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CECL Implementation – A Readiness Health Check

March 12, 2019



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Learning objectives

1

Analyze the critical implementation processes anticipated of a parallel run

2

Identify implementation areas where CECL gaps are likely to occur

3

Demonstrate Grant Thornton's Health Check service offering

Agenda

1

The Parallel Run: The Last Phase of CECL Implementation

2

What is a CECL Health Check?

3

Business Benefits from a CECL Health Check

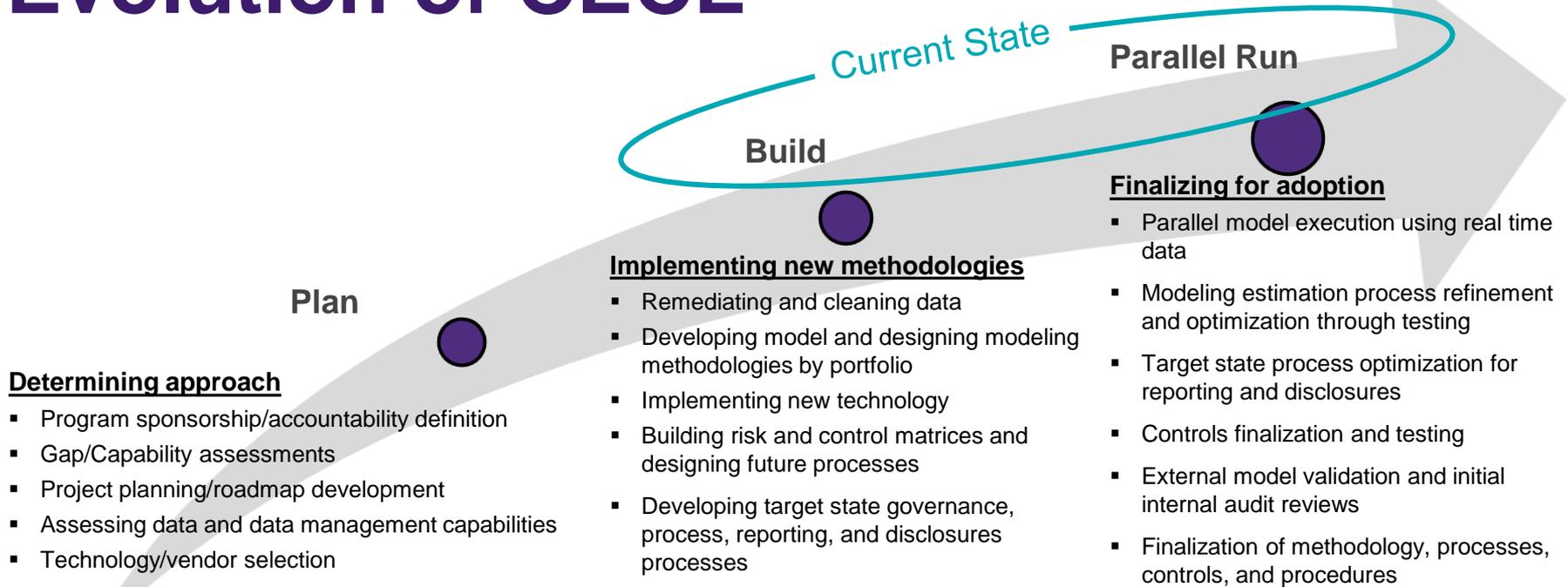
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Timeline to Finalize Implementation



