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# Financial Accounting Standards Board Announces Public Meeting as New Credit Loss Standard's Effective Dates Approach

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The Financial Accounting Standards Board ("FASB") will hold an open meeting on June 12, 2017, to hear concerns from financial institutions regarding FASB's recently finalized Accounting Standards Update for measuring credit losses on financial instruments (the Current Expected Credit Loss standard, or "CECL") under Generally Accepted Accounting Principles ("GAAP").

FASB issued the new CECL standard on June 16, 2016, following a vote on April 27, 2016. The new CECL standard will require financial statements to reflect credit losses once they are expected, compared to current accounting standards, which permit financial institutions to delay the recognition of credit losses until it is probable that such losses have been incurred. FASB has characterized the change as a post-financial crisis reform designed to provide investors with timelier and more accurate information. The standard's various effective dates commence with fiscal years beginning after December 15, 2019.

Financial institutions have expressed concerns that the CECL standard will negatively impact access to credit by incentivizing short-term lending—for which predicting losses over the life of a loan from the time of origination is easier—at the expense of longer loans, such as mortgages, and less predictable lending, such as certain small business loans and loans to non-prime customers. FASB has taken the position that the standard need not have such an impact because the new standard takes into account the fact that longer repayment timelines introduce greater uncertainty. The standard characterizes loss estimation as "subjective" and requires estimation methods to be only "practical and relevant to the circumstance" of a particular loan.

Financial institutions have also argued that the new CECL standard would have the effect of imposing increased capital requirements. By requiring financial institutions to account for expected losses up front, the standard will require them to maintain greater loan-loss reserves (i.e., Allowance for Loan and Lease Losses, or "ALLL"). Additions to ALLL increase expenses, which has the effect of decreasing retained earnings and therefore regulatory capital, while the capital rules count only a limited amount of ALLL toward regulatory capital. As a result, financial institutions will have to retain a greater amount of their earnings or issue more capital instruments than under current accounting practices to maintain the same level of regulatory capital. Although FASB has indicated that changes to the new CECL standard are unlikely, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the National Credit Union Administration stated in March 2017 that the agencies would “consider the impact of the CECL standard on ALLL and related capital calculations” as they weigh possible changes to their capital rules.

Parties must register to attend the FASB public meeting in person. The meeting will also be transmitted by webcast.



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