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CECL Technology Solutions 2018

# CECL Disclosures – Required and Beyond

**Masha Muzyka**, Senior Director, Solutions Specialist  
**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

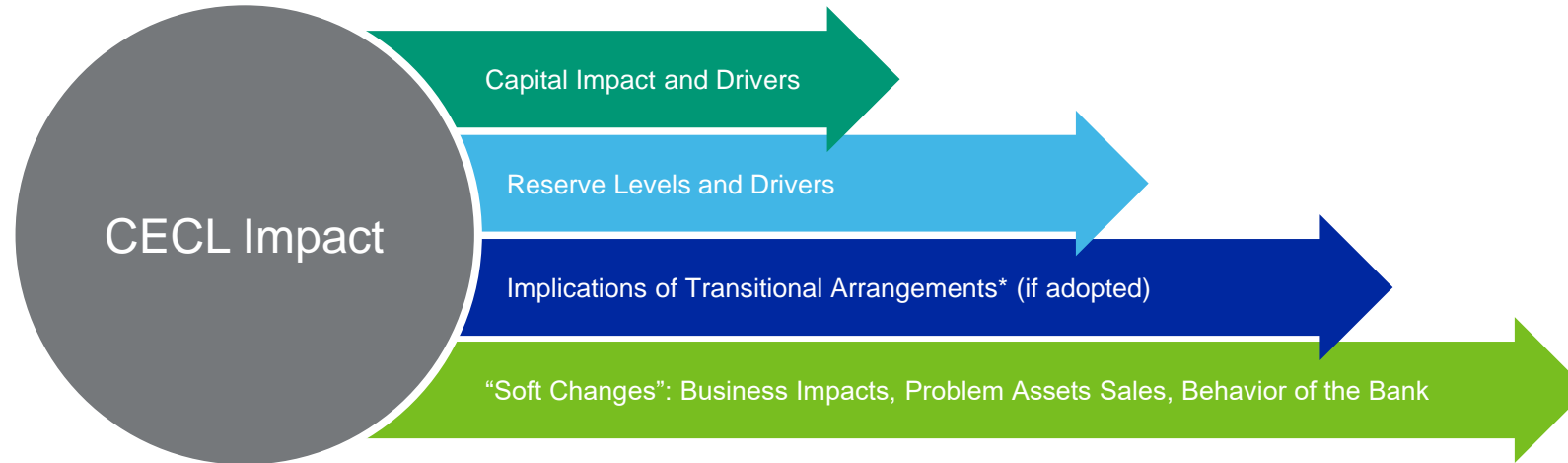
- » Jin is responsible for providing solutions around impairment, stress testing, and capital planning solutions
- » Was an engagement director, leading stress testing implementation projects at KPMG for CCAR and DFAST institutions
- » Prior to KPMG, Jin was an engagement manager in the Advisory Services 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

