



AICPA Guidance On CECL

by [Steve Brown](#) Topics: [CECL](#), [compliance](#), [risk management](#)

Summary: The American Institute of CPAs is planning to shed some light in its upcoming release of guidance on CECL. As the only bank in the AICPA Task Force Meetings, we share some thoughts on the main points covered.

PwC finds that while 81% of Boomers say their primary bank is where they hold their checking account; that dips to 74% for Gen X and only 65% for Millennials. Technology & behavioral changes show fewer people have such accounts or still use them.

As above, changes are occurring all around banking and one area creeping along is CECL. Bankers continue to search for guidance from regulators and auditors so today we share news that the American Institute of CPAs (AICPA) is planning to shed some light in its upcoming release of guidance on the subject.

As the only bank in the [AICPA CECL Task Force Meetings](#), we found many of the topics to be consistent with our expectations, as we all await the final AICPA Guidance later this summer.

The main topics addressed in these meetings won't surprise bankers: 1) **validation & controls around data**; 2) **well-documented and supported methodologies and Q factors**, with the appropriate governance and controls; and 3) **bank management responsibilities**. We will be covering each of these topics in depth in the coming weeks, as we predict that the AICPA guidance will align closely, but here is a summary.

One of the most important things to note is that there was a clear message that CECL is a "fresh start" from the current incurred loss (ICL) approach.

The AICPA notes that loss estimates will be assessed under ASC 326 (CECL), so it is important that institutions remember not to anchor Q factor concepts to the ICL Q factor concepts of the past. The nuance is that while Q factor categories may be alike, the measurement objectives of CECL are different from ICL. So, it should not be assumed to use the same or similar adjustments.

After getting into this mindset, data is an important place to start, of course. The AICPA notes that data must be reliable, relevant and consistent. This means that the data must be as complete as possible.

Of course, most institutions will have data gaps, so supplementing those data gaps also needs to be relevant and appropriate for your business. That means local external data could be better than national external data. No matter what, of course, internal controls should be in place when choosing any external data, including using the same assumptions for forecasting scenarios.

Once your data is complete and meets the necessary criteria, you will need to choose the best model and methodologies for your institution. The AICPA notes that all decisions need to be well-documented & supported, so model transparency is critical.

Also, Q factor adjustments are to be used where there are model limitations, so Q factors must be challenged overall and also period over period. Whether model development is done in-house or with a third party, the auditors expect the same things from bank management. It is important to understand fully and be able to explain the inputs, assumptions and reasoning for any decisions. No matter your approach, the AICPA emphasizes that management must have full command over data, model validation, and management controls - including appropriate system and organization controls (SOC) reports. More soon.

ECONOMY & RATES

Rates As Of: 07/15/2019 12:20PM (PDT)

Treasury	Yields	MTD Chg	YTD Chg
3M	2.13	0.04	-0.23
6M	2.05	-0.04	-0.42
1Y	1.96	0.03	-0.64
2Y	1.83	0.07	-0.66
5Y	1.84	0.08	-0.67
10Y	2.09	0.08	-0.60
30Y	2.61	0.08	-0.40
FF Market	FF Target	Fed Disc	
2.38	2.50	3.00	
SOFR	Prime	Unemp	
2.36	5.50	3.70	

[More Market Rates](#)

BANK NEWS

Global Rates

The Fed next meets on July 31, at which time it is expected to cut short rates by 25bp, and also end its balance sheet contraction activities. Meanwhile, the Australian Central Bank just cut rates 25bp to an historic low of 1.00%, the European Central Bank is expected to cut rates into negative territory from 0.00% at its Sept 12 meeting, the Bank of Japan is expected to cut rates further into negative territory from -0.10% at its Sept 19 meeting and The People's Bank of China is expected to keep its base interest rate at 4.35%, as it has since 2015.

Down Rates

Fed Chair Powell told Congress "crosscurrents, such as trade tensions and concerns about global growth have been weighing on economic activity and outlook." This leads many economic experts to believe there will be an interest rate cut at the July 31 FOMC meeting. Meanwhile, Fed governor Brainard also pointed toward ease in saying, "Taking into account the downside risks at a time when inflation is on the soft side would argue for softening the expected path of monetary policy."

Key Words

Bank Director reports the top 10 internet search words across banking websites are: 1) routing number; 2) overdraft protection; 3) order checks; 4) skip payment; 5) online banking; 6) wire transfers; 7) credit card; 8) open account; 9) account number; 10) IRA. You may want to think about this as you further develop your website and online presence perhaps.

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