

# Lessons Learnt from Bigger Banks along with Calculation Methods (Full life cycle, Vintage, etc.)

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# Speakers



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- » Scott is responsible for providing accounting expertise across solutions, products, and services offered by Moody's Analytics in the U.S.
- » Over 15 years of experience leading auditing, consulting and accounting policy initiatives for financial institutions including system implementation, business process design and technical accounting.
- » Extensive experience working and consulting with leading organizations in the investment, banking and insurance industries.
- » Licensed CPA in MA and member of the AICPA with a BS in Accounting from Lehigh University

# Today's Discussion Points

- » Where is the Industry with CECL Implementations?
- » What are we learning?
- » Where do we go from here?

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Where is the Industry?

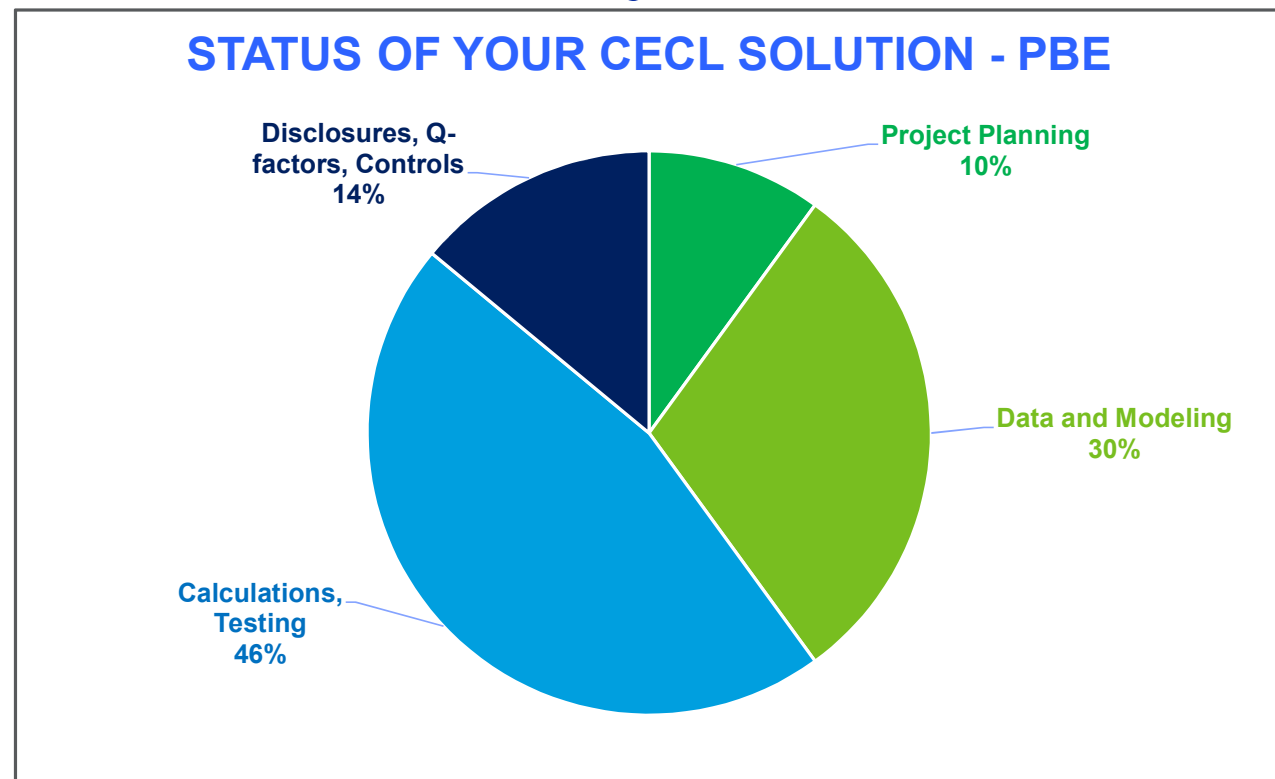
# Moody's CECL Roundtable: PBE Implementation – Survey Results

