Ross Roundtable

On

CECL:

The New Accounting Standard for Measurement of Credit Losses on Financial Instruments

Overview:

The Ross Institute of Accounting Research is hosting a Roundtable on FASB *Accounting Standards Update 2016-13, Measurement of Credit Losses on Financial Instruments*. One of the most significant financial reporting changes in recent decades, the new standard will have a major impact on how financial institutions and other lenders measure credit losses on loans. In addition to affecting these firms' financial statements, this rule should encourage lenders to issue capital prior to or early in economic downturns and thereby should enable them to lend more during downturns. Such effects would enhance the stability of the economy.

Current GAAP generally requires firms to accrue for credit losses on loans using the Incurred Loss Model (ILM), wherein credit losses are recognized only when these losses have been incurred, are probable, and are capable of reasonable estimation. The ILM has been criticized as backward looking, specifically, that it ignores losses that are expected but have not yet been incurred, or are not probable, or are not capable of reasonable estimation. The financial crisis highlighted the deficiencies of the ILM, since the financial statements of financial institutions did not reflect their deteriorating loan quality on a timely basis as the crisis first approached and then worsened.

The new Current Expected Credit Loss (CECL) model aims to correct this deficiency, by incorporating reasonable and supportable forecasts of future economic conditions and loan performance over the remaining life of loans in the determination of credit losses on loans.

The Roundtable will consist of brief presentations from a panel of experts from financial institutions, regulatory agencies, public accounting, and academia to debate the key issues related to the proposed accounting standard. A networking reception with hors d'oeuvres will follow.