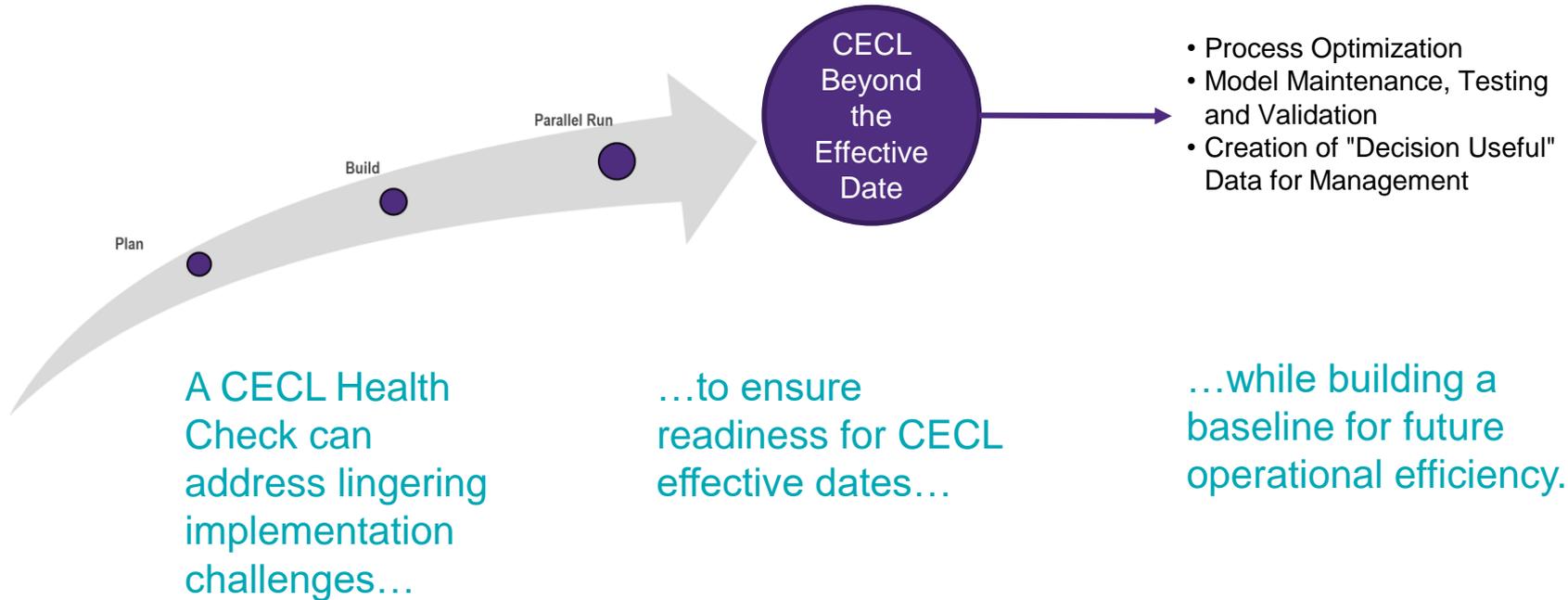
The Parallel Run: The Last Phase of CECL Implementation

Evolution of CECL



Navigating through the remaining implementation activities is challenging organizations to think critically about the implementation process

Setting the stage to move beyond implementation





What is a CECL Health Check?

What is a CECL Health Check?

An assessment of implementation activities, developed process, and remaining project activities across six pillars of activity.

Data and Information Management

Factors needed to estimate losses are present & correct

Business Process and Operational Risk Management

Controls and processes established to make right disclosures at the right time

Modeling

Ensure estimation models are sound and incorporate appropriate factors such as market changes & prepayments

Systems and Technology

Data migration & necessary software are implemented and roadmap planned for future compliance

Technical Accounting

Validate how adjustments, impairments, and other necessary items are supported and disclosed

Governance

Test strength of your governance for models, estimations, and disclosures

Benefits and Outcomes

- "Pre-validated" methodologies and models to allow for adjustment
- Define remaining implementation activities against timeline and budget
- Identification of future operational sustainability opportunities
- Effective challenge of ongoing implementation activities

Address ongoing challenges with a Health Check

Implementation Challenges

Data and Information Management

- Accuracy, completeness and validity
- Structure for financial disclosures
- Data access and integrity
- Normalization across multiple sources/systems