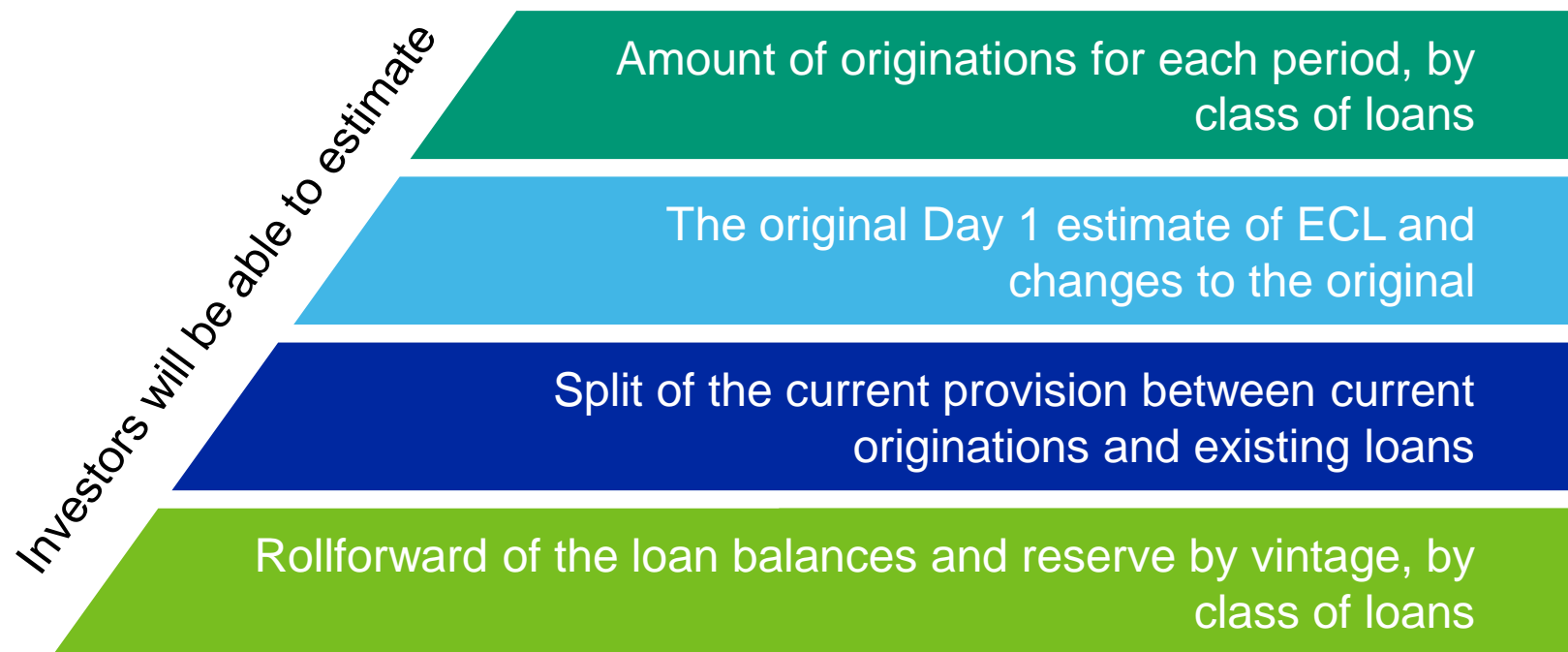
# What Do Readers of FS Want to Know?

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.

# FASB on Disclosures



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

Reconciliation of the Closing Allowance for Leases and Loan Losses to Opening Allowance for Credit Losses under CECL			
	ALLL End Balance	Adjustments, if any	ACL Beg Balance
Loans			
CRE			
C&I			
Consumer			
Total			
Acquired PCI/PCD*			
HTM Securities (by type)			
AFS Securities (by type)**			
Total Allowance for Credit Losses			
Reserve for Off-Balance Sheet Positions			

\*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...”

Moody’s Investors Service

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

# 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			
	Risk Assessment	Rating	PD Range
Loans			
CRE	Investment Grade	1-4	
	Below Investment Grade	5-7	
	Watch and Classified	7-9	
	Default	10	
Consumer	Low	1	0 – 0.15%
	Normal	2-3	0.16 – 1.14%
	Medium	4-6	1.15 – 4.95%
	High	7-9	4.96% – 99.99%
	Default	10	100%

# Risk Rating Migration Analysis

For illustration purposes only

		current period											
		new originations	1	2	3	4	5	6	7	8	9	10	Total
prior period	1	0%	80%	10%	5%	5%	0%	0%	0%	0%	0%	0%	100%
	2	75%	0%	95%	2%	3%	0%	0%	0%	0%	0%	0%	100%
	3	15%	0%	2%	75%	3%	14%	6%	0%	0%	0%	0%	100%
	4	10%	0%	0%	1%	82%	15%	2%	0%	0%	0%	0%	100%
	5	0%	0%	0%	0%	0%	90%	10%	0%	0%	0%	0%	100%
	6	0%	0%	0%	0%	10%	10%	78%	2%	0%	0%	0%	100%
	7	0%	0%	0%	0%	0%	0%	2%	64%	20%	14%	0%	100%
	8	0%	0%	0%	0%	0%	0%	0%	0%	90%	10%	0%	100%
	9	0%	0%	0%	0%	0%	0%	0%	0%	1%	97%	2%	100%
	10	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%	100%
Total		100%											

