FDIC

Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, D.C. 20429-9990

Financial Institution Letter
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June 17, 2016

JOINT STATEMENT ON THE NEW ACCOUNTING STANDARD ON FINANCIAL INSTRUMENTS – CREDIT LOSSES

Summary: The federal financial institution regulatory agencies have issued a Joint Statement on the New Accounting Standard on Financial Instruments – Credit Losses regarding the Financial Accounting Standards Board's new standard, which introduces the current expected credit losses methodology (CECL) for estimating allowances for credit losses. The joint statement also provides initial supervisory views regarding the implementation of the new accounting standard.

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
Board of Directors

Attachment:
Joint Statement on the New Accounting Standard on Financial Instruments – Credit Losses, June17, 2016

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Note:

Highlights:

- Under CECL, the allowance for credit losses is a valuation account measured as the difference between the amortized cost basis of financial assets and the net amount expected to be collected on the assets (i.e., lifetime credit losses).
- The new accounting standard will take effect in 2020 or 2021, depending on an institution's characteristics. It applies to financial assets carried at amortized cost, including loans held for investment and held-to-maturity securities.
- The standard allows expected credit loss estimation approaches that build on existing credit risk management systems and processes as well as existing methods for estimating credit losses. However, certain inputs into these methods will need to change to achieve an estimate of lifetime credit losses.
- To estimate expected credit losses under CECL, institutions will use a broader range of data than under existing accounting standards. These data include information about past events, current conditions, and reasonable and supportable forecasts relevant to assessing the collectability of the cash flows of financial assets.
- While there are differences between today's incurred loss methodology and CECL, the agencies expect the new accounting standard will be scalable to institutions of all sizes, and that smaller and less complex institutions will be able to adjust their existing allowance methodologies to meet the new accounting requirements without the use of costly and complex models.
- The agencies encourage institutions to plan and prepare for the transition to the new accounting standard, including assessing the potential impact on capital.
- Because appropriate allowance levels are institution-specific amounts, the agencies will not establish benchmark targets or ranges for the change in institutions' allowance levels upon adoption of CECL, or for allowance levels going forward.