Despite substantial lobbying efforts, FASB, banking regulators and federal lawmakers are clearly indicating not to expect any delays in the implementation date for the new credit loss model known as CECL.

On April 25, 2019, FASB issued Accounting Standards Update (ASU) 2019-04, a set of technical corrections covering many CECL implementation and transition issues. See Appendix A for a full list of updates. FASB will have at least one more ASU, in addition to finalizing the exposure in the table below that will cover troubled debt restructuring (TDR) relief, and may include two other items pending required further research:

- Transition relief for TDRs. FASB had previously approved a transition election to use a prepayment-adjusted effective interest rate (EIR) in a discounted cash flow (DCF) approach to measure credit losses on TDRs that exist at the adoption date
- Extension of the use of negative allowances from amortized cost basis securities to also include available-for-sale (AFS) debt securities
- Extension of the scope of transfers between classification and categories for loans and debt securities to also include trade and lease receivables

Federal Reserve Chair Jerome Powell has said he does not believe the accounting change will have a material effect on banks’ lending.

“Don’t wait any longer. Don’t panic, but don’t wait any longer,” said Alison Clark, chief accountant at the National Credit Union Association, as reported by Bloomberg Tax during an April 11 regulator webinar about how financial institutions must follow FASB’s CECL accounting standard.

FASB Assistant Director Shayne Kuhaneck urged banks not to expect any major changes in the standard or a change in the effective date of 2020 for public companies.

Robert Storch, FDIC chief accountant, said the standard will be an improvement over current accounting, which hid looming losses. “It’s going to better align with how we supervise banks and how institutions manage credit risk,” he said.
Recent FASB Activity

Transition FVO

In April 2019, FASB approved amendments for very narrow transition relief that would permit a one-time irrevocable election to apply the FVO to certain existing financial instruments that are both:

- Within the scope of Accounting Standards Codification (ASC) 326-20 and
- Eligible for the FVO in ASC 825-10, *Financial Instruments—Overall*

This election would be applied on an instrument-by-instrument basis for eligible financial assets. This FVO election will not be applicable to debt securities classified as AFS or held-to-maturity (HTM). Under current guidance, the FVO only can be elected for eligible instruments on specified election dates, *i.e.*, when an entity first recognizes a financial asset. This relief would allow entities to elect the FVO for existing eligible instruments upon adoption of CECL and would help some companies avoid having two different accounting models for similar asset portfolios.

FASB rejected expanding scope to any other security types, permitting a reclass from HTM to AFS on CECL adoption and allowing companies to reverse previous FVO decisions.

A final ASU is expected in the second quarter of 2019.

Regional Banks Proposal

At an April 2019 meeting, FASB rejected a proposal developed by regional banks. The approach would retain the CECL methodology’s intent of establishing a balance sheet allowance for lifetime credit losses, but the income statement provision would have been recognized in three parts. See BKD’s article [FASB Rejects Regional Bank CECL Proposal](#) for further details.

Vintage Disclosure: Gross Write-Offs & Receivables

At the same April meeting, FASB also decided not to move forward with a proposal that would have required gross write-offs and recoveries to be part of vintage disclosure. Preparers should follow the written guidance in the standard and will be in compliance with generally accepted accounting principles (GAAP) if they do not include the disclosure of gross write-offs and recoveries in the illustrative example. Entities can still choose to provide the additional detail. FASB will keep the project on its research agenda and may consider additional standard setting at a future point after CECL’s effective date.
Other CECL Resources

FAQs – Regulators

Bank regulators—Office of the Comptroller of the Currency, Federal Reserve, FDIC and the National Credit Union Administration—released an update to the September 2017 frequently asked questions (FAQ) document. The update contains nine additional questions covering internal control considerations, consideration of stress-testing models, scenarios and forecasting periods for future economic conditions, borrower payment behaviors as a risk characteristic for credit card portfolios and expected future changes in collateral when using the collateral-dependent practical expedient. See BKD’s article 2019 Updates to Regulators’ CECL FAQs for further details.

AICPA Resources

The American Institute of CPAs’ (AICPA) Depository Institutions and Insurance Expert Panel will be addressing several CECL issues. ASU 2019-04 addresses many concerns, but many more are outstanding. The group has issued several discussion papers, and final conclusions will be in an audit and accounting guide expected to be released later this year. See a list of open issues in Appendix B.

The adoption of CECL will be complex and likely will require significant hours to implement correctly. BKD can help educate your team, provide implementation tools and assist with analysis and documentation. If you would like assistance complying with the CECL standard, contact your BKD trusted advisor. BKD has prepared a library of BKD Thoughtware® on this topic. Visit our website to learn more.

