



# PRESCIO

Analytics & Financial Technology

## CURRENT EXPECTED CREDIT LOSS (CECL)



**PRESCIO CONSULTING CAN HELP YOU UPDATE YOUR LOAN LOSS ALLOWANCE METHODOLOGY FOR CECL COMPLIANCE.**

Since the Great Recession of 2008, government regulators and external auditors have given heightened scrutiny to financial institutions' methods of calculating allowances for credit losses in their loan and lease portfolios.

Because of the delays involved in recognizing those losses under the accounting rules of the time, the Federal Accounting Standards Board (FASB) updated its guidance on how to calculate the costs of credit impairment in June 2016.

The new guidance requires financial entities to change the current "impairment approach" used to estimate credit losses, to a "current expected credit loss" (CECL) approach. This new approach, CECL, accounts for the expected losses over the life of the loans in a portfolio, rather than through alternative methods for specifying the time horizon, such as the loss emergence period.

U.S. Securities and Exchange Commission (SEC) filers must implement CECL for all fiscal years and interim reporting periods after December 15, 2019. The implementation deadline for everyone else is the first fiscal year beginning after December 15, 2020.

Since, the design and development of the systems, models, and databases to support the revised FASB methodology are complex and time-consuming, and because financial institutions should plan to have a six-month parallel run of the two calculation approaches, financial institutions need to plan for an 18-month implementation window although a longer window of 24-30 months would be optimal. Entities are permitted to adopt the new guidance for accounting periods beginning after December 15, 2018.

**For over 15 years, Prescio Consulting has supported financial institutions design, development, implementation, and operation of models and systems to calculate loan loss reserves. Prescio Consulting is uniquely able to assist financial institutions in updating their allowance calculations for CECL and to provide operational support to those institutions if necessary.**

# Financial institutions must comply with CECL reporting rules in the next few years. The conversion to CECL involves these phases:

## Planning

- Identification of Business Needs
- Develop Implementation Timetable
- Make-buy Evaluation of model/system
- Transition, Contingency, and Performance
- Oversight Plans and Governance

## Design

- Identification of Data Fields
- Data Staging and Cleansing
- Identification of IT Standards
- Create Physical Data Model
- Probabilities of Default (PD)
- Credit Conversion Factor (CCF)
- Loss Given Default (LGD)

## Development

- Programming
- Development Testing
- Documentation

## User Testing

- Data staging and import processes
- Quality Control Reporting
- PD/CCF/LGD Factor Reporting
- Contingency testing
- Review of Documentation

## Implementation & Parallel-Run

- Set up Infrastructure for Regular Operation
- Dealing with Unexpected Differences in Factors

## Operation

- Move Model/System to a Production Environment
- Service Level Agreement
- Governance Process

# HOW PRESCIO MAY BE ABLE TO HELP:

Prescio has both a wholesale and a retail CECL Model for clients' use. Besides these models, Prescio supports:

- ▶ Project Planning
- ▶ Data Analysis
- ▶ Data Cleansing
- ▶ Data Modeling
- ▶ System/Model Design
- ▶ Programming
- ▶ Testing
- ▶ Contingency Testing
- ▶ Documentation
- ▶ Operational Support
- ▶ Governance
- ▶ Validation of non-Prescio models

**Prescio is an analytics and financial technology consulting firm with decades of combined experience in risk management, financial modeling, efficiency and cost reduction, systems and IT, data administration, and software development.**

Partner with Prescio to develop technical business solutions, and to complement or outsource your existing team. Our talented analysts, engineers, and consultants are ready to assist you with your next project.

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