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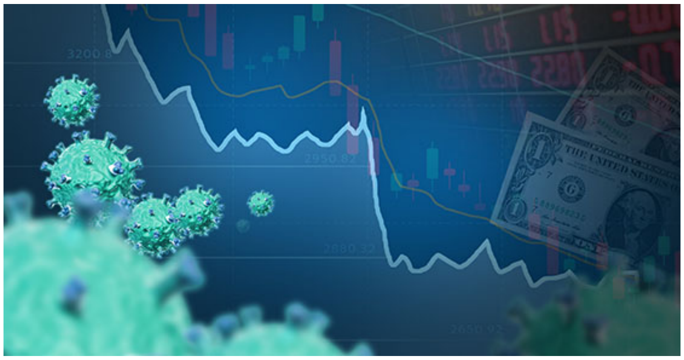
New law provides option to delay implementing the updated CECL standard

The Consolidated Appropriations Act (CAA), signed into law on December 27, 2020, includes a variety of economic relief measures. One such measure allows certain banks and credit unions to temporarily postpone implementation of the controversial current expected credit loss (CECL) standard. Here are the details.

UPDATED ACCOUNTING RULES

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, in response to the financial crisis of 2007–2008. The updated CECL standard relies on estimates of probable future losses. By contrast, existing guidance relies on an incurred-loss model to recognize losses.



In general, the updated standard will require entities to recognize losses on bad loans *earlier* than under current U.S. Generally Accepted Accounting Principles (GAAP). Originally, it was scheduled to go into effect for most public companies in 2020.

This is the *third* time the CECL has been delayed. In October 2019, the FASB extended the deadlines for smaller reporting companies (SRCs) from 2021 to 2023, and for private entities and nonprofits from 2022 to 2023. In March 2020, the CARES Act gave large banks the option to delay CECL reporting by a year.

NEW DELAY

Under the CAA, large public insured depository institutions (including credit unions), bank holding companies and their affiliates have the option of postponing implementation of the CECL standard until the earlier of:

- The end of the national emergency declaration related to the COVID-19 crisis, or
- December 31, 2022.

This is an extension from December 31, 2020. Many public banks have already made significant investments in systems and processes to comply with the CECL standard, and they've communicated with investors about the changes. So, some may choose not to take advantage of this option to delay implementation — but many banks will hold off.

Congress decided to provide a temporary reprieve from implementing the changes for a variety of reasons. Notably, the COVID-19 pandemic has created a volatile, uncertain lending environment that may result in significant credit losses for some banks.

To measure those losses, banks must forecast into the foreseeable future to predict losses over the life of a loan and immediately book those losses. But making estimates could prove challenging in today's unprecedented market conditions. And, once a credit loss has been recognized, it generally can't be recouped on the financial statements. Plus, there's some concern that the CECL model would cause banks to needlessly hold more capital and curb lending when borrowers need it most.

STAY TUNED

These are uncertain times, and the FASB may feel pressure from stakeholders to provide additional relief to help companies during the COVID-19 pandemic. Contact us for the latest developments on this issue or to help implement the new CECL model.