Risk Analytics and Modeling

- Appropriate selection methodologies
- Risk identification and pooling/segmentation
- Alignment of model approaches to portfolio risk
- Skillset/qualification



Health Check Focus

- Review remaining gaps in data warehousing/data management capabilities against CECL data requirements
- Assess availability of data (e.g. periods of available data, ease of access, depth and breadth of information across multiple fields)
- Integration with existing enterprise data strategy

- Review current modeling approaches to pre-validate and to produce refinements
- Consider impacts of data availability/access, selection of appropriate models (e.g. PD/LGD, roll rate, etc.), limits of modeling system capability, etc.
- Assess model risk management activities (e.g. validation, back testing, internal audit)

Address ongoing challenges with a Health Check

Implementation Challenges

Systems and Technology

- Accuracy/completeness of system reporting
- Finalization of systems updates and user acceptance testing
- Reporting gaps and challenges in data sourcing



Technical Accounting

- Documentation of selected approaches
- Interpretation of model output for financial reporting
- Development of disclosures and plan for external communication



Health Check Focus

- Inventory tools, systems, and loan ledgers
- Analyze systems integration and data/information transfer
- Review reporting capabilities (e.g. canned reporting vs. ad hoc abilities, integration to underlying data warehouse/data files)

- Evaluate reporting and disclosure framework and process
- Review documentation supporting policy elections under CECL requirements
- Assess implications of decisions and viability of long term reporting, disclosure and estimation processes

Address ongoing challenges with a Health Check

Implementation Challenges

Governance

- Management oversight and effective review (e.g. internal audit and 3LOD model)
- Evaluation of day 1 and long term impacts (capital impacts, organizational strategy, etc.)
- Coordination across multiple functions executing similar processes (e.g. loss forecasting, FP&A, stress testing)



Health Check Focus

- Assess business impact of modeling, data and technology activities
- Ensure CECL decisions align to BAU activities (e.g. loss forecasting, CCAR)
- Consider "profits from losses" and leveraging of CECL data and information for general credit and risk management activities

Business and Risk Management Process/Controls

- Resource utilization for implementation and future state
- Building effective SOX controls and effective challenge
- Effective change management for user adoption



- Review program governance and current/future state ownership
- Assess ALLL reporting and approval structures
- Review selected methodologies and ensure appropriate cross-functional integration
- Ensure ICFR rigor on selected approaches and new processes (input controls, reconciliation and review, etc.)



Business Benefits & Value from a CECL Health Check

CECL Health Check – benefits & value

Low cost investment increases likelihood of successful implementation

Benefits of CECL Health Check

1 Detect & Remediate

- ✓ Provide early, real-time feedback on completeness of documentation
- ✓ Provide assurance / review from a technical accounting perspective
- ✓ Review of interpretation of ASC-326 guidance
- ✓ Identify and remediate model development & validation deficiencies
- ✓ Provide independent evaluation of end-to-end data infrastructure supporting CECL

2 Accelerate & Stabilize

- ✓ Identify and respond to CECL process-owner specific concerns
- ✓ Provide independent guidance on transparency of credit loss estimates
- ✓ Remediate weaknesses with qualitative factor and qualitative aspects of modeling
- ✓ Identify Parallel Run Execution and Staff Augmentation needs (PMO, change, model validation, policies & procedures, documentation)
- ✓ Identify risk and control process design and testing* needs

