard practice of giving private entities an extra year of implementation time was unintentionally neglected. The correction will be proposed in an exposure draft, which is expected to be issued in the coming weeks with a 30-day comment period.

BDO managing director Stephen V. Masterson, national leader of the firm's U.S. Financial Institutions Advisory Services practice, sees the move as a significant one. "The way the FASB has written the guidance and the requirements to date, the private banks would have to file and would have to comply with CECL by Dec. 31, 2021," he told *Accounting Today*. "The revision they've proposed, and it's not final yet, will have to go through a comment period and ultimately be adopted if it passes. Then the CECL standard would become effective for these private banks for their calendar years starting Jan. 1, 2022. It seems like it's a one-second delay, but the reason that it's important is if they have to file their Dec. 31, 2021, financials under CECL, then they have to go back to Jan. 1, 2021, to adjust their retained earnings upon adoption. Basically if you require a private bank to report as of Dec. 31, 2021, they have to adjust their retained earnings for the impact of CECL upon adoption at the beginning of that year. It basically gives them a whole year to adjust their retained earnings to Jan. 1, 2022. That's a big deal for these banks."

Even with the extra year to prepare for the CECL standard, BDO is urging private banks to get ready soon. The firm has released a CECL Implementation Guide to help private and public banks, savings associations, credit unions and financial institution holding companies apply the standard. Masterson believes they should put together an action plan using data analytics and involving a team of people throughout the organization, including internal and external auditors, the CFO, controller, treasurer, chief credit officer, chief risk officer, chief information officer and information technology department.

"They're going to have to pull and control data from a governance, backup and integrity perspective," he said. "That data and that process are going to be audited by external auditors, internal auditors and examiners. A very comprehensive organizational audit is going to have to occur. Internal audit needs to be involved to make sure the process has integrity as they build it. The board and the audit committee are going to have to be trained. They're going to have to understand it enough so when it's presented to them they can provide a credible challenge and make sure it's right. The second piece is the data. For large public companies, they've got all kinds of data. Private companies don't have a lot of data, and they're going to have to determine what data is appropriate and where they're going to get it. The third piece is they can't overbuild their CECL model. It seems complex and scary, but taking a rightsized approach for the institution is very important. Last but not least, document the process and internal controls and test the internal controls as they go."





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Michael Cohn

Michael Cohn, editor-in-chief of AccountingToday.com, has been covering business and technology for a variety of publications since 1985.

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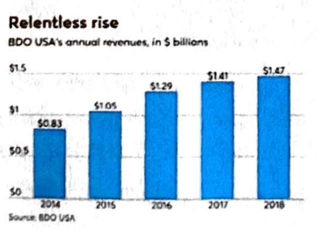

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