

PIR CECL Roundtable

May 20, 2021

Overall CECL PIR Discussion

Catherine Meador (KBW): Thanks, hi, good morning. My name is Catherine Meador, and I'm a bank analyst at KBW, and what I would say just generally is I think one thing that was really good about CECL that I appreciated was the flexibility that it gave the banks in increasing reserves in a very uncertain time. I think the CECL model being more forward-looking versus historical-looking I think was a plus in such an uncertain time during the pandemic, so I think that for one was good, but I do think there were a lot of challenges on the investor side. If we think about how quickly we built reserves over the past year, that was great, but we're already very quickly seeing reserve releases, and so I think it'll be very interesting to watch over the next year how quickly we flip up and then we flip back down, and right now, the investor community, I would argue, is almost looking at the banks to return to kind of a where we were at, a day one CECL, and there's an argument whether we get there at the end of 2021 over one year and then get back to where we started only a year later. I think that shows maybe a challenge—is the model truly effective? So that I think is one thing that we should keep an eye on this year. I think another thing that I noticed that I think was hard was the scenario weightings. So, the disclosures around scenario weightings, I found to be very helpful because it was hard to look at a bank and know: okay, are you increasing your reserves because you see more risk? Or is it because of the inherent loan mix of your bank? Or is it because you have a more adverse economic scenario more generally? And so, I think it was very hard, I think, for the investor community to compare banks to each other to see who was driving a higher CECL reserve because of risk versus just conservatism, and so I think that was challenging, and so one place that we looked to try to decipher that was the scenario weightings, and what was so interesting is we found so much change in scenario weightings, even quarter to quarter, and so while I like that that gave the banks flexibility, we had some banks early on who didn't want to increase reserves because they were trying to conserve capital, had less scenario weightings to the adverse or less weighting to the adverse scenario, and then, we saw as we entered 2021, when the environment was actually starting to look better, we saw some banks shift to more weighting to the adverse because they didn't want to release. And so, it felt like this arbitrary play with the scenario weightings to just kind of get you to a reserve that you really ultimately just want, and I think that from the investor community was frustrating because it doesn't really indicate truly where the real credit risk lies, and then I do have comments on PCD, but Hillary I think you want me to wait on that, is that ok?

Hillary Salo: That would be great unless there is just an overall observation that you want to share; otherwise, we'll have time [Catherine's PCD comments are in the PCD section below]...OK, thank you Catherine, and I see a hand up from Hal. Hal, do you have a question on Catherine's overall observations?

Hal Schroeder: Yeah, just one quick question: Catherine, one area you didn't touch on were the various monetary and fiscal policy initiatives and actions that were taken. How did that factor into the changing risk environment?

Catherine Meador (KBW): It was really hard to see how it was baked into CECL forecasts, we had many banks, and they would put this in their disclosures that would build up reserves, and they would say this does not include any assumption around the stimulus, and that was very early on. That was maybe early 2020. Then, as we got through 2020, then you started to see some disclosures improve and say that they were including the impacts of stimulus, but specifically, how that was driving the numbers was very unclear.

Hal Schroeder: And just to follow up, when you talk to investors by themselves, how were they factoring in, you know, I'm just going to say, generally speaking, the trillions of dollars that was let into the system over the course of last year? So how did they incorporate that into their thought process?

Catherine Meador: Yeah, I think as you think about the amount of stimulus that we saw, the general consensus was that this is going to be a back stop for losses, and so generally losses would be lower because of the amount of stimulus that we saw, and certainly that's what we're seeing play out so far, and so I think early on there was a lot of uncertainty, and so I think the reserve builds generally made sense, but as we started to see the government come in, it felt like some of the reserve builds we saw were really too high, but I would say the investor community didn't feel strongly, and this is a general topic—I would love to hear from the other analysts—but I believe that the investor community maybe didn't feel strongly that the reserve builds were perhaps too high, I would say really until we got to the back half of the fall or maybe even early this year as the vaccination distribution started to play out, and we really started to see not a lot of credit issues, so the uncertainty I think is what drove a lot of the variability, but now as we're looking back, I think the stimulus is going to have a very big impact to drive very low credit losses across the industry, and that's why we are seeing the reserve releases.