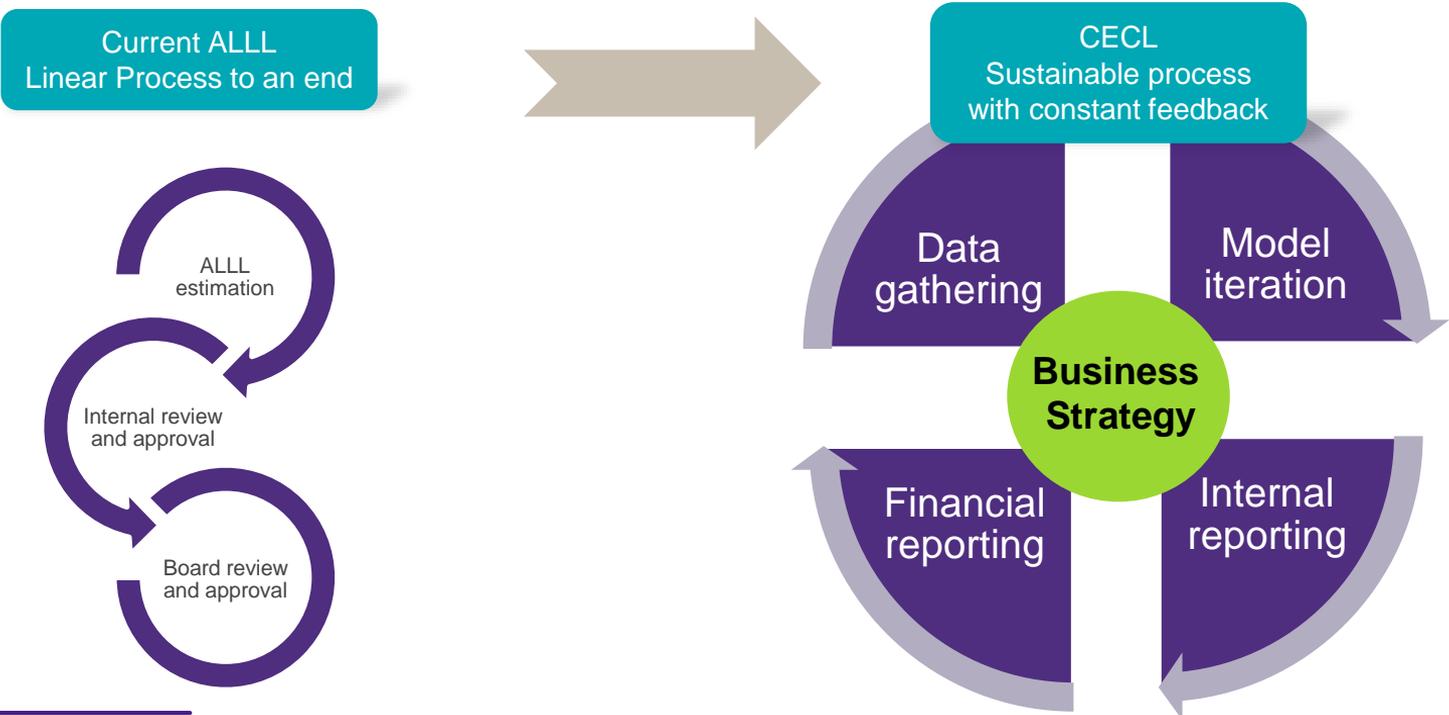
3 Align & Sustain*

- ✓ Confirm completeness of disclosures leading to first submission in 2020
- ✓ Identify internal audit support and testing needs
- ✓ Confirm & review Health Check benchmarking & assumptions Review
- ✓ Obtain high-level comparison with industry implementation programs and identification of leading practices
- ✓ Define sustainable operating model for CECL

