CECL Disclosures – Required and Beyond

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Jin Oh, Director, Solutions Specialist

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Speakers

**Masha Muzyka**  
*Presenter*  
**Senior Director**  
Regulatory and Accounting Solutions

» Masha is responsible for providing accounting expertise across solutions, products, and services offered by Moody’s Analytics in the U.S.

» Her clients include a variety of financial services institutions, including those in the banking, credit unions, and insurance sectors

» Spent over 16 years in the financial services industry specializing in fintech implementations, audit, financial reporting, and technical accounting policy

» Holds a Bachelor of Economics degree from Lomonosov Moscow State University

» Is a CPA licensed in VA and a member of AICPA

**Jin Oh**  
*Moderator*  
**Director**  
Regulatory and Accounting Solutions

» Jin is responsible for providing solutions around impairment, stress testing, and capital planning solutions

» Was an engagement director, leading stress testing implementation projects at KPMG for CCAR and DFAST institutions

» Prior to KPMG, Jin was an engagement manager in the Advisory Services for economic capital and stress testing at Moody’s Analytics.

» Has a BA in Economics from Cornell University
Agenda

1. What disclosures does the market expect?
2. Pre- and Post- Adoption, and Transition Disclosure examples
3. Checklist
What Do Readers of FS Want to Know?

CECL is an Accounting Change and should not have impact on economics and creditworthiness of an institution...

*The federal banking agencies proposed a rule that would provide banks the option to phase in the day-one adverse effects on regulatory capital that may result from the CECL adoption. The proposal also would amend regulatory disclosure requirements for those electing the transition option and result in disclosures of two sets of capital ratios – with and without the option.
CECL Disclosures

FASB on Disclosures

- Amount of originations for each period, by class of loans
- The original Day 1 estimate of ECL and changes to the original
- Split of the current provision between current originations and existing loans
- Rollforward of the loan balances and reserve by vintage, by class of loans

Hal Schroeder, FASB Member
“For the Investor: Benefits of the CECL Model and Vintage Disclosures”
Accounting Policies: Where to Look?

TRG June 11, 2018
» Accrued Interest
» Recoveries
» Capitalized Interest
» Loan and Securities Transfers
» Refi and Prepayments

DIEP on Credit Losses
» Implementation issues

Consider for SEC SAB Topic 11.M disclosure requirements:
“There are still some implementation questions that need to be addressed that could affect the estimated impact, such as….”
Examples
Examples (Pre-Adoption)
Future Application of Accounting Standards

Accounting for Financial Instruments – Credit Losses

» Summary of the requirements

» As a result of the requirements, the recognition and measurement of expected credit losses is intended to be forward looking, will involve increased complex judgment and the allowances may be more volatile. CECL may result in an increase in the allowances due to lifetime ECL assessment.

– Describe most impacted assets

» Transitional impact:

– Expected adoption date

– Expected significant accounting changes

– Expected impact to Credit Reserves, Retained Earnings and Capital ratios (transition option, if adopted)
Examples (Pre-Adoption)

“"The guiding principle here is to describe what you know but do not say more than you know…. Select content that was prepared with governance associated with it"

SEC Remarks at the 2017 AICPA Banking Conference
### Examples (Transition)

*For illustration purposes only*

<table>
<thead>
<tr>
<th>Reconciliation of the Closing Allowance for Leases and Loan Losses to Opening Allowance for Credit Losses under CECL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
</tr>
<tr>
<td>CRE</td>
</tr>
<tr>
<td>C&amp;I</td>
</tr>
<tr>
<td>Consumer</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Acquired PCI/PCD*</td>
</tr>
<tr>
<td>HTM Securities (by type)</td>
</tr>
<tr>
<td>AFS Securities (by type)**</td>
</tr>
<tr>
<td>Total Allowance for Credit Losses</td>
</tr>
<tr>
<td>Reserve for Off-Balance Sheet Positions</td>
</tr>
</tbody>
</table>

*Prospective application will result in Am Cost Adjustment. Consider a separate table to disclose non-credit related discount/premium and yield

** Prospective application. Consider a separate table to disclose those securities with OTTI prior to transition
IFRS 9 Transition – Lessons Learned

Banks’ IFRS 9 disclosures to date have been uneven quality. Only a few have provided comprehensive details on the impact of first time adoption…Some banks published only limited information, while others have provided more comprehensive qualitative and quantitative data, including methodologies, policies and key concepts. Some banks have also produced specific reports on IFRS 9 transition...