## CECL Effective Dates:

**SEC Filing PBE –**  
As of 1/1/2020

**Non- SEC Filing PBE –**  
As of 1/1/2021

**All Other –**  
As of 1/1/2022



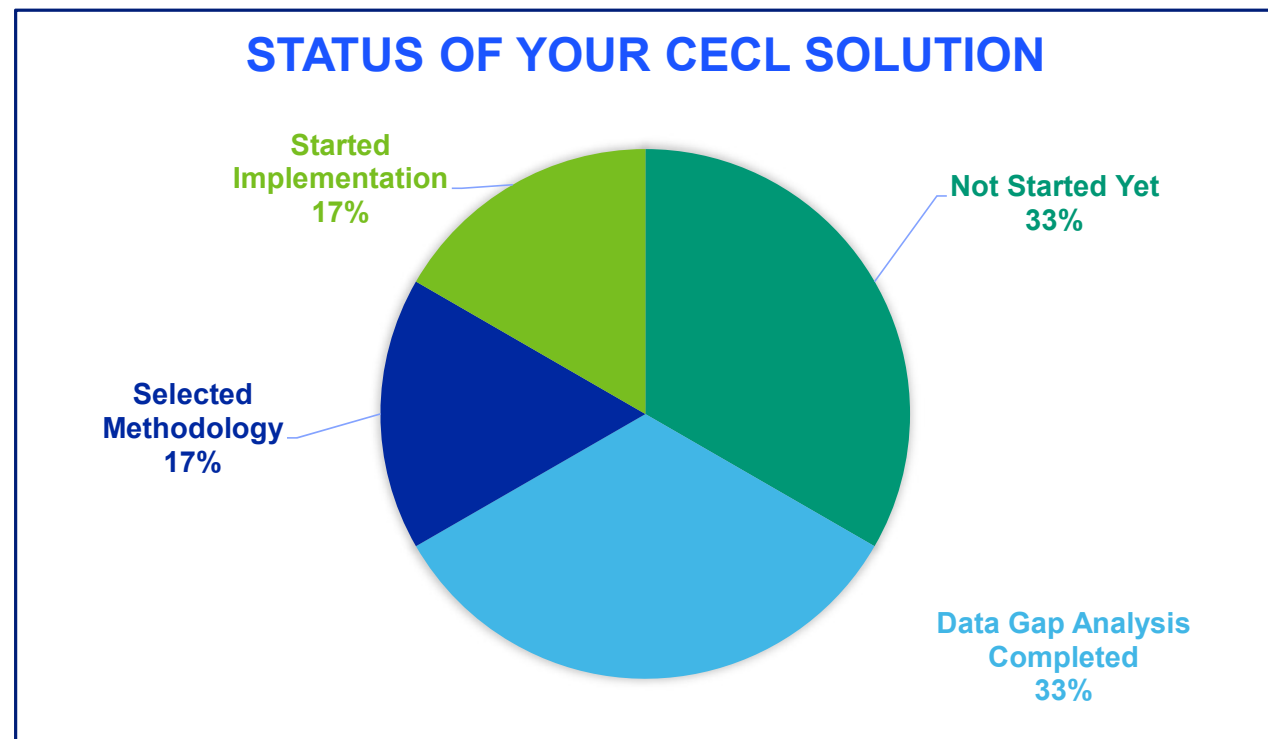
# Moody's CECL Roundtable: Small and mid-size bank - Survey Results

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As of 1/1/2021

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As of 1/1/2022



# Industry-wide open items:

## 1. Weigh in from regulators

- a) Capital considerations to be finalized (outside of agreed upon 3-year phase in)
- b) Reporting requirements; call reporting and other
- c) Exam considerations

## 2. TRG/FASB Meetings Continue

- a) Disclosures and reporting questions
- b) Handling of recoveries

## 3. PCAOB and Auditors

- a) Audit implications

## 4. Initial PBE Disclosures



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What are we learning?