**Sustain considerations extend beyond 2020*

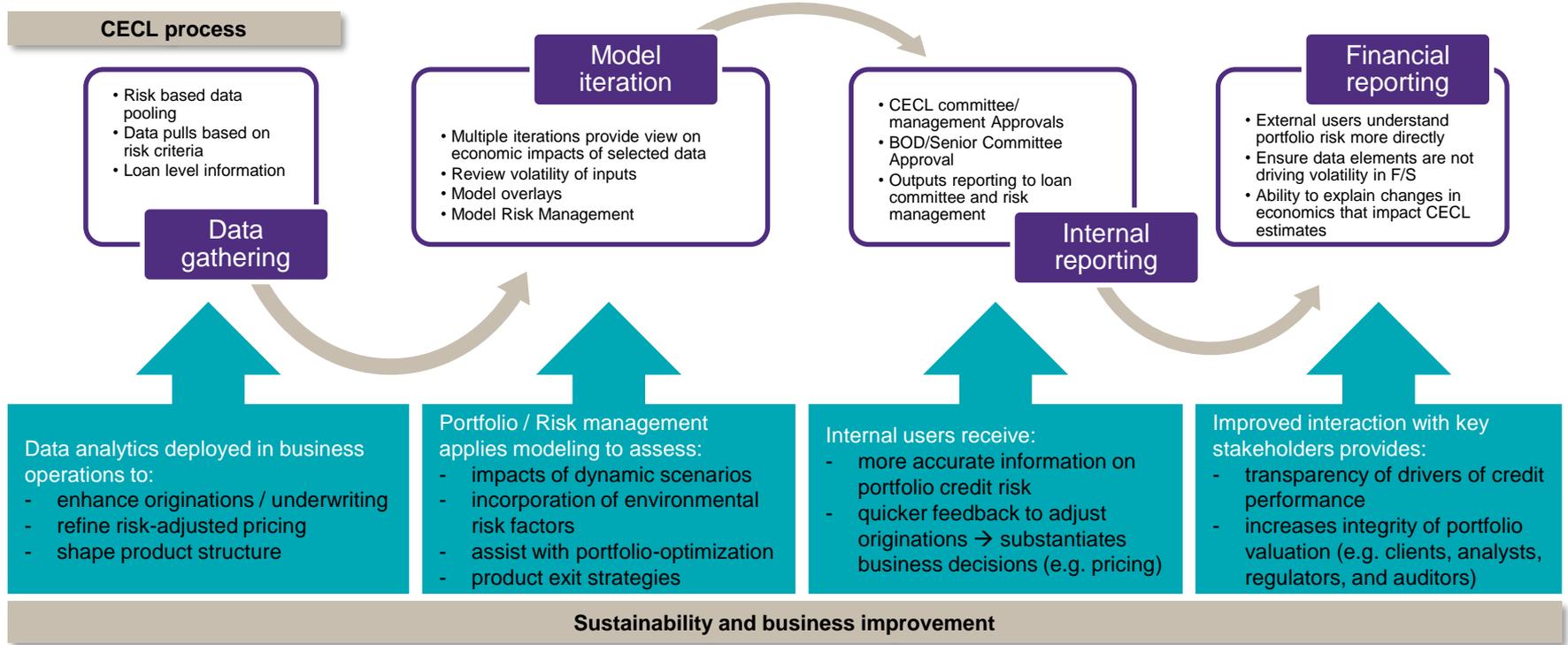
CECL Health Check – benefits & value

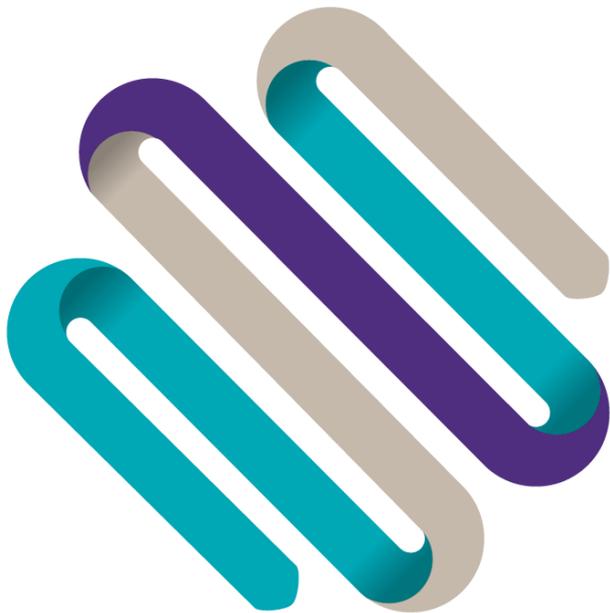
A sustainable CECL process enables "Feedback" for business decision making



