MORGANFRANKLIN®
CONSULTING

Current Expected Credit Losses (CECL)

ARE YOU READY TO ADOPT THE NEW STANDARD?

ESTIMATING CURRENT EXPECTED CREDIT LOSSES

Is your organization prepared?

The new guidance represents a significant change to accounting for credit losses:

- Recognition of full "lifetime" expected credit losses upon initial recognition of an asset
- Replacement of the current incurred-loss impairment model that recognizes losses only when a "probable" threshold is met
- Expected credit losses estimate is now based on historical information, current conditions and reasonable and supportable forecasts

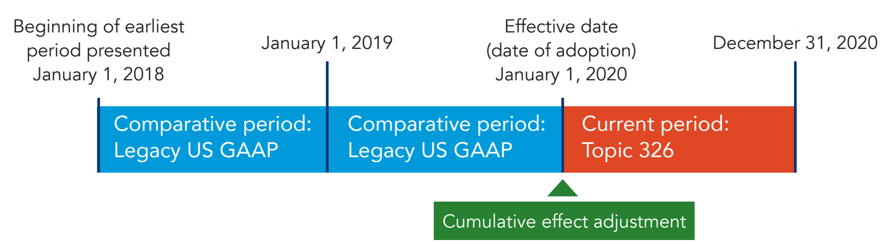
In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The main goal of the new standard is to improve financial reporting by requiring earlier recognition of credit losses on loans and other financing receivables, held-to-maturity (HTM) debt securities and certain other financial assets in scope.

While the new standard will have a significant effect on the financial services industry - particularly banks and others with lending operations (such as credit unions)—it will affect entities in all industries as a wide variety of financial instruments are in the scope of the new guidance. This expanded scope includes trade receivables resulting from transactions within the scope of Topics 605 and 606 on revenue and Topic 610 on other income.

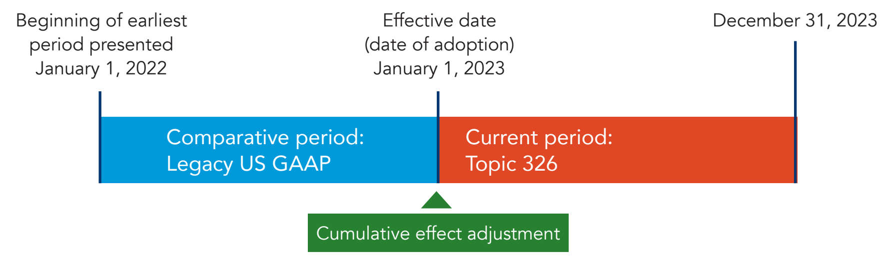
The transition process to the new standard will be challenging. From a data-collection perspective, entities will be required to maintain historical credit loss information on an aggregate basis for financial assets that share similar risk characteristics. Entities will also be required to adjust historical loss experience for current conditions to produce reasonable and supportable forecasts. The CECL standard does not prescribe one specific forecasting model for measuring expected credit losses. However, suggested methods include those based on:

- Discounted cash flows;
- Loss-rates;
- Roll-rates;
- Probability-of-default; and
- Methods that utilize an aging schedule

The adoption calendar for public entities that are SEC filers, excluding smaller reporting companies*:



The adoption calendar for non-public entities, and smaller reporting companies*:



* Under the SEC definition a Company generally qualifies as a "Smaller Reporting Company" if it has a public float of less than $250 million, or it has less than $100 million in annual revenues and a public float of less than $700 million.

MorganFranklin Expertise

- Technical Accounting Solutions Center
  - » CECL training
  - » Technical analysis
  - » Audit & implementation support
  - » Financial reporting presentation and disclosure support
- CECL Financial Modeling Experts
- CECL Implementation and Business Process Controls
- Data Requirements
  - » Assessing availability and quality of historical data
  - » Data validation
  - » Report building
  - » Determining data necessary for the selected methodology to estimate expected losses
- Project Management

Technical Accounting

Process Evaluation

Business Impact Assessment

Technology Enablement

UNDERSTAND

Understand the new standard and scope of change

- Understand new impairment models under ASC 326
- Understand technical accounting issues applicable to your transition
- Evaluate the availability of historical loss experience data
- Understand your existing process to analyze information about historical, current and future credit losses
- Know your forecasting capabilities
- Identify new presentation and disclosure requirements, including new data needs

ASSESS

Evaluate needed change to processes, people, data, and technology

- Develop models to calculate current expected credit losses
- Assess capabilities of your existing technology
- Evaluate data solutions
- Determine effect on current lending strategies, existing policies, and related controls
- Address process changes and improvement opportunities
- Develop a strategic implementation plan
- Educate and train staff on new requirements

IMPLEMENT

Implement change and optimize processes

- Implement new model(s) to calculate expected credit losses
- Document management's methodology for developing estimates
- Develop and communicate new policies
- Implement new processes to ensure that internal and external reporting requirements are met
- Update and document internal controls for new processes
- Foster change through project management and training programs

Communicate with stakeholders and program management

MorganFranklin Consulting's **Technical Accounting Solution Center (TASC)** provides on demand support to help companies address technical accounting challenges.

- Accounting Changes and Error Corrections
- Business Combinations
- Capitalized Software
- Cash Flow Statements
- Consolidation: Variable Interest Entities
- Contingent Liabilities
- Debt Instrument: Issuers
- Derivatives and Hedging
- Discontinued Operations
- Earnings per Share
- Equity Instruments
- Equity Transactions
- Fair Value Measurement
- Financial Instruments
- Foreign Currency
- Goodwill
- Impairments
- Investments: Debt and Equities Securities
- Investments: Equity Method and JVs
- Leases
- Revenue Recognition
- Segment Reporting
- Stock-based Compensation

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