# Key Themes We're Hearing:

- » Companies are looking at CECL as both an opportunity and a challenge
- » Regulators are still advising to start simple
- » Whatever the chosen solution, be ready to adapt
- » Audit considerations and disclosures are just really coming into focus

# The Challenge

## CECL Solution Needs to Answer:

### Initial Implementation

#### How?



- » Data Management
- » Estimation Methodology
- » Critical Assumptions
- » Reporting
- » Controls and Governance
- » Execution



### Ongoing Process

#### What?

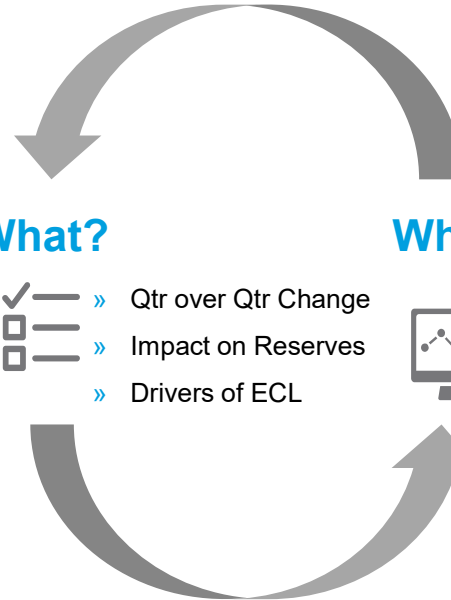


- » Qtr over Qtr Change
- » Impact on Reserves
- » Drivers of ECL

#### Why?



- » Market Conditions
- » Portfolio Composition
- » Underwriting Changes
- » Forecasts
- » Volume
- » Activity
- » Originations
- » Migrations



# The Opportunity

## The Changing Business of Lending



### Credit On-Boarding

Pricing



Structuring



Origination process  
PD & LGD Risk  
Rating Scorecards



Origination activities under the new CECL/IFRS9 regime requires new rigor in terms of data capture at origination as well as better alignment of risk right at the point of on-boarding



### Risk and Finance

CECL cornerstone



Profitability analysis



Portfolio Management



Reserving at time of origination changes the profitability equation requiring active management of portfolios and understanding options to manage returns. The more prepared institutions will lead to better performing banks



### CFO and Controller

Peers analysis  
ROE  
decomposition



Portfolio Acquisition  
and M&A



Capital Planning  
EPS forecast



Understanding where one stands with respect to peers, and have the ability to evaluate portfolios or bank acquisitions within the capital planning and EPS forecasting framework will be a key capability all institutions should have

Seamless Integration of Lending with Management of Credit Lifecycle

# There is no Easy Button; but there are options



- » Add to your ALLL process for CECL, not CHANGE your process!
- » Leverage partners/vendors for credit and economic experience
- » Find solutions that start simple and are flexible!

# Emphasizing Simplicity



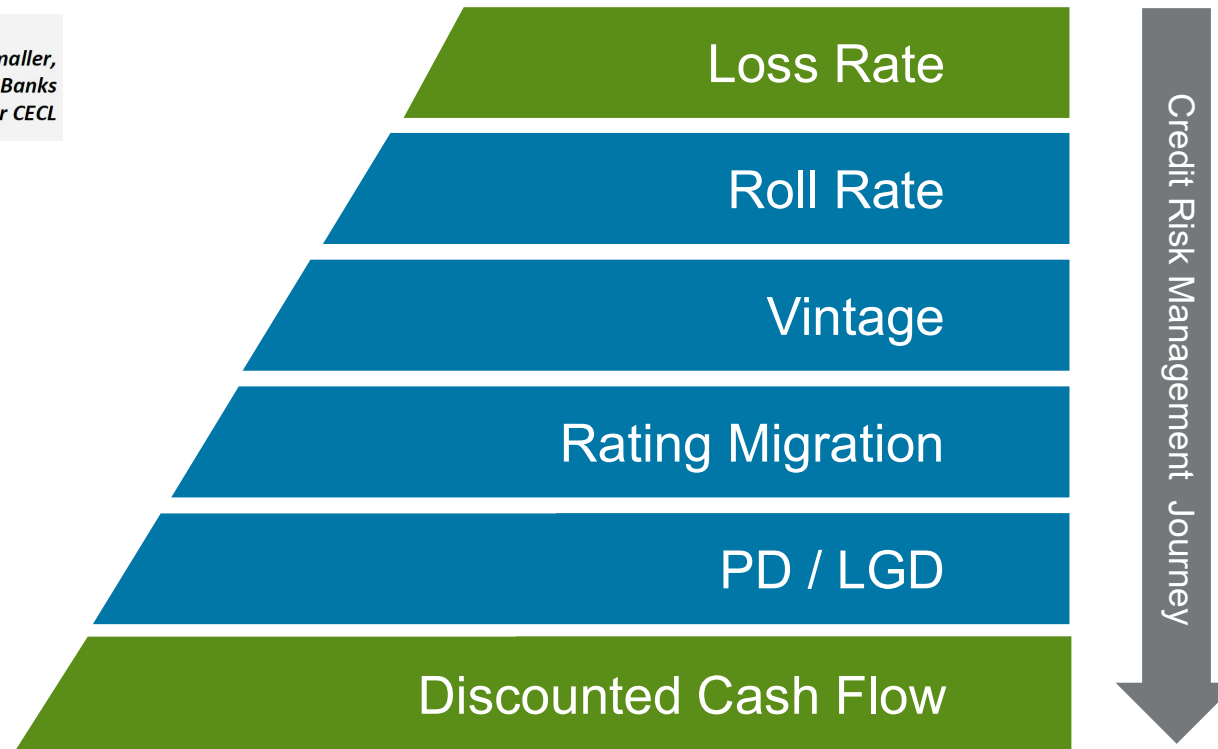
*Practical Methods Smaller,  
Less Complex Community Banks  
Can Use as a Starting Point for CECL*

