Moody's Analytics

News

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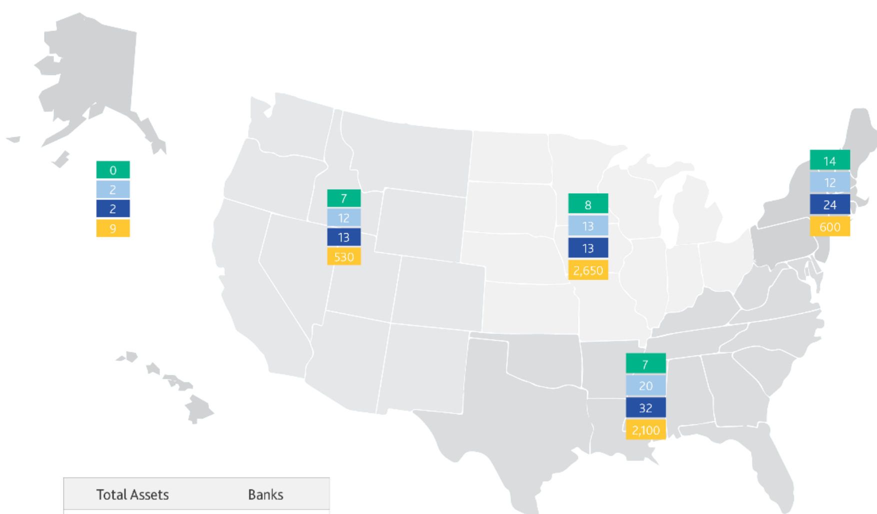
Moody's Analytics: US Banks Expect to Increase Loan Loss Provisions Under CECL Accounting Standard

NEW YORK, December 19, 2016 – The new CECL accounting standard will significantly impact banks' loan loss provisions, according to a survey by Moody's Analytics. Almost all banks surveyed expect provisions to increase under the new standard.

Moody's survey also reveals that data quality and applicability of models pose the biggest challenges in preparing for CECL. The full report is now available in the latest edition of Moody's Analytics *Risk Perspectives*, The Convergence of Risk, Finance, and Accounting: CECL.

Banks subject to CECL by location and total assets



Total Assets	Banks
$50b+	36
$10b-$50b	59
$5b-10b	84
Under $5b	~5,900
Under $500m	~4,750
Total	~6,100

Source: CECL Survey Results, Moody's Analytics Risk Perspectives

“The implementation of CECL poses a range of process and methodological challenges for banks. It requires an interdisciplinary approach that leverages expertise from credit risk, accounting, treasury, finance, and technology teams,” said Anna Krayn, Senior Director at Moody’s Analytics and Editor-in-Chief of *Risk Perspectives*. “Given the potential impact of CECL on earnings and capital, firms must understand the changes required to transition to the new standard and put implementation plans in place ahead of the launch date.”

With staggered adoption of the CECL standard scheduled to begin in 2019 many institutions expect a major effort to prepare for the new accounting regime. All but the largest banks in the Moody’s Analytics survey anticipate challenges related to quantity and quality of data, and in applying life-of-loan loss models. Banks with over $50 billion in assets expect more significant impacts to reporting under CECL. With a more complex stakeholder landscape, larger banks have to manage multiple, overlapping reporting requirements, presenting more compliance challenges.

For more in-depth analysis on CECL, including industry-wide implications of the new standard and the differences and similarities in asset impairment under the CECL and IFRS 9 regimes, view the online edition of *Risk Perspectives*. Other articles in this edition include:

- New Impairment Model: Governance Considerations
- CECL’s Implications for Bank Profitability, System Stability, and Economic Growth
- Mortgage Models for CECL: A Bottom-Up Approach

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