**Tim Zimmerman column—June 2018**

**Accounting is a passion of mine.** I majored in it, became a CPA and worked for KPMG before becoming a community banker. While it might not be everyone’s cup of tea, accounting is of the utmost importance as the new Current Expected Credit Loss (CECL) standard bears down on us.

The community bank deadline for adopting the FASB’s new methodology might seem far away, but you should be preparing now.

The CECL standard requires entities to include a provision for future credit losses as they compute their allowance for loan losses. It begins taking effect in 2020, but for most community banks, the big day is Dec. 31, 2021, when implementation starts for non-public community banks that aren’t registered with the SEC. While that might feel like a lot of time, it will pass quickly. We need to work now to ensure a smooth transition.

Community banks should be preparing to add a forward-looking component to their allowance-for-loss calculation, and we should be discussing the new system with independent auditors to confirm agreement with the planned calculation. New information will be required for footnote disclosures in financial statements, so we need to extract it from our data-processing and core systems, and arrange it in the proper format. And we need to ensure our employees are prepared to gather and retain the data we’ll use to build and test models that work for us. Establishing and evaluating these processes will take time, so we can’t start too early.

ICBA and community bankers worked with the FASB and the banking regulators for years to make significant improvements to the CECL standard originally proposed in 2011. The rules are now more flexible and scalable, and will allow community banks to continue using their personal understanding of their local markets—instead of complex modeling systems—to determine their loan-loss reserves.

Allowing community banks to evaluate and adjust their loan-loss amounts using qualitative factors, historical losses and current systems has been essential to preserving the community banking model itself. As originally proposed, the CECL model would have superimposed a one-size-fits-all approach designed for homogeneous pools of commoditized loan products.

Community bankers made a lot of progress in helping to improve the standard, but we still have our work cut out for us to be ready for the 2021 launch. Accounting might not be a labor of love for everybody, but we can’t wait until the last minute to put in the work to implement the standard.