# Period over Period Change in ECL

For illustration purposes only

		Vintage year of origination							
		2011	2012	2013	2014	2015	2016	2017	2018
Rating	1	4.08%	1.62%	1.20%	4.79%	6.08%	5.48%	6.16%	6.37%
	2	6.57%	2.05%	5.63%	1.65%	7.78%	6.27%	2.49%	9.67%
	3	4.90%	5.48%	6.61%	6.63%	1.87%	5.62%	2.39%	4.07%
	4	1.63%	3.45%	5.10%	7.00%	8.52%	4.42%	3.06%	2.24%
	5	7.97%	6.07%	3.09%	1.52%	9.82%	3.93%	8.16%	6.93%
	6	4.61%	6.46%	1.14%	4.61%	1.22%	4.10%	4.66%	4.59%
	7	5.84%	7.20%	6.19%	2.10%	2.85%	3.68%	4.10%	2.89%
	8	9.15%	2.90%	8.27%	5.93%	3.64%	2.44%	2.14%	1.72%
	9	7.00%	3.22%	7.31%	7.52%	4.98%	1.31%	6.89%	3.63%
	10	5.18%	5.96%	6.78%	7.96%	8.11%	5.83%	8.25%	2.03%

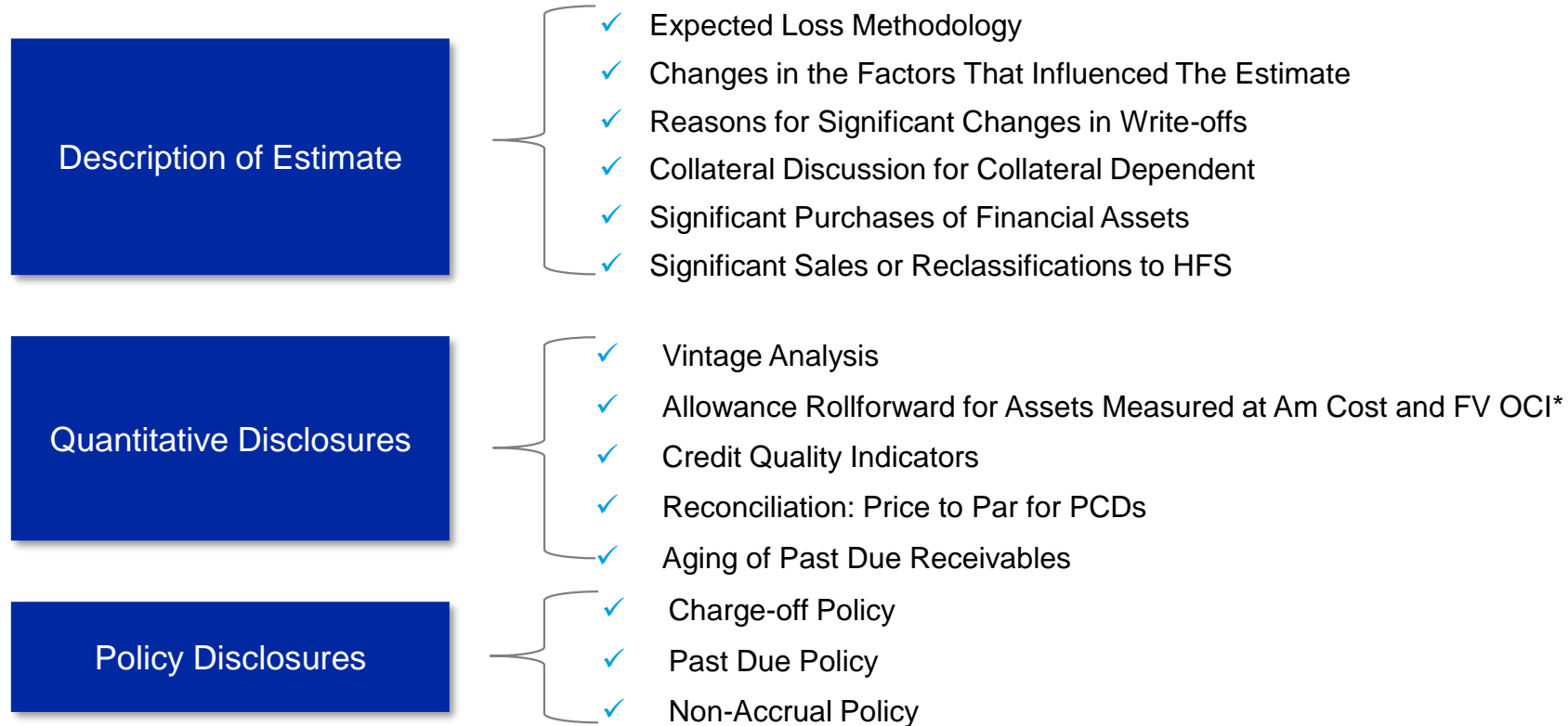


# Period over Period Change in ECL

For illustration purposes only

		Vintage year of origination							
		2011	2012	2013	2014	2015	2016	2017	2018
<b>Commercial</b>									
	CRE	1.06%	1.04%	4.13%	1.61%	6.90%	7.65%	3.09%	4.98%
	C&I	7.61%	8.45%	6.28%	3.78%	3.84%	9.30%	4.87%	3.82%
<b>Retail</b>									
	Mortgage	8.59%	8.53%	0.97%	9.72%	5.10%	7.00%	8.98%	4.13%
	HELOC	2.02%	1.15%	8.74%	3.62%	6.60%	6.00%	4.25%	3.93%
	Cards	4.73%	2.05%	5.79%	4.81%	8.07%	4.46%	1.79%	2.96%
	Student loans	5.62%	7.97%	7.03%	9.37%	4.52%	7.66%	8.62%	6.74%
	Auto	9.42%	6.02%	2.80%	5.49%	8.65%	4.17%	9.18%	7.07%
	Consumer	3.60%	4.36%	7.42%	6.62%	7.15%	1.97%	6.58%	7.14%

# CECL Disclosure Checklist



\* 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](https://www.moodysanalytics.com/calc18)

### » Moody's Analytics Summit

- November 4 – 6
- Phoenix, Arizona
