



CONFERENCE OF STATE BANK SUPERVISORS

CECL Readiness Tool: An Examiner's Guide

Updated 9/12/2017

The Conference of State Bank Supervisors (CSBS), in consultation with state examiners, developed a tool to help financial institutions prepare for the changes associated with the Financial Accounting Standards Board's (FASB) release of Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses* (Topic 326) commonly referred to as the Current Expected Credit Losses (CECL) method. The tool was developed to provide a framework that a financial institution could use to plan for the eventual implementation of these accounting changes. CECL will have a significant impact on the way a financial institution estimates and provides for credit losses. It is prudent for institutions to start planning as soon as possible in order to adopt CECL in an orderly manner.

This examiner's guide is intended to provide context for the tool and help an examiner understand how to discuss the tool and its results with members of a financial institution's management team who may have chosen to use it.

Important information about the tool

- The tool is optional. No financial institution is required to use it. CSBS developed the tool to serve as a starting point for a financial institution that may be uncertain as to how to begin the planning process for CECL implementation.
- The dates in the tool are suggestions. Once an institution inputs certain criteria, such as their *public business entity* status and *SEC-filer* status, the tool automatically suggests dates by which the steps could be completed in order to meet the CECL implementation date for that financial institution. Since the time needed for each step may vary by institution, these dates should not be considered deadlines. In fact, an institution is encouraged to adjust the dates by manually entering their own target date for each step if the suggested date is not feasible.
- The tool does not replace or revise any agency guidance, questions and answers, or other official materials that may be issued between the date the tool was released and an institution's implementation date. Further, the tool should not replace advice the institution may receive from their auditor or other accounting experts.

Considerations when discussing the tool with financial institution representatives

- The tool should be thought of as a starting point. For those institutions that may be uncertain as to how approach an accounting change of this nature, this tool offers a way to get started.
- The tool does not guarantee or certify a financial institution's readiness for CECL's implementation. An institution may appear to be on track with the tool's suggested target dates, but if the underlying steps have not been adequately performed, then ultimately the institution will not be adequately prepared.
- In discussions with financial institutions about the tool, examiners should stress the importance of early action, especially with regard to identifying what data sources an institution maintains, or may need to maintain, to be able to calculate the allowance for credit losses under a CECL model.
- Credit losses on loans and leases are the focus of this tool. The ASU also changes the way securities losses and other losses on financial instruments are measured and recorded. Financial institutions should consider these impacts separately from the steps in this tool.
- If an institution is struggling to meet the suggested dates in the tool, examiners should point out that each step may take a different amount of time for each institution. There is no single path to prepare for CECL. An institution should approach this change like other changes and implement processes on a timeline that works for their institution.
- An outcome of using the tool should be increased dialogue between members of an institution's management team and the Board of Directors about CECL readiness. When discussing the tool's use with a financial institution, consider whether this tool is encouraging the necessary discussions between stakeholders in the institution. Preparing for CECL will require action by more than a single employee in most institutions.