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FASB mulls delay of new credit loss rule for small lenders, CUs

Nicole Casperson July 19, 2019 Operations, Risk

The two years of transition to the Financial Accounting Standards Board rule called Current Expected Credit Losses — or CECL, for short — may extend to five years for smaller banks and credit unions.

FASB met this week and voted for a proposal to extend the implementation deadline, but only for small public banks, private lenders, credit unions, and any institution termed Small Reporting Companies (SRC) by the board.

For auto financiers, the data reporting standard is likely to create an imbalance in the market between Securities and Exchange Commission filers and small lenders. SEC-registered institutions must adopt the new standard by Jan. 1, 2020, while smaller banks and credit unions could have until 2024 or 2025 to implement the rule if the proposal is approved.

Technically, CECL is still a proposal at this stage, though it has a "very high chance of being approved," Moody's Analytics' Director and Senior Economist Sohini Chowdhury told *Auto Finance News*. "The principle behind pushing back the timeline for these small institutions is to give them more time to learn from their larger peers who will adopt in 2020," Chowdhury said. "This is to ensure that these small companies' limited resources are utilized most effectively."

Read more: Competitive (Dis)Advantage: The data reporting standard set to disrupt auto finance

For the smaller institutions, the delay provides some "much needed additional time to collect data, develop a process, and test it out," said Cristian deRitis, deputy economist at Moody's Analytics. "While the pressure is off, for now, [smaller] institutions should still move ahead with their timetables."

FASB has a similar stance. All seven FASB board members voted in favor of the proposal, allowing a 30-day public comment period next month for feedback. "The disruption can be managed better by giving more time to [smaller] companies," FASB Vice Chairman Jim Kroeker said during the meeting. "I don't think that creates any type of crisis."

Despite the likely delay, lenders that may receive extra time should move forward with CECL implementation plans, Moody's Chowdhury advised. "Based on what we are seeing in terms of how long it is taking companies to prepare the infrastructure for this move, those who have been granted extra time should not sit back," she said. "[Lenders] should utilize this extra time to continue with their preparations — collect data, analyze the data, gure out what methodology they are going to use."

Most importantly, lenders need to think about how they are going to make this process scalable from start-to- nish so they can run it every quarter. "It's not a one-time 'check the box' thing," Chowdhury said.