Contributor

Anne Coughlan
Director
317.383.4000
acoughlan@bkd.com
Appendix A – Approved Technical Corrections

### Issue 1: Accrued Interest

As written, ASU 2016-13 includes accrued interest in the definition of amortized cost basis. However, many financial institutions have systems and processes in place that track accrued interest separately from the individual loan balances to facilitate regulatory reporting, i.e., call reports. In addition, banks generally follow regulatory instructions for GAAP reporting and current practice for reversing accrued interest is to debit interest income, rather than provision, regardless of whether the interest was accrued in the current period or a prior period. How should the reversal of accrued interest be reflected in the statement of operations when a loan is placed on nonaccrual status?

An entity would be allowed to:

- Measure an allowance for credit losses on accrued interest receivables separately from the allowance for credit losses related to the unpaid principal balance and other components of the amortized cost basis.
- Make an accounting policy election not to measure an allowance for credit losses on accrued interest receivable amounts if an entity writes off the uncollectible accrued interest receivable balance in a timely manner.
- Make an accounting policy election to write off accrued interest amounts by either reversing interest income or adjusting the allowance for credit losses. If elected, an entity would disclose its accounting policy to write off accrued interest receivables and the amount of accrued interest receivables written off by reversing interest income by portfolio segment or major security type.
- Make an accounting policy election to present the accrued interest receivables separate from the related financial asset balance on the balance sheet. If elected, an entity must disclose the amount of accrued interest, net of the allowance for credit losses (if any) and which line item on the statement of financial position that amount is presented.
- Elect a practical expedient to separately disclose the total amount of accrued interest included in the amortized cost basis as a single balance to meet certain disclosure requirements in Subtopic 326-20.

### Issue 2: Transfer Between Categories for Loans & Debt Securities

How should the guidance apply when transferring credit-impaired debt securities classified as AFS to HTM?

The amendments require that an entity reverse in earnings any allowance for credit losses or valuation allowance previously measured on a loan or debt security, reclassify and transfer the loan or debt security to the new classification or category and apply the applicable measurement guidance in accordance with the new classification or category.

### Issue 3: Recoveries (Negative Allowances)

The guidance states that recoveries of financial assets and trade receivables previously written off should be recorded when received. Without proper clarification, stakeholders noted this guidance could be interpreted to prohibit the inclusion of recoveries in the estimation of expected credit losses on financial assets measured at amortized cost basis.

Expected recoveries of amounts previously written off and expected to be written off should be included in the valuation account and should not exceed the aggregate of amounts previously written off and expected to be written off by the entity. For collateral-dependent financial assets, the amendments clarify that an allowance for credit losses added to the amortized cost basis of the financial asset(s) should not exceed amounts previously written off.
## CECL Update: Get Going!

### Issue 4: TDRs

The amendments will fix an incorrect cross-reference. This will clarify the requirement that an entity use the fair value of collateral to determine expected credit losses when foreclosure is probable.

### Issue 5: Conforming Amendment to Subtopic 323-10

**Current, unsuperseded guidance in ASC 323, Investments—Equity Method and Joint Ventures, describes the allocation of equity method losses when an investor has other investments, such as loans and debt securities, in the equity method investee. Stakeholders asked whether the guidance should refer an entity to Topic 326 for the subsequent measurement of those loans and debt.**

The amendments will add an updated cross-reference to ASC 326-20 and 326-30 for the subsequent measurement of loans and AFS debt securities, respectively.

### Issue 6: Reinsurance Receivables

**Are reinsurance recoverables measured on a net present value basis in accordance with Topic 944, Financial Services—Insurance, covered by the CECL guidance?**

The update will clarify that all reinsurance recoverables within Topic 944’s scope are within ASC 326-20’s scope, regardless of the measurement basis of those recoverables.

### Issue 7: Projections of Interest Rate Environments for Variable-Rate Financial Instruments

**As written, an entity that chooses to use a DCF method to determine expected credit losses on a variable-rate financial instrument is precluded from forecasting changes in the variable rate for the purposes of estimating expected cash flows and determining the EIR with which to discount those cash flows.**

The amendments will remove the prohibition of using projections of future interest rate environments when using a DCF method to measure expected credit losses on variable-rate financial instruments. An entity should use the same projections or expectations of future interest rate environments in estimating expected cash flows and in determining the EIR used to discount those expected cash flows. If an entity projects changes in the factor for the purposes of estimating expected future cash flows, it shall adjust the EIR used to discount expected cash flows to consider the timing (and changes in the timing) of expected cash flows resulting from expected prepayments.

### Issue 8: Consideration of Prepayments in Determining the EIR

**For entities electing a DCF approach for CECL, the use of an unadjusted EIR could misstate credit losses for prepayable assets held at a premium or discount since the EIR does not include prepayment assumptions.**

An entity would be permitted to make an accounting policy election—by class of financing receivable or major security type—to adjust the EIR used to discount expected future cash flows for expected prepayments on financial assets within ASC 326-20’s scope and on AFS debt securities within ASC 326-30’s scope to appropriately isolate credit risk in determining the allowance for credit losses. An entity should not adjust the EIR used to discount expected cash flows for subsequent changes in expected prepayments if the financial asset is restructured in a TDR.

