



## PREPARING FOR YOUR BOARD'S QUESTIONS ABOUT CECL

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**B**ankers are preparing for the launch of new rules for calculating current expected credit losses (CECL). Community bank boards, accountants, regulators and others will all be keeping an eye on CECL preparation by management. Any lapse could be costly, once the examiners show up.

So, what sorts of questions should the typical community bank board be asking?

**TIMING:** When does CECL take effect for your bank and when will you have your preparations complete?

CECL has staggered effective dates depending on the type of bank. Assuming a calendar year-end, public banks fall under the first adoption date of January 1, 2020. However, for Public Business Entities (PBE) non-SEC filers, your effective date is January 1, 2021. For all other entities, including non-PBE institutions, the first adoption date will be January 1, 2022. Be clear on the effective date and the target date needed for completion of your bank's implementation. Further, be prepared to give periodic updates on progress toward your goal and when you expect to have results to review with your board of directors.

**RESPONSIBILITY:** Who exactly is in charge of CECL at your bank, how did you construct your team, and who is on it?

Ideally, the full CECL team should include the CFO, CCO, CIO and other critical staff. The new rule includes heavy use of data, credit, and the impact of rate movement over time, so make sure you have clearly designated responsibilities and lines of authority.

**DATA:** Are you capturing the right data for CECL analysis, and is it clean and ready for use in calculations?

You should be prepared to discuss the rationale for loan groupings,

the average loan life for each group and how each was derived and applied in the calculation. This also requires data capture for the charge-off/recovery history of each loan group.

**RESERVES:** Which modeling method(s) do you plan to use for your reserve calculations? Will you be using a method that requires more or fewer qualitative adjustments when economic and performance conditions change?

The board will want to know which reserve methods you contemplate using and your reasoning for those selections. Be prepared to discuss scenarios you have evaluated and how reserves might change under each one. Boards may want to see a range of reserve rates. Finally, be prepared to discuss how changing conditions and/or assumptions might also impact your capital position.

**COST:** How much is this going to cost your bank in terms of personnel and/or software/vendor expenses?

Can your bank handle ongoing calculations in-house or will outside vendors be required? If external vendors are needed, be ready to discuss how the search and selection is being handled. You will also need to explain the vendor competency review process and what risks you could be taking. Make sure to ask whether the vendors under consideration have a working model to review yet.

Preparing for board questions on CECL and responding to them can be a time-consuming process. But, it is an important thing to do. It will not only keep your board abreast of the progress, but also help your team better prepare for when the auditors and regulators start asking questions about your CECL compliance.

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