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TEXAS DEPARTMENT OF BANKING

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INDUSTRY NOTICE 2018-01

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Preparing for the Implementation of the Current Expected Credit Losses (CECL) Methodology

The implementation of Financial Accounting Standards Board's [Accounting Standards Update \(ASU\) 2016-13, Financial Instruments - Credit Losses \(Topic 326\): Measurement of Credit Losses on Financial Instruments](#), commonly referred to as the Current Expected Credit Losses (CECL) method, will have a significant impact on the way financial institutions estimate and provide for credit losses. Early preparation is prudent; institutions should start planning as soon as possible to transition to CECL by the required implementation date.

This new accounting standard applies to all state-chartered banks and certain trust companies with debt obligations held as assets. For purposes of this notice, financial institutions will primarily be referred to as banks.

Banks must prepare for the implementation of CECL over the next few years. Some of the steps management should take to transition to CECL include:

- reviewing the new accounting standards,
- collecting data needed to transition to the new standard,
- evaluating the different methodologies available to estimate expected credit losses,
- inputting data into models and testing data output,
- changing policies and procedures, as appropriate, and
- planning for the potential impact of the new accounting standard on capital.

It is recommended that each bank review and be familiar with [ASU 2016-13](#), as well as the federal agencies' [Joint Statement on New Accounting Standard on Financial Instruments – Credit Losses](#) issued on June 17, 2016. The agencies also developed [Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses](#) which were issued December 19, 2016 to assist financial institutions with questions regarding the implementation process. The frequently asked questions were recently updated on September 6, 2017. Another recommended resource is the [Ask the Regulators: CECL Webinar for Bankers: Practical Examples of How Smaller, Less Complex Community Banks can Implement CECL](#). This presentation by the FRB, FDIC, CSBS, FASB, and the SEC on February 27, 2018 provides a starting point for banks to estimate the allowance under CECL and highlights several different methods for determining loss rates. It has been archived and can be viewed at any time from the link above.

The expectations for transitioning to CECL are currently very reasonable. But as the implementation deadline draws nearer, more will be expected. Banks that file reports with the Securities and Exchange Commission will be required to implement CECL sooner than smaller

community banks. To date, banks should have researched the new accounting standards, begun to search for data sources that could be used under CECL and assigned a point-person or committee to coordinate the bank's transition. Some banks may have reached out to their data processors, accounting firms and/or vendors for assistance.

Beginning in early April 2018, Department examiners will be discussing CECL implementation at safety and soundness examinations with senior management and evaluating the steps that management has taken to transition to this new methodology. Examiners will provide assistance and share resources, like the [CSBS Readiness Checklist Tool](#). It should be noted that management is not required to use this tool, but it can provide a reasonable timeline to assist banks in implementing CECL.

A comment about the bank's preparedness and current actions being taken to implement CECL will be included in commercial bank examination reports and trust company reports, if applicable. The statement will be included with the allowance for loan and lease losses comment in the report of examination. If a bank is determined to be lagging behind in taking reasonable steps to transition to CECL, then a recommendation will be included in the report of examination addressing additional steps that should be taken.

The Department believes it is important that our staff provide assistance and valuable recommendations when needed, and to encourage banks to be proactive in addressing this significant change.

If you have any questions, please [email](#) Review Examiner Travis Graham or call 512-475-1300.