“FAQ: Limited impact from IFRS 9 first time adoption, but disclosure uneven so far”

Moody’s Investors Service
Examples (Post-Adoption)

Significant Accounting Policies

Accounting for Financial Instruments – Credit Losses

» Key concepts and management judgments

» Forward-looking information

» Definition of defaults, prepayments, expected life, modeling methodology

» Individual and collective evaluation criteria

» If relevant:
  – AFS securities policy updates
  – Acquired non-PCD treatment
  – PCD criteria and treatment
  – TDRs
First Things First:

Items You Can Start On Right Now?

Drafting Your Future Disclosures

» Change ALLL to ACL, reflect the scope

» Compare existing and future Accounting Policies

» Tie Risk Management to Credit Quality to ECL Methodology
## Credit Quality Indicators

For illustration purposes only

### Mapping of risk levels to probabilities of default

<table>
<thead>
<tr>
<th></th>
<th>Risk Assessment</th>
<th>Rating</th>
<th>PD Range</th>
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<tr>
<td><strong>Loans</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CRE</strong></td>
<td>Investment Grade</td>
<td>1-4</td>
<td>0 – 0.15%</td>
</tr>
<tr>
<td></td>
<td>Below Investment Grade</td>
<td>5-7</td>
<td>0.16 – 1.14%</td>
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<tr>
<td></td>
<td>Watch and Classified</td>
<td>7-9</td>
<td>1.15 – 4.95%</td>
</tr>
<tr>
<td></td>
<td>Default</td>
<td>10</td>
<td>4.96% – 99.99%</td>
</tr>
<tr>
<td><strong>Consumer</strong></td>
<td>Low</td>
<td>1</td>
<td>0 – 0.15%</td>
</tr>
<tr>
<td></td>
<td>Normal</td>
<td>2-3</td>
<td>0.16 – 1.14%</td>
</tr>
<tr>
<td></td>
<td>Medium</td>
<td>4-6</td>
<td>1.15 – 4.95%</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>7-9</td>
<td>4.96% – 99.99%</td>
</tr>
<tr>
<td></td>
<td>Default</td>
<td>10</td>
<td>100%</td>
</tr>
</tbody>
</table>
# Risk Rating Migration Analysis

For illustration purposes only

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<tr>
<th>Prior Period</th>
<th>Current Period</th>
<th>Total</th>
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<tbody>
<tr>
<td>1</td>
<td>0% 80% 10% 5% 5% 0% 0% 0% 0% 0% 0%</td>
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</tr>
<tr>
<td>2</td>
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<td>3</td>
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<tr>
<td>4</td>
<td>10% 0% 0% 1% 82% 15% 2% 0% 0% 0% 0%</td>
<td>100%</td>
</tr>
<tr>
<td>5</td>
<td>0% 0% 0% 0% 0% 90% 10% 0% 0% 0% 0%</td>
<td>100%</td>
</tr>
<tr>
<td>6</td>
<td>0% 0% 0% 0% 0% 10% 10% 78% 2% 0% 0%</td>
<td>100%</td>
</tr>
<tr>
<td>7</td>
<td>0% 0% 0% 0% 0% 0% 2% 64% 20% 14% 0%</td>
<td>100%</td>
</tr>
<tr>
<td>8</td>
<td>0% 0% 0% 0% 0% 0% 0% 0% 90% 10% 0%</td>
<td>100%</td>
</tr>
<tr>
<td>9</td>
<td>0% 0% 0% 0% 0% 0% 0% 0% 1% 97% 2%</td>
<td>100%</td>
</tr>
<tr>
<td>10</td>
<td>0% 0% 0% 0% 0% 0% 0% 0% 0% 100%</td>
<td>100%</td>
</tr>
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## Period over Period Change in ECL

