

## Current Expected Credit Loss (“CECL”) Implementation Services

FASB’s new accounting rule for measuring credit losses, the Current Expected Credit Loss, or “CECL” model presents a significant challenge to banks, finance companies and other entities with significant credit exposures. This new accounting standard fundamentally changes how reporting entities estimate credit losses, requiring a transition from the long-standing “incurred loss” model to an approach that requires institutions to estimate the amount of credit losses expected over the life of the receivable. CECL requires reporting entities to consider historical experience and current information, consistent with the incurred loss model, but also requires reporting entities to incorporate economic forecasts to estimate expected credit losses. Reporting entities, particularly those with significant credit exposure, may need to modify information systems to capture additional historical loan performance data and design and implement new policies, processes, controls and reporting systems. Given the amount of preparation required, reporting entities, and financial institutions, in particular, should be diligently preparing for the new rule, as the window to prepare for implementation is narrow. Specifically, implementation is required for fiscal years beginning after December 15, 2019 for SEC filers, while other entities will be required to adopt CECL in 2021.

### REPRESENTATIVE ENGAGEMENTS

- Engaged by a large international bank to review its specialized commercial real estate mortgage portfolio and identify ways to strengthen its internal control framework. Our work focused on evaluating compliance with regulatory requirements, underwriting standards, collateral evaluation and independent analysis of internal risk ratings.
- Retained by a large community bank to investigate whistleblower allegations that the bank’s financial performance and credit quality were misstated. Conducted interviews, reviewed loan files, ALLL model inputs, assumptions and reports and identified loan loss calculation errors. Recommended changes to address identified control weaknesses and helped implement appropriate quarterly adjustments.
- Retained as experts in numerous litigation matters to provide testimony and opinions regarding financial institution lending practices and compliance with industry practices and regulatory expectations.
- Retained to perform credit reviews on a sample of loans and assess the inputs and assumptions to the ALLL model by prospective purchasers in numerous community bank acquisitions. Our work included evaluation of the target bank underwriting policies/procedures, reviews of credit files and loan classification for a sample of loans and evaluation of ALLL models and their underlying assumptions.

### Who We Are

FTI Consulting is a leading independent consulting firm and a preferred provider of credit risk management and accounting services to financial institutions and other public and private companies. We bring a diverse team of experts with the necessary skills and experience to help institutions implement CECL in an effective and regulatory compliant manner. Our SEC Accounting and Advisory practice is comprised of senior professionals with extensive GAAP and SEC reporting experience, including former Big Four audit partners and senior managers, as well as SEC staff. Our “National Office” experts include a former FASB Board member, a former accounting firm National Office partner and a senior manager from the Chief Accountant’s Office of a Federal bank regulator. Similarly, our Financial Institution Governance and Regulation team helps financial institutions manage credit risk and implement policies/procedures that are consistent with industry best practices and regulatory expectations. These experts are routinely engaged to assist financial institutions promote effective governance, remediate identified weaknesses, and resolve regulatory inquiries and enforcement actions.

Through our combined resources, we bring a team of professionals who have the experience to resolve critical regulatory or litigation issues and provide value-added service in the process. Our professionals include former bankers, CPAs, CFAs, attorneys, financial analysts and forensic accounting specialists. Regulatory experts include former staff and commissioned examiners from the Federal Reserve, Office of the Comptroller of the Currency, FDIC, SEC, Federal Housing Finance Agency and States Attorney Generals.

Using their broad credit risk management knowledge, our professionals provide consulting services on credit policy development and underwriting, portfolio management, credit loss reserve methodologies, loan review and financial and regulatory accounting/reporting. In addition to interpreting, applying and documenting application of the new CECL guidance, FTI Consulting also employs our extensive public accounting and project management experience to help implementation (and the corresponding audit process) go smoothly and efficiently. Because FTI Consulting does not provide audit attestation services, we are able to help clients develop or enhance their accounting methodologies without creating independence conflicts.

## Meeting the Challenges:

Implementation of CECL will result in major operational impacts. Considerations include:

- **Program Management and Multidisciplinary Teams** – Implementation will require coordination and a collaborative effort across numerous operational units, including accounting and finance, credit administration, risk management, legal and information technology. Accordingly, entities must establish strong project teams with representation and expertise from multiple disciplines.
- **Enterprise-wide Impact** – Given CECL’s broad impact, entities must take an enterprise-wide view and leverage existing risk management structures, governance frameworks and technical resources, such as data analytics and models.
- **Enhanced Governance Framework** – CECL will require enhancements to existing policies, procedures, processes, controls and systems to ensure an effective implementation. Considerations include: validating the reliability and assumptions used in predictive modeling (*i.e.*, correlating historic loss data and economic factors with loss estimates); credit lifecycle process re-design to ensure proper function and controls, and enhanced regulatory and financial reporting, including disclosures.
- **Data Management** – Creating a reliable data set for CECL will require analysis and possible transformation of existing data to enhance and improve data quality and usability. Considerations include portfolio segmentation and establishment of default and loss probability data points. For many institutions, enhanced data capture and modifications to existing loan accounting systems will be necessary.

## How FTI Consulting Can Assist

FTI Consulting can assist reporting entities achieve an efficient and regulatory-compliant implementation of CECL through the following services:

- **Status Assessment/GAP Analysis** – We work with clients to understand existing processes and loan data, identify the critical system/process enhancements and controls that are needed, and develop a corresponding implementation plan.
- **Loan Portfolio Diagnostics** – Using proprietary portfolio diagnostic tools, we can independently review loan data and develop assumptions for loss modeling and other accounting and regulatory reporting requirements.
- **Project Management** – Our experienced project managers can coordinate the planning and implementation of CECL from inception to implementation. We ensure representation from appropriate departments, design processes and controls, document assumptions and develop appropriate reporting.
- **Policy Development** – We have extensive experience drafting accounting policies that meet auditor and SEC requirements.
- **Credit/Loan Loss Reserve Methodology (Allowance for Loan and Lease Losses)** – FTI Consulting’s accounting experts understand the external auditor/SEC/FASB perspective and help clients comply with GAAP requirements. We regularly work collaboratively with external auditors to help support client accounting decisions, assumptions and policies.
- **Regulatory Compliance** – Our team has extensive regulatory experience and can ensure documentation, reporting and governance practices are consistent with regulatory reporting expectations and meet auditor requirements.
- **Model Development and Validation** – Our data analytic professionals work with a wide range of client information systems and models and are adept at independently validating their accuracy and functionality. We also partner with various third parties to provide administrative and operational support in the design and development of customized systems.
- **Training** – We design and deliver training to all employee groups that will be impacted by implementation of CECL.

## FTI Consulting’s Expertise with CECL

For additional information about our CECL implementation services, please contact one of the following senior professionals:

Scott Carnahan  
+1 213 452 6023  
Scott.Carnahan@fticonsulting.com

Jeff Ellis  
+1 312 252 9382  
Jeff.Ellis@fticonsulting.com

Tom Rees  
1+ 610 254 4042  
Thomas.Rees@fticonsulting.com

Larry Smith  
+1 646 576 8175  
Larry.Smith@fticonsulting.com

EXPERTS WITH IMPACT™

## About FTI Consulting

FTI Consulting is an independent global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities. For more information, visit [www.fticonsulting.com](http://www.fticonsulting.com) and connect with us on Twitter (@FTIConsulting), Facebook and LinkedIn.