**Loss Rate Calculations and the Use of**

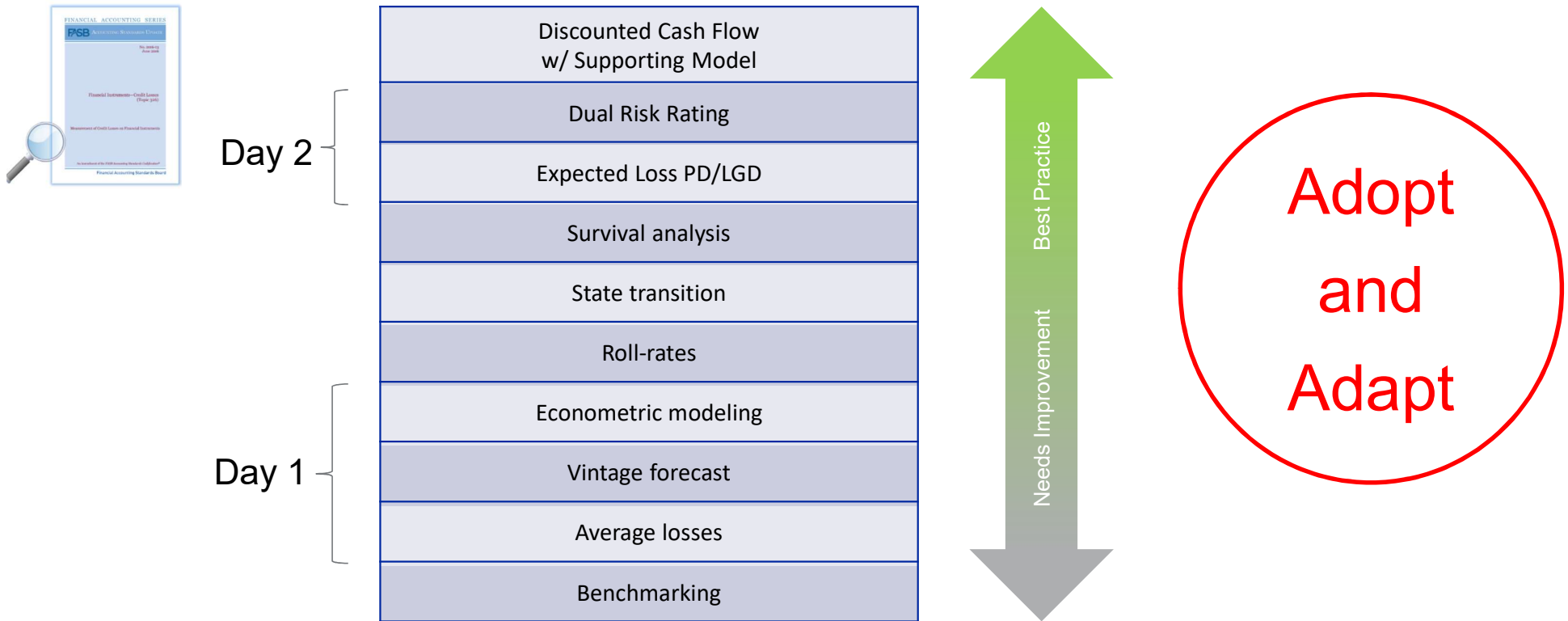
**Historical Experience Under CECL**

*A Discussion Paper of the*

AMERICAN BANKERS ASSOCIATION

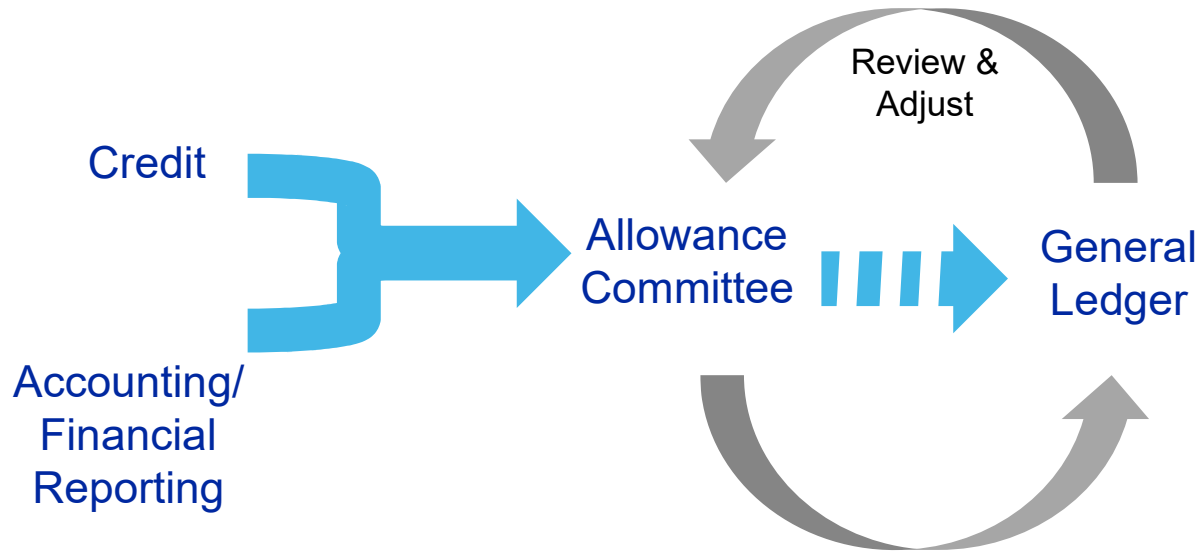


# Emphasizing Flexibility



\* Note – Day 2 approach is suggested for material portfolios only

# Pre-CECL ALLL Process and Audit Considerations



## Audit Plan Considerations:

- Audits focused on reasonableness –monitored through internal comparisons and industry benchmarks
- Committee approach to decision making; including adjustments and final numbers
- G/L reconciliations to assure that final committee numbers are reflected in financial statements
- Auditors typically review committee judgements and review for changes period-over-period
- Top level adjustments are often utilized; without applying to individual instruments or segments
- Allowance disclosures and reporting is limited to General Ledger output and very high-level

# Post-CECL ALLL Process and Audit Considerations

## Typical CECL Allowance Process Steps



### Just a sample of new Audit Plan Considerations due to CECL:

- All instruments, even new purchases must be included so no longer can audits focused on reasonableness and assertions must be considered in greater detail (e.g., completeness, existence)
- Detailed models are being used with many parameters and options within each; greatly increases control concerns
- Need testing to assure that Accounting Policy elections actually align to Analysis parameters
- Simple G/L reconciliations are no longer sufficient
- Qualitative adjustments will require detailed review and cannot just be considered in the overall final result
- Allowance disclosures and reporting will be very detailed with many data attributes to consider



