

## FORENSIC ACCOUNTING & ADVISORY SERVICES

# Allowances for Loan Losses

**A**llowances for Loan Losses, often referred to as Loan Loss Reserves, are a primary concern of banking regulators, the SEC, independent auditors, and other stakeholders. Because the provisions for loan losses significantly affect reported earnings and key performance and soundness measures, the amounts, timing and disclosures of a bank's loan loss provisions and reserves are of critical importance.

### Several Parties May Challenge Allowances for Loan Losses

- Bank Regulators often question the amounts of loan loss reserves and processes for determining those reserves. They can recommend governmental sanctions and formal or informal actions based upon their findings.
- SEC Division of Corporation Finance routinely questions registrants about disclosures, amounts of reserves and the timing and amounts of provisions, and can request expanded disclosure or restatement of financial statements.
- SEC Division of Enforcement may investigate the adequacy of loan loss reserves, the discipline and consistency of the process for determining reserves, the timing of provisions and the accuracy and timeliness of disclosures. The results of an investigation could lead the SEC to charge the company and/or its management with violations of the securities laws.
- Independent auditors may challenge the reserving process, adequacy of amounts reserved, judgments applied, disclosure, or adequacy of documentation.
- Company management or the audit committee of the board of directors may undertake an inquiry based on information from internal audits, internal analyses, or whistleblower allegations.
- Plaintiffs in litigation may challenge the adequacy of loan loss reserves and the amounts, timing, and disclosures of provisions to support their damage claims.

### How FTI Consulting Professionals Can Help

FTI Consulting is highly qualified and has the technical resources to help clients understand and comply with the finer points of regulations and guidance relating to this critical reporting area. FTI Consulting professionals have previous experience at the SEC and bank regulatory agencies, and have helped interpret and administer the SEC and banking regulatory policies on loan loss reserves. Our practical experience, evaluating reserve processes, methodologies, models, assumptions, documentation, and disclosures has enabled us to provide valuable insight to our clients.

FTI Consulting professionals have guided clients through SEC and bank regulatory inquiries, investigations and litigation regarding loan loss reserves.

### FTI Consulting Helps Clients Answer and Resolve Inquiries, Conduct Investigations, and Respond to Litigation:

- We evaluate the nature and substance of information requests, subpoenas or claims.
- We capture, secure and analyze electronic and other data.
- We provide an objective review of the process used by a company to determine the amounts and adequacy of its reserves, and comply with SEC Staff Accounting Bulletin No. 102 and the related FFIEC policy dealing with reserve methodology and documentation. This includes:
  - reviewing documents, conducting interviews and compiling investigatory findings that provide a contextual and chronological basis to frame the relevant issues;
  - assessing the inputs and assumptions used in the process;
  - providing objective feedback on the adequacy of internal processes and documentation supporting reported reserve balances;
  - assessing the timeliness of recording loan loss provisions and of making disclosures to the investing public and other stakeholders; and
  - providing feedback on the consistency of application of loan loss reserving methodology over periods of time.
- We provide technical accounting expertise, expert opinions and testimony.
- We organize a company's documentation of its loan loss reserves and provisions to help support management's determinations including compliance with U.S. GAAP or IFRS.
- We provide respected and credible professionals to communicate with staff of both the SEC and bank regulatory agencies and with independent auditors, audit committee members and legal counsel.



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### About FTI Consulting

FTI Consulting, Inc. is a global business advisory firm dedicated to helping organizations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. FTI Consulting professionals, who are located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management and restructuring.