

GLOBAL INVESTIGATIONS AND COMPLIANCE

STEPS TO ADOPTING CURRENT EXPECTED CREDIT LOSS CECL

Peter Barbera: There are several questions that companies need to be considering currently, but ultimately, it depends on where they are in the process, with some organizations further along than others. Fundamentally, companies should be assessing their internal infrastructure for its readiness to implement CECL, such as assessing their data availability and modeling capabilities. Is the infrastructure adequate to meet the standard and support the reasonable estimate of expected credit losses?

Peter Barbera: Also, assessing the current state of operations relative to the target future state under CECL. Are there opportunities for improvement and to optimize processes such as through enhanced automation via an accounting or data management system? And lastly, I'll mention they should be assessing whether the organization has the internal resources necessary to adopt CECL. Do they have sufficient technical, accounting, modeling and data expertise, or external resources required to supplement the internal team?

Peter Barbera: There are many steps in successfully adopting CECL by the required timeline. Step one of adopting CECL is establishing a project governance structure including forming a steering committee, a working group, and establishing a project management function and designating a CECL lead who will manage the day-to-day of the implementation efforts.

Peter Barbera: After establishing the governance structure, a company should perform a gap assessment of the current state of operations to those under the CECL requirements. In doing so, they should look at the models that they have in place now versus what functionality they'll need to comply with CECL. For some institutions, this may include consideration of leveraging existing capital or stress-testing model in meeting the new requirements. Institutions also need to ask whether robust data is available across the entire enterprise and for all asset classes over the required periods. This will be more challenging where limitations in the availability of historical data exist due to acquisitions or new product offerings.

Peter Barbera: And models and processes that we leveraged in complying with CECL may not have been historically subject to internal control or SOX requirements. Therefore, a company must develop and implement the controls required in their CECL process. The credit loss reserve recorded pursuant to CECL will be an estimate with the approach generally vary from institution to institution based on each organizations holdings, their internal processes, data, and their loss experience.



About Navigant

Navigant Consulting, Inc. (NYSE: NCI) is a specialized, global professional services firm that helps clients take control of their future. Navigant's professionals apply deep industry knowledge, substantive technical expertise, and an enterprising approach to help clients build, manage, and/or protect their business interests. With a focus on markets and clients facing transformational change and significant regulatory or legal pressures, the firm primarily serves clients in the healthcare, energy, and financial services industries. Across a range of advisory, consulting, outsourcing, and technology/analytics services, Navigant's practitioners bring sharp insight that pinpoints opportunities and delivers powerful results. More information about Navigant can be found at [navigant.com](https://www.navigant.com).

Peter Barbera: Therefore, it is imperative that a company documents and supports its internal methodology and procedures. In my experience, the risk of the CECL reserve amount being successfully challenged by an audit or regulatory review is mitigated to the extent that a company can demonstrate it has reasonable policies and procedures which were followed. And the regulators have communicated that they plan on reviewing a company's CECL implementation plan in upcoming site visits. Given that, firms must be developing an implementation plan to ensure that all parts of the business will be able to successfully transition to the new standard. And this implementation plan should include some processing of the CECL process prior to adoption. You'll want to ensure that results are aligned with expectations and gauge the impact on earnings and capital.

Peter Barbera: What Navigant can bring to the process is deep subject matter expertise and experience across the entire spectrum of a financial institution. We have a diversified team that can assist in all facets of adopting CECL, including CPAs, PhDs, experts in modeling and quantitative analysis. We've got former credit officers, former regulators, and also data management specialists, among other skills.

Peter Barbera: Our experience can be applied to standing up and supporting the governance structure and project management function, providing financial reporting assistance, including the development of accounting policies and related financial statement disclosures, performing the gap assessment of the current state of operations to the future state under CECL, including the assessment of current modeling and data capabilities relative to what will be needed. We can develop documentation supporting the internal controls SOX program, such as process flows, narratives, and the inventory controls. And we can also support the compliance and the internal audit functions through providing testing support and subject matter expertise.

Peter Barbera: Whereas our competitors rely on more entry-level resources, what differentiates Navigant is, on average, our staff is more seasoned, possessing significant industry and consulting experience, and this enables us to seamlessly partner with our clients and bring value-added insights to our engagements. Our qualification well-positions Navigant to support your CECL adoption efforts.