### Issue 9: Consideration of Estimated Costs to Sell When Foreclosure Is Probable

**How should an entity consider estimated costs?**

The updates specifically require an entity to consider the estimated costs to sell if it intends to sell rather than operate the collateral when the entity determines that foreclosure on a financial asset is probable. When an entity adjusts the fair value of collateral for the estimated costs to sell, the estimated costs to sell should be undiscounted if the entity intends to sell rather than operate the collateral.
CECL Update: Get Going!

### Issue 10: Vintage Disclosures—Line-of-Credit Arrangements Converted to Term Loans

**How should an entity disclose line-of-credit arrangements that convert to term loans within the vintage disclosure table?**

An entity is required to present the amortized cost basis of line-of-credit arrangements that are converted to term loans in a separate column.

### Issue 11: Contractual Extensions & Renewals

**Can an entity consider contractual extension or renewal options in determining the contractual term of a financial asset?**

An entity shall not extend the contractual term for expected extensions, renewals and modifications unless either of the following applies:

a. The entity has a reasonable expectation at the reporting date that it will execute a TDR with the borrower.

b. The extension or renewal options—excluding those that are accounted for as derivatives in accordance with ASC 815—are included in the original or modified contract at the reporting date and are not unconditionally cancelable by the entity.

**Transition**

For entities that have not yet adopted ASU 2016-13, the effective dates and transition requirements for this ASU are the same as ASU 2016-13. The transition adjustment includes adjustments made as a result of an entity developing or amending its accounting policy upon adoption of ASU 2019-04 for determining when accrued interest receivables are deemed uncollectible and written off.

For entities that have adopted ASU 2016-13, these amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. These amendments should be applied on a modified retrospective basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date an entity adopted ASU 2016-13. The transition adjustment includes adjustments made as a result of an entity developing or amending its accounting policy upon adoption of these amendments for determining when accrued interest receivables are deemed uncollectible and written off.

Early adoption is permitted in any interim period for entities that have already adopted ASU 2016-13.
### Appendix B

#### Depository Institutions & Insurance Expert Panel CECL Open Issues List

<table>
<thead>
<tr>
<th>Issue</th>
<th>Description of Implementation Issue</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Zero Expected Credit Losses</td>
<td>Comment Period ended October 10, 2018</td>
</tr>
<tr>
<td>6</td>
<td>Reasonable &amp; Supportable Forecasting</td>
<td>Comment Period ended December 31, 2018</td>
</tr>
<tr>
<td>22</td>
<td>Reversion Method: Estimation vs Accounting Policy</td>
<td>Comment Period ended October 10, 2018</td>
</tr>
<tr>
<td>9</td>
<td>Auditing Accounting Estimates</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Auditing the new Credit Loss Standard</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Simplifying Assumptions from Preparers</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Review of ABA Discussion Paper, “CECL Effective Date for Private Banks.”</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Collateral Maintenance Provisions</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Accounting for Recoveries on Credit Insurance Contracts</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Application of Subsequent Events – Issues include: When and how should subsequent events be reflected when applying FASB ASC 326. See SEC staff speech from the AICPA Banking Conference for further details.</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Inclusion of Future Advances of Taxes and Insurance Payments in Estimates</td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Zero Expected Credit Loss Factors for Secured Financial Assets Secured by Collateral</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>Zero Expected Credit Losses for Unsecuritized assets (including reinsurance receivables).</td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>Subsequent Events Factors</td>
<td></td>
</tr>
</tbody>
</table>

Credit Losses Task Force Discussion Only. Responses will be considered through forthcoming Practice Aid and Accounting and Auditing Guide available in the future.

Issue Paper has been developed and is being internally reviewed. This paper will be available to the public in the future during the comment period process.
## CECL Update: Get Going!

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>28</td>
<td>Scope Exception for Loans and Receivables between Entities under Common Control</td>
</tr>
<tr>
<td>29</td>
<td>Gains and Losses on Subsequent Disposition of Leased Assets</td>
</tr>
<tr>
<td>32</td>
<td>Partial Discounting</td>
</tr>
<tr>
<td>33</td>
<td>Accounting for Changes in FX Within AFS Securities</td>
</tr>
<tr>
<td>35</td>
<td>Application of 325-40 for Trading Securities.</td>
</tr>
</tbody>
</table>

FASB Staff addressed this issue as a Technical Inquiry. An issue paper has been developed and is being internally reviewed. This paper will be available to the public in the future during the comment period process.