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

Financial Institution Letter
FIL-20-2019
April 3, 2019

NEW ACCOUNTING STANDARD ON CREDIT LOSSES: FREQUENTLY ASKED QUESTIONS

Summary: The federal financial institution regulatory agencies (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 takes effect in 2020, 2021, or 2022, depending on an institution's characteristics. The attached Frequently Asked Questions (FAQs) combine new questions and answers and those issued in 2017 and 2016, replacing the FAQs attached to FIL-41-2017. Certain previously issued FAQs have been updated in response to recent developments. The FAQs continue to 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.

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 Institutions

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:
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Highlights:

- The Financial Accounting Standards Board (FASB) published the new credit losses accounting standard in June 2016. The FAQs discuss how this new standard changes existing U.S. generally accepted accounting principles (GAAP), which includes replacing the existing incurred loss methodology with CECL.
- New FAQs in the combined set of questions and answers address collateral-dependent loans; reasonable and supportable forecasts; internal control considerations related to data; and the continued relevance of concepts, processes, and practices in existing supervisory guidance on the allowance for loan and lease losses.
- The FASB's recent amendment to the effective date of the new accounting standard for nonpublic business entities is reflected in updated responses to certain questions.
- The FAQs continue to emphasize the scalability of CECL to institutions of all sizes, and the expectation that community institutions are not expected to need to adopt complex modeling techniques to implement the new accounting standard.
- Under current U.S. GAAP, institutions use allowance estimation methods scaled to their size and complexity. The agencies expect a similar array of credit loss estimation methods will be used under CECL. However, inputs to allowance methods will need to change to properly implement CECL.
- The agencies expect institutions to make good faith efforts to apply the new credit losses standard in a sound and reasonable manner. Accordingly, institutions should continue preparing to implement the standard.
- Questions about the new accounting standard and the FAQs may be submitted by e-mail to CECL@fdic.gov.