https://www.wsj.com/articles/fasb-votes-to-delay-credit-loss-standard-for-some-lenders-11563401755

CFO JOURNAL

FASB Votes to Delay Credit Loss Standard for Some Lenders

Small public banks would receive an extra three years to prepare for accounting change

FASB Chairman Russell Golden said delaying a change to accounting rules would give smaller lenders time to examine best practices. **PHOTO:** RALPH ALSWANG FOR THE WALL STREET JOURNAL

By Mark Maurer

July 17, 2019 6:15 pm ET

The Financial Accounting Standards Board is poised to give lenders more time to prepare for the implementation of a new rule that would require them to record expected future losses as soon as loans are issued.

The FASB, which sets U.S. accounting standards, adopted the "current expected credit losses" standard, or CECL, in 2016, amid criticism that banks and other financial institutions had recorded losses too slowly following the 2008 financial crisis.

The board on Wednesday voted for a proposal to extend the implementation deadline for small public lenders, private lenders and nonprofits, such as credit unions.

- **Digital Technology Poised to Revolutionize Reporting**

For large public banks, which the FASB defines as SEC filers excluding small reporting business entities, CECL would still take effect in the fiscal year and interim periods beginning after Dec. 15, 2019.

The board also proposed to delay implementation by three years for small public lenders; two years for all non-SEC-filing public lenders; and one year for private and nonprofit lenders. Those benefiting from the delay will have to implement CECL for fiscal year and interim periods beginning after Dec. 15, 2022. The delay would have no effect on early adoption, which all lenders have been permitted to do since December.

"Additional time would give the stakeholders more ability to learn from larger lenders, more ability to have resource providers available, and more ability to look at best practices for disclosures and controls," FASB Chairman Russell Golden said in an interview.

The proposal will undergo a 30-day public comment period next month. If the public's comments are mostly favorable, the board will issue a final document on the decisions.

Lawmakers in the U.S. Senate and the House of Representatives introduced bills in recent months to delay CECL and conduct a study on the standard's potential impact. The FASB didn't discuss the possibility of a study at the meeting Wednesday, and FASB spokeswoman Christine Klimek declined to comment about the possibility.

The delay and the lack of a study drew mixed reaction from the banking community. CECL would force some banks to increase loan-loss reserves, which could reduce earnings and regulatory capital. Banks have argued that the need to book losses up front would discourage lending.

The American Bankers Association, an industry group that represents large and small banks, said the required efforts to implement the standard were larger than the board had led banks to believe.

“The delay should apply to banks of all sizes, and should be used to conduct a rigorous quantitative impact study to properly assess the effect this new standard will have on their ability to serve their customers and the broader economy, particularly during an economic downturn,” Rob Nichols, the ABA’s chief executive, said in a statement.

Tom Quaadman, executive vice president of the U.S. Chamber of Commerce’s Center for Capital Markets Competitiveness, applauded the delay and said that CECL, “though well-intended, represents a significant change from the prior standard’s approach and more time is needed for implementation.”

Libor shift

The FASB also voted Wednesday to provide additional relief for U.S. companies affected by global reference rate reforms, including a planned shift away from the London interbank offered rate, or Libor.

Relief measures, which are also expected to undergo a 30-day public comment period prior to approval, include no longer requiring a critical terms change for companies using hedge accounting.

At a FASB meeting last month, the board tentatively decided that changes in a contract’s reference rate, such as Libor, would be accounted for as a continuation of that contract, provided it met certain criteria.

The proposals related to hedge accounting are part of a series of deliberations the FASB is planning to review how accounting standards need to change to accommodate the transition.

Write to Mark Maurer at mark.maurer@wsj.com