FDIC

Federal Deposit Insurance Corporation
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Financial Institution Letter
FIL-41-2017
September 6, 2017

NEW ACCOUNTING STANDARD ON CREDIT LOSSES: FREQUENTLY ASKED QUESTIONS

Summary: The federal financial institution regulatory agencies are issuing updated *Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses* to assist institutions and examiners. The new standard will take effect in 2020 or 2021, depending on an institution's characteristics. The attached Frequently Asked Questions (FAQs) combine into a single document new questions and answers and those issued in December 2016, replacing the FAQs attached to FIL-79-2016. The FAQs focus on the application of the current expected credit losses methodology (CECL) for estimating credit loss allowances and related supervisory expectations and regulatory reporting guidance. The periodic issuance and updating of the FAQs is part of the agencies' efforts to support institutions as they prepare to implement CECL.

Statement of Applicability to Institutions under $1 Billion in Total Assets: This Financial Institution Letter applies to all FDIC-supervised banks and savings associations, including community institutions.

Distribution:
FDIC-Supervised Banks (Commercial and Savings) and FDIC-Supervised Savings Associations

Suggested Routing:
Chief Executive Officer
Chief Financial Officer
Chief Credit Officer

Related Topics:
FIL-39-2016, June 17, 2016, Joint Statement on the New Accounting Standard on Financial Instruments – Credit Losses

Attachment:
Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses

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Note:
FDIC Financial Institution Letters (FILs) may be accessed from the FDIC's website at https://www.fdic.gov/news/news/financial/2017/.

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Paper copies may be obtained through the FDIC's Public Information Center, 3501 Fairfax Drive, E-1002, Arlington, VA 22226 (877-275-3342 or 703-562-2200).

Highlights:

- The Financial Accounting Standards Board published its new credit losses accounting standard in June 2016.
  - CECL applies to all financial assets carried at amortized cost (including loans held for investment and held-to-maturity debt securities), a lessor's net investments in leases, and certain off-balance-sheet credit exposures such as loan commitments and standby letters of credit.
  - Although CECL does not apply to available-for-sale debt securities, the new standard modifies the existing accounting for impairment on such securities.
- The new FAQs in the attached combined set of questions and answers address such topics as qualitative factors, data to implement CECL, purchased credit-deteriorated assets, the evaluation of the public business entity criteria, the mechanics of adopting the standard for Call Report purposes, and collateral-dependent loans.
- The FAQs continue to emphasize that CECL is scalable to institutions of all sizes; community institutions are not expected to need to adopt complex modeling techniques to implement the new accounting standard. Further, institutions are not required to engage third-party service providers to assist management in estimating credit loss allowances under CECL.
- The agencies encourage institutions to plan and prepare for the transition to and implementation of the new accounting standard, particularly with respect to determining the estimation method or methods to be used and collecting and maintaining relevant data to implement each selected method.
- The agencies expect institutions to make good faith efforts to implement the new accounting standard in a sound and reasonable manner.
- Institutions with questions about the new accounting standard and the FAQs may submit them by e-mail to CECL@fdic.gov.