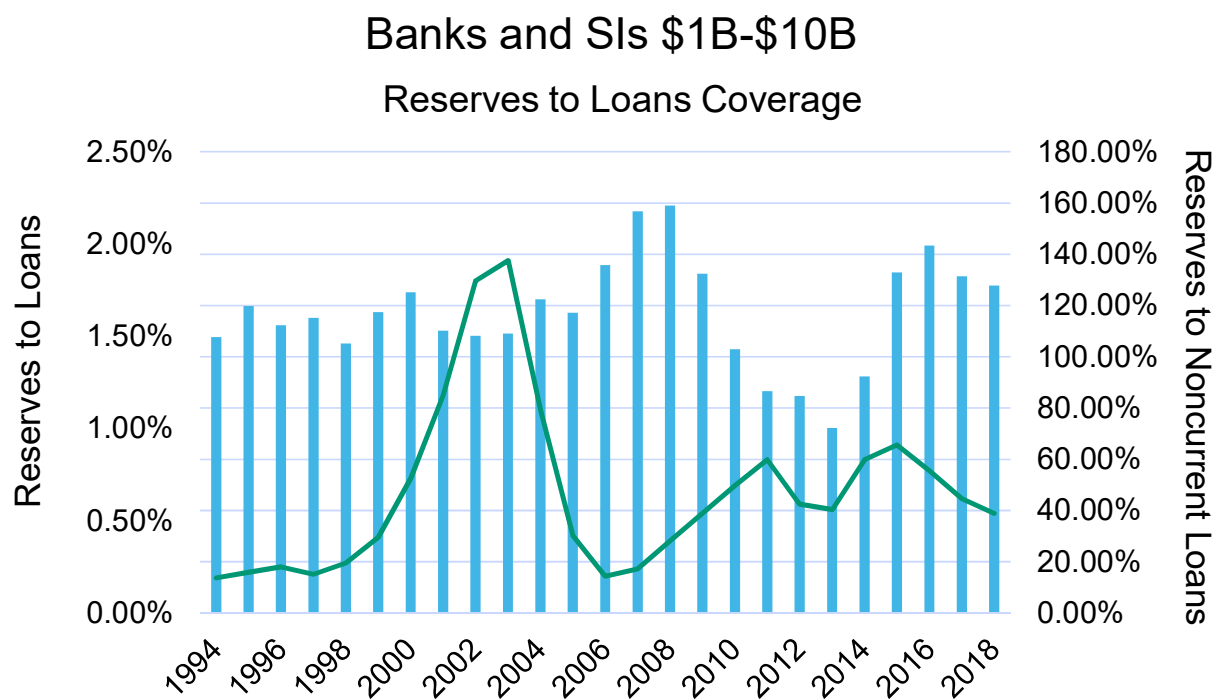
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Where do we go from here?

# Key Themes Moving Forward:

- » Whatever the chosen solution, be ready to adapt as CECL will remain a moving target for years
- » Don't forget about audit considerations, disclosures and model validations
- » The starting point will influence the level of your reserves, and more...explore your options

# The starting point will influence the level of your reserves, and more...explore your options



Source: FDIC

## Segment-at-a-glance:

- » The number of institutions is at an all-time high (638); among the fastest growing segment in banking
- » Assets per employee at an all-time high (\$6.5 million; avg. \$4.6 million)
- » Average loans outstanding is at an all-time high (\$1.19 billion); avg. \$909 million
- » Highest % of loans to total assets (71%)
- » Among the highest in profitability in recent years (pre-tax ROA 1.7%); Efficiency Ratio declined each year since 2013 (below 60% for the first time since 2007)



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# Countdown to CECL: May 1-3 Orlando, FL

Join us for an unparalleled opportunity to learn the latest about the CECL implementation process, best practices from peer institutions, and the opportunities ahead.

Countdown to CECL will bring together senior practitioners and experts from credit unions, community banks, and regional banks. Attendees will learn from one another, across industries, to better prepare for what lies ahead.



## SPECIALIZED TRACKS

Master best practices for firms like yours. Join sessions specific to credit unions, community banks, and regional banks.



## DEEP-DIVE SESSIONS

Take advantage of a dozen sessions over the 1.5-day schedule. The agenda is packed with sessions covering economic scenarios, audit requirements, a TRG update and more.



## NETWORKING

Exchange ideas and make new connections during our breaks throughout the day and evening receptions.

Please click here for more information: <https://cecl-conference-2019.webflow.io/>

Please click here to register: <http://www.cvent.com/d/t6qmnn/4W>

This is a complimentary event.

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