- [moodysanalytics.com/summit18](https://www.moodysanalytics.com/summit18)

## Next Webinar

### » CECL for Consumer Credit Portfolios – Modeling Best Practices

- Thursday, August 2
- 9AM PT / 12PM ET
- <https://www.moodysanalytics.com/webinar-events/2018/cecl-consumer-modelling-approaches>

## 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



Chartis FinTech Quadrant™ for CECL technology solutions, 2018



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Balance Sheet  
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Compliance Risk Technology  
Implementation of the Year  
and Credit Risk Technology  
Implementation of the Year



CLO Data Provider of  
the Year



Innovation in Customer Service -  
Financial Services Industries



Best ESG Solution  
Best Solvency II Solution



Best Solvency II Tech  
Solutions Category  
Winner



Technology Vendor of  
the Year



Stress Testing Product of the Year  
Category Winner  
Economic Scenario Generation  
Product of the Year Category Winner  
Solvency II Product of the Year  
Category Winner  
Regulatory Reporting Product of the  
Year Category Winner



Best Buy-Side Market Surveillance  
Tool Category Winner –  
Structured Finance Portal



Ranked 5 out of 100  
Credit Risk Category Winner  
Enterprise Stress Testing  
Solution Category Winner



#1 IFRS 9  
#1 Asset and Liability Management  
#1 Regulatory Capital Calculation  
and Management



Ranked 19th in the Overall  
Top 100 Rankings



Best Credit Risk Solution  
Provider – RiskCalc™

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