Office of the
Comptroller of the Currency

Office of the Chief Accountant

OCC Mutual Savings Associations Advisory Committee

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Jeffrey (Jeff) J. Geer is the Associate Chief Accountant at the Office of the Comptroller of the Currency (OCC) in Washington, DC. Mr. Geer serves as a senior technical official on matters related to accounting, auditing, internal controls, financial disclosure, and regulatory reporting. He is responsible for overseeing the monitoring and analysis of domestic and international proposals, standards, and practice issues affecting national banks and federal savings associations. Mr. Geer works with various parties to identify and resolve issues, and to provide positions in the development, interpretation, and application of standards, regulations, policies, and practices. In performing these duties, he works with OCC personnel, bankers, regulatory agencies, public accounting firms, trade associations, professional organizations, and accounting and auditing/attestation standard-setting bodies at the national and international level. Mr. Geer represents the OCC on the Accounting Experts Group of the Basel Committee on Banking Supervision.

Mr. Geer joined the OCC in July 2011 through the merger of the Office of Thrift Supervision (OTS) with the OCC. Before joining the OCC, Mr. Geer served as the OTS Chief Accountant from August 2004 to July 2011. Prior to moving to Washington, DC, Mr. Geer was the OTS Southeast Regional Accountant and Capital Markets Manager. Mr. Geer began his supervisory career at the Federal Home Loan Bank of Atlanta (later OTS) in 1988. Mr. Geer began his professional career as an auditor in the Atlanta office of KPMG.

Mr. Geer is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants. Mr. Geer holds a Bachelor of Science degree in Accounting (Magna Cum Laude) from Clemson University in South Carolina. GO TIGERS!!

Current Expected Credit Losses (CECL)

Expected Credit Losses

- The agencies have supported the expected credit losses approach since 1999

  "In fact, many practitioners and users of financial statements believe that the allowance is better described as containing estimates of 'expected' losses, a standard more consistent with prospective measurements of credit performance"

  - Interagency Letter to the FASB, April 20, 1999, signed by the Principals of the FDIC, OCC, FRB, and OTC.

FASB Project Update – Timing

- Final standard: Q1 2016

CECL Effective Dates		
	U.S. GAAP Effective Date	**Call Report Effective Date***
Public Business Entities (PBEs)	Fiscal year beginning after 12/15/2018, including interim periods within **2019**	**Q1 2019 (3/31/2019)**
Smaller PBEs (Non-SEC filers)	Fiscal year beginning after 12/15/2019, including interim periods within **2020**	**Q1 2020 (3/31/2020)**
Non-PBEs	Fiscal year beginning after 12/15/2019, including interim periods beginning AFTER 12/15/2020	**Q4 2020 (12/31/2020)**
Early Adoption	Smaller PBEs and non-PBEs: permit early adoption using the effective dates for PBEs	

* *For banks with calendar year ends.*

FASB Project Update – Scope

Loans		Debt Securities	
Held for Investment	CECL	Held to Maturity	CECL*
Held for Sale	Lower of cost or market	Available for Sale	New credit loss model*
		Trading	FV-NI

* Under the CECL model, as well as the new credit-loss model for AFS, losses will be reflected for difference between debt security's amortized cost basis and its fair value (LOCOM) when identified for sale

In developing a new credit-loss model for AFS, Board decided that "other-than-temporary" concept should no longer exist

The CECL Model

- The CECL model is :
  - Principles based
  - Removes the probable thresholds and the incurred loss notion
  - Introduces a “lifetime” concept for estimating the allowance for credit losses
  - Considers more forward-looking information than is permitted under current U.S. GAAP

EARLIER RECOGNITION!

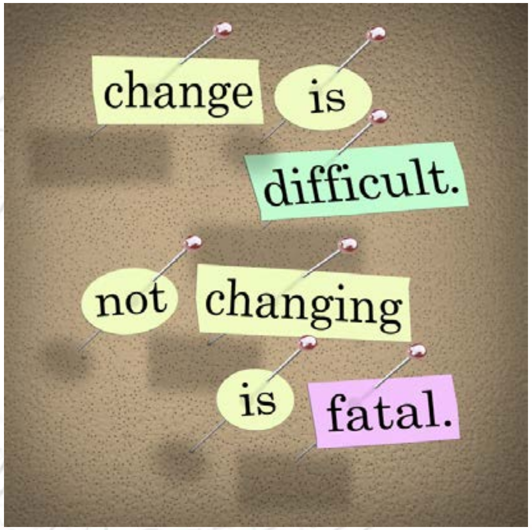
CECL: What's Changing

- Reduction in the number of credit impairment models
  - Distinction between instruments carried at ***amortized cost vs. fair value-OCI***
- Enhanced credit disclosure requirements
  - Disaggregation by vintage of credit quality indicators, such as loan-to-value (LTV) ratios, FICO scores, and risk ratings
- Changes from purchased credit impaired (PCI) to purchased credit deteriorated (PCD) loans
  - New definition – "more than insignificant" credit deterioration since origination
  - Establishes a day one allowance on PCD loans through "gross up"

Loan-par amount	**$1,000,000**	
Loan-noncredit discount		**$75,000**
Allowance for credit losses		**175,000**
Cash		**750,000**

CECL: What's Not Changing

- Ability to choose an estimation method most appropriate for the bank
- Credit risk review/management processes
- Consideration of historical loss experience on similar assets and current conditions
- Qualitative considerations
- Interest income recognition and nonaccrual policies
- Write-off (i.e., charge-off) policies
- Accounting treatment for loans held for sale



CECL: Key Considerations

- Small banks **DO NOT** need big models
  - No requirement to hire a team of experts
  - However, changes to current system necessary for data collection and analysis
- Leverage processes currently in place (e.g., a bank's existing credit risk management function and historical loss rates)
- Consider NOW what you will need later

Implementation Recommendations "Do's"

- Become familiar with the standard and draft a CECL plan
- Discuss the proposed changes with external auditors, industry peers and regulators
- Develop multidisciplinary teams in preparation for implementation
- Review current allowance and credit risk management practices to identify existing processes & methodologies that can be leveraged
- Consider data availability (e.g., origination, maturity dates, types of loan losses, charge-off dates, lifetime loss amounts)
- Use industry available resources (e.g., OCC Semiannual Risk Perspective, OCC Mortgage Metrics)
- Consider capital adequacy
- Keep your regulatory team up to date

Implementation Recommendations "Don'ts"

- No early incorporation of "expected loss" concepts or "soft adoption"
- No artificial inflation of ALLL to smooth impact
- Don't wait to prepare
- Don't overload at adoption
  - Day 1 adoption through retained earnings, not P&L
  - No "cookie jar" reserves

Supervisory Expectations

CECL: An Integrated Approach to Credit Risk Management

- Accounting
- Underwriting | Lending
- Credit Risk Management
- Treasury | Loan Pricing
- Internal Audit
- Capital Planning | Forecasting
- Profitability Analysis

Supervisory Preparation

- Established an interagency steering committee
- Conduct outreach with bankers and auditors
- Develop internal and external training and communication plan
- Inventory existing supervisory guidance to be updated
- Develop additional guidance and tools
  - Regulatory capital impact
  - Transition specific and on-going accounting considerations

CECL Questions?

Please send them to:

CECL@occ.treas.gov

Thank You!