CECL Health Check – benefits & value

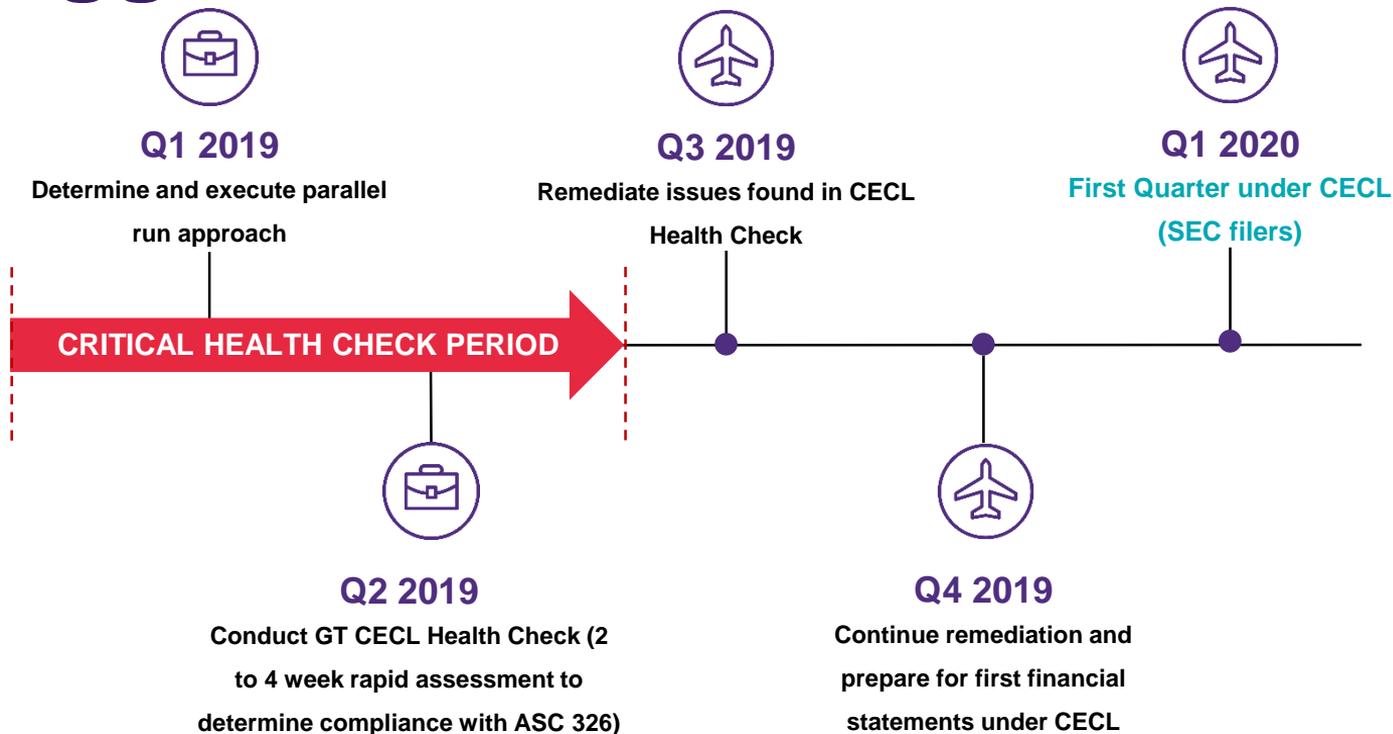
CECL process promotes cross-functional integration to execute strategy





Timeline to Finalize Implementation

Suggested timeline*



* Suggested timeline for 2020 SEC Registrants/filers

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Questions?



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