



IHS Markit Prepared to Support New CECL Accounting Standard



News of the new accounting standard requiring forward-looking loan default forecasts to estimate expected losses is rippling through lending institutions across the country. Fortunately, industry leader IHS Markit, a Passkey (formerly the National Discount Program) Partner, stands ready with detailed baseline forecasts and alternative scenarios that provide a key forward-looking component Farm Credit organizations will need to meet the standard.

The new Current Expected Credit Loss (CECL) Standard, introduced by the Financial Accounting Standards Board (FASB), will make loan loss calculations more complex for many institutions. Currently, lending institutions use historical loan losses and current available information to assess the probability of loan losses, which is then applied to loan balances to arrive at predicted loan losses. CECL requires the incorporation of forward-looking influences, such as potential changes in interest rates, unemployment, and commodity prices, that may occur over the life of the loan portfolio.

Arriving at these potential future-states that meet the FASB standard for “reasonable and supportable” forecasts requires extensive statistical calculations based on well-constructed models, which is where IHS Markit shines. IHS Markit is a long-time Partner in Passkey, and for years has been providing stress testing services and economic forecasting – national, regional and even county level – to all four Farm Credit banks and many System associations.

[Click here](#) to access an informational webinar created by IHS Markit to help Farm Credit organizations navigate the implementation of the CECL standard.

IHS Markit’s U.S. forecasting model is extensive, incorporating roughly 1,500 economic variables at just the national level. It also helps IHS Markit’s analysts deliver exceptional accuracy: IHS Markit has been recognized by the Wall Street Journal as the top forecaster in 2017 and is one of a very few forecasting organizations to have twice received the Lawrence R. Klein Award for Blue Chip Forecast Accuracy.

“We have an enviable track record in forecast accuracy,” says Chris Varvares, Vice President of U.S. Economics with IHS Markit. “Anyone would be hard-pressed to say they’ve done better.”

To support its clients’ accounting and financial planning, each month IHS Markit delivers multiple forecast scenarios along with probability weightings for each. The simplest approach includes three: a most-likely case, an optimistic case and a pessimistic case. For institutions wanting to consider more scenarios, IHS Markit provides up to seven alternative scenarios (for a total of eight) along with probabilities. Lending institutions can use the data provided by IHS Markit to help drive their various loan loss models under multiple scenarios. Probabilities are then applied to the loan portfolio to calculate the expected level of loan losses.

“Even with IHS Markit providing the data for multiple scenarios, the CECL standard will require significant effort by each financial institution – first to construct models of loan losses and then to carefully review and perhaps refine the projections before arriving at a final value of their loan portfolio,” says Chris.

CECL has a stepped rollout based on size and type of financial institution. Voluntary early adoption is slated for this December; Farm Credit’s Review, Audit and Appraisal Workgroup’s (RAAW) recommended timeline is for model development in 2019, with parallel processes running in 2020 and full implementation in 2021.

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“Complying with CECL will be a complex process, which the RAAW recommended timeline takes into account,” says Jim Donald, IHS Markit Account Manager. “Every lending institution will need to commit resources to understanding the new standard and especially to meeting its requirements.”

For more information about IHS Markit or Passkey, please contact Heather Tseng, Passkey Sales and Marketing Manager at Heather.Tseng@fccservices.com or 303.903.8544. To learn more about implementing the CECL standard, access the [IHS Markit webinar](#) referenced above.