As CECL anxiety mounts, FASB is in no rush to consider alternative

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The Financial Accounting Standards Board plans to consider a plan offered by a group of regional banks to blunt the hit capital levels are expected to take from the Current Expected Credit Loss accounting standard. However, FASB officials are unlikely to do so as soon as many institutions would like.

The board expects to address the plan, which it received in a Nov. 5 letter, "in the first part of 2019," spokeswoman Christine Klimek said Tuesday.

Given the upcoming holidays and the press of year-end reporting issues, it could be two months before the issue works its way onto the FASB's agenda, according to accounting experts.

With conversion to CECL from the present incurred-loss model set to begin Jan. 1, 2020, a growing sense of anxiety within the financial services industry has prompted a series of proposals aimed at delaying the new standard — or at least softening the expected blow.

In addition to the regional banks' plan, the American Bankers Association called on regulators to undertake a quantitative impact study to assess CECL's impact on community banks. The Bank Policy Institute, a think tank organized recently by the nation's largest banks, urged an outright delay to address concerns CECL would result in a procyclical trend, where allowances peak at the deepest point of a downturn.

What banks want

FASB will consider these changes to CECL proposed by a consortium of regional banks, which say they are trying to preserve more of their profits and capital

- **Cover any first-year losses in allowance for loan and lease losses**
- **Use accumulated other comprehensive income for later losses**
- **Count all expected losses on impaired loans against earnings**

Source: Consortium's Nov. 5 letter

If the quantitative impact study the ABA is seeking does come to pass, it would almost certainly trigger a delay in CECL's implementation, Michael L. Gullette, the group's senior vice president for tax and accounting, said Wednesday.

“We're calling on FASB to take what that quantitative impact study” would say ”and then … make some tweaks or at least do a pause and try to figure out what the best alternative would be,” Gullette said.

The industry's odds of winning a delay are uncertain. Banking regulators have yet to come to a consensus on how to approach CECL, while the FASB appears intent on pushing forward.

“I've had so many bank CEOs come up to me and say this is one of the most complicated and frustrating things they have dealt with in banking,” Rep. French Hill, D-Ark., said last week at a community banking conference organized by the Kroll Bond Rating Agency. “I've met with FASB on this. They don't see it the community bank way. They don't acknowledge there are any problems whatsoever.”

As not-for-profit-institutions, credit unions are not scheduled to convert to CECL until Jan. 1, 2022, but they are beginning to feel the same sense of rising anxiety as banks, Curt Long, chief economist and vice president of research at the National Association of Federally-Insured Credit Unions, said Wednesday.

“There is a lot of unease about this rule among credit unions,” Long said. “The effective date is a few years away still, but it’s a big challenge. The median credit union is a little over $30 million in assets, so there’s a pretty limited scope in terms of being able to deal with a rule like this.”

Community banks, too, will struggle with CECL, said Hill, who was a bank CEO before his election to Congress in 2014.

“Small banks under $25 billion and most certainly under $10 billion are concerned about the whole thing philosophically,” Hill said. “They don’t have the systems and the management capacity to look at it in the way that the FASB has in mind.”

NAFCU is studying the various CECL proposals put forward by bank groups.

“We have conversations with the other [trade groups], but we’re still in the investigative phase,” Long said. “Implementation is creeping up to be sure, but it’s still a little down the road. … I think the issue for a lot of credit unions is they’re so overwhelmed with regulatory burden in general it’s hard to address another rule, even one as impactful as CECL, right now.”

Of course, CECL has supporters. In a LinkedIn post earlier this week, Joseph Breeden, CEO of Prescient Models LLC in Santa Fe, N.M., disputed the Bank Policy Institute’s procyclicality claims, arguing instead that CECL, if implemented properly, would provide important early-warning signals of a downturn.

“With forward-looking loss reserves in CECL based upon a good model, it is reasonable” that bankers ”would start asking questions,” Breeden wrote.

”We don’t expect perfect foresight, but we should expect risk management,” Breeden added. ”As loss reserves are rising, management should start to hedge. Raise prices a little, tighten standards a little, reduce volume a little in riskier segments. … The result of using CECL in a

real crisis, if we do it right, will probably still be procyclical, but with a reduction in the peak and fewer bank-threatening outcomes."

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