For illustration purposes only

<table>
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<tbody>
<tr>
<td>1</td>
<td></td>
<td>4.08%</td>
<td>1.62%</td>
<td>1.20%</td>
<td>4.79%</td>
<td>6.08%</td>
<td>5.48%</td>
<td>6.16%</td>
<td>6.37%</td>
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<td>2</td>
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<td>6.57%</td>
<td>2.05%</td>
<td>5.63%</td>
<td>1.65%</td>
<td>7.78%</td>
<td>6.27%</td>
<td>2.49%</td>
<td>9.67%</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>4.90%</td>
<td>5.48%</td>
<td>6.61%</td>
<td>6.63%</td>
<td>1.87%</td>
<td>5.62%</td>
<td>2.39%</td>
<td>4.07%</td>
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<tr>
<td>4</td>
<td></td>
<td>1.63%</td>
<td>3.45%</td>
<td>5.10%</td>
<td>7.00%</td>
<td>8.52%</td>
<td>4.42%</td>
<td>3.06%</td>
<td>2.24%</td>
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<tr>
<td>5</td>
<td></td>
<td>7.97%</td>
<td>6.07%</td>
<td>3.09%</td>
<td>1.52%</td>
<td>9.82%</td>
<td>3.93%</td>
<td>8.16%</td>
<td>6.93%</td>
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<td>6</td>
<td></td>
<td>4.61%</td>
<td>6.46%</td>
<td>1.14%</td>
<td>4.61%</td>
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<td>4.59%</td>
</tr>
<tr>
<td>7</td>
<td></td>
<td>5.84%</td>
<td>7.20%</td>
<td>6.19%</td>
<td>2.10%</td>
<td>2.85%</td>
<td>3.68%</td>
<td>4.10%</td>
<td>2.89%</td>
</tr>
<tr>
<td>8</td>
<td></td>
<td>9.15%</td>
<td>2.90%</td>
<td>8.27%</td>
<td>5.93%</td>
<td>3.64%</td>
<td>2.44%</td>
<td>2.14%</td>
<td>1.72%</td>
</tr>
<tr>
<td>9</td>
<td></td>
<td>7.00%</td>
<td>3.22%</td>
<td>7.31%</td>
<td>7.52%</td>
<td>4.98%</td>
<td>1.31%</td>
<td>6.89%</td>
<td>3.63%</td>
</tr>
<tr>
<td>10</td>
<td></td>
<td>5.18%</td>
<td>5.96%</td>
<td>6.78%</td>
<td>7.96%</td>
<td>8.11%</td>
<td>5.83%</td>
<td>8.25%</td>
<td>2.03%</td>
</tr>
</tbody>
</table>
### Period over Period Change in ECL

For illustration purposes only

<table>
<thead>
<tr>
<th></th>
<th>Vintage year of origination</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Commercial</strong></td>
<td></td>
</tr>
<tr>
<td>CRE</td>
<td>1.06%</td>
</tr>
<tr>
<td>C&amp;I</td>
<td>7.61%</td>
</tr>
<tr>
<td><strong>Retail</strong></td>
<td></td>
</tr>
<tr>
<td>Mortgage</td>
<td>8.59%</td>
</tr>
<tr>
<td>HELOC</td>
<td>2.02%</td>
</tr>
<tr>
<td>Cards</td>
<td>4.73%</td>
</tr>
<tr>
<td>Student loans</td>
<td>5.62%</td>
</tr>
<tr>
<td>Auto</td>
<td>9.42%</td>
</tr>
<tr>
<td>Consumer</td>
<td>3.60%</td>
</tr>
</tbody>
</table>
CECL Disclosure Checklist

Description of Estimate
- Expected Loss Methodology
- Changes in the Factors That Influenced The Estimate
- Reasons for Significant Changes in Write-offs
- Collateral Discussion for Collateral Dependent
- Significant Purchases of Financial Assets
- Significant Sales or Reclassifications to HFS

Quantitative Disclosures
- Vintage Analysis
- Allowance Rollforward for Assets Measured at Am Cost and FV OCI*
- Credit Quality Indicators
- Reconciliation: Price to Par for PCDs
- Aging of Past Due Receivables

Policy Disclosures
- Charge-off Policy
- Past Due Policy
- Non-Accrual Policy

* Consider whether to disclosure a portion of the change in estimate when using DCF due to passage of time as interest income
Upcoming Events

Annual Flagship Conferences

» Commercial & Ag Lending Conference
  – September 24 – 26
  – Omaha, Nebraska
  – moodysanalytics.com/calc18

» Moody’s Analytics Summit
  – November 4 – 6
  – Phoenix, Arizona
  – moodysanalytics.com/summit18

Next Webinar

» CECL for Consumer Credit Portfolios – Modeling Best Practices
  – Thursday, August 2
  – 9AM PT / 12PM ET

On-Demand Webinars

» https://www.moodysanalytics.com/microsites/preparing-for-cecl/cecl-insights-webinars
Moody’s Analytics Takes Top Ranking for CECL Technology Solution

» Advisory
» Data
» Models
» Economic Scenarios
» Process Automation

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