

# FORVIS

2023 Adopter CECL Implementation Road Map Series

## Documenting Your CECL Adoption

July 14, 2022

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# Meet the Presenters



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# AGENDA

WEBINAR

- Introductions

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- Why Document?

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- What to Document?

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- Documentation Best Practices

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- Closing

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# Why Document?

- Enhancing model understanding
- Creating a repeatable allowance calculation process
- Assisting in exams, audits, & model validations
- Supporting policy updates
- Meeting disclosure requirements

# Guidance

- ASU 2016-13, *Financial Instruments – Credit Losses* (Topic 326)
- SR 11-7: Supervisory Guidance on Model Risk Management (FRB & OCC, April 4, 2011)
- Interagency Policy Statement on Allowances for Credit Losses (June 1, 2020)

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# What to Document?



## Planning Phase

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# Planning Phase

## Planning & Project Development

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- CECL Committee team
- The role/responsibilities of each individual team member
- The CECL implementation estimated timeline
- Determination of in-scope assets & applicability
- Consideration of available-for-sale & held-to-maturity securities



# Planning Phase

## Data Gap Analysis

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- Data fields considered & used
- Years, format, & availability of historical data
- Reliability of data fields used, *i.e.*, completeness & accuracy
- Determining the completeness of future data & descriptions on how the data will be accurate
- Data source, relevancy, & reliability considerations for economic forecasts & current conditions

# Planning Phase

## Pooling Segmentation

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- Size of each segment relative to the portfolio in terms of dollar value & number of loans
- Risk characteristics & underwriting guidelines associated with each segment
- Appropriateness of segments based on size & risk factors
- Accessibility of data relating to each segment now & in the future
- Reconciliation of loan codes to CECL segments

# Planning Phase

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## Model Selection & Development

- Models considered & appropriateness of model selected
- Considerations of in-house versus outsourced models
- Determination of historical loss rate & historical loss period
- Current unfunded commitments & estimated future funding percentages
- Future forecast data considered & relationship with risk of segment or portfolio

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# Planning Phase

## Model Selection & Development

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- Qualitative factor descriptions & relevancy to segments or portfolio
- Prepayment speed assumptions, development process, & reasonableness, as well as consistency with standard
- How incomplete or unavailable data was supplemented or addressed
- How individually analyzed loans & collateral dependent loans are identified

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# What to Document?

## Post Planning Phase

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# Post Planning Phase

## Model Finalization

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- Effective challenge of the model
  - Conclusions on parallel run results including reasonableness of output, review processes, & benchmarking
  - Comparison of ACL estimate to actual write-offs
  - Ratio analysis
  - Comparison to peer institutions
- Description of model adjustments made & appropriateness

# Post Planning Phase

## Policies, Procedures, & Controls

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- Listings of policies updated & reviewed
- Discussion of IT processes impacted (user access, change management, etc.)
- New controls related to CECL & corresponding control owners
- Review of vendor SOC report & consideration of complementary controls
- Model validation

# Post Planning Phase

## Disclosures & Call Report

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- Review process of related CECL disclosures, including reviewer sign-offs & dates
- Documentation dates & descriptions of discussions surrounding GAAP disclosure changes
- Accounting policy elections & application of practical expedients at adoption
- Call report changes including phase-in capital plan



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# What to Document?

## Board of Directors

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# Board of Directors

## Oversight Activities

- Management
- Policies
- Loan review system
- Credit quality
- Validation
- Internal & external audit plans
- Audit findings

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# What to Document?

## Management

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# Management

## Maintenance of Appropriate ACLs

- Establishing & maintaining governance activities
- Compare credit loss estimates to actual write-offs
- Validating the loss estimation process
- Engaging in sound risk management of third parties

# Documentation Best Practices

- CECL Committee Meeting Minutes
- Implementation Memo
- Vendor Documentation
- Vendor SOC Report



# QUESTIONS

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