Hal Schroeder: Thanks, Catherine.

Hillary Salo: Thank you. Joe?

Joseph Stieven (Stieven Capital Advisors): First of all, good morning and thank you for giving us the opportunity to share our thoughts. My name is Joe Stieven. I'm CEO of Stieven Capital Advisors, private investment manager that focuses on financial institutions. I also am probably the senior citizen on this panel, so I've got my AARP card in the other room. But the, you know, my background, actually, I've been on three corners of the street: I was a federal reserve examiner, Federal Reserve Bank of St. Louis early in my career, then at Stifel Nicolaus for over 20 years, and 16 at my own firm. In addition, I was on the FASB's investor technical advisory committee for 4 years, including almost 2 years as co-chair, so some of my comments have already been

made. I would agree with some of Catherine's comments. I think the fact that CECL did allow banks to build reserves faster upfront ended up being a positive. However, in that same vein, we are now seeing banks having to reduce the reserves so quickly, literally 6 to 9 months after they've built these reserves, and I guess I'm questioning that is that really good information to be coming through the income statement for investors? I guess I look at the concept, when I look at the FASB's own guiding principles/rules of procedure, we want information to fairly reflect to economic reality, and if you look at a bank's balance sheet, approximately in general terms, approximately 65 percent are loans, 20 percent are investment securities. Well, when there are changes in the investment securities by a fair value that comes through OCI, and that's an accounting principle, and the same way with these rapid changes in CECL, which is really confusing investors because banks have these big provisions, and so banks were criticized in the first two quarters last year. People were saying, oh my gosh, these problems are coming, and we have to build these reserves, and now they are releasing them already, and you talk to the banks, and the banks say our hands are tied. We're just following the model, and I guess my question is as we look at this going backwards, I don't know if we want all that volatility just flowing through the income statement because again, these are just guesstimates. These are guesses and you're using outside people for these guesses, and we as investors, and you can chat with the other investors, but right now we continue to focus on actual net charge offs, actual non-performings, and then whether the increases and decreases of the reserves. We try to look through the notes, but we sort of back that out of net income because it really is quite complicated. So, I think without me getting into a lot of other factors, I'll stop there because a lot of my other opinions have sort of been published, but I'll give you that thought.

Hillary Salo: Joe, thank you for that. Any specific views with regards to the disclosures that were provided through CECL?

Joseph Stieven (Stieven Capital Advisors): I think the disclosures in general have been quite healthy, very healthy, and in fact you can wear your eyeglasses out going through the disclosures. Is there comparability? Well, it seems the more you want higher levels of disclosures and more specifics on individual views, it allows comparability, but it also causes some confusion because there's not an exact standard, so it's quite complicating.

Hillary Salo: Thank you for that. Maybe Hal, before we come back to you, I just want to be able to give a chance maybe for Saul to provide his comments?

Saul Martinez (UBS): Hi, this is Saul Martinez. I am an equity research analyst at UBS. I cover the large cap banks. So, I know this is not an investor forum, but I will nonetheless read a disclaimer statement before I give my views. As a research analyst, I am required to provide certain disclosures relating to the nature of my own relationship and that of UBS with any company in which I express a view on this call today. These disclosures are available at www.ubs.com/disclosures, or alternatively, please reach out to me, and I can provide them to you after the call. So, with that, I'll highlight a couple

things and maybe sort of elaborate on some of the things that Joe and Catherine said. I'll probably agree with them on a number of things, but first on the disclosures, I agree that CECL had allowed for more useful information it's helpful to us in assessing credit quality and assessing reserve adequacy, the allowance levels by lending category—whether it's C&I, CRE, cards, whatever—is helpful in aging where reserves are being built, where they are being released, helping with comparability when lending can be different amongst banks and whatnot, and I also think the information that the banks provide on macroeconomic assumptions, methodological choices around a reasonable and supportable period, mean reversion, probability weighting, it can give you a good and helpful sense of how they're thinking about the economic backdrop and the credit outlook, and their relative conservatism that they're building in, but having said all that, there is some frustration here in that the disclosures are uneven, and in some cases, limited in many respects, and I'm not going to go into all of the issues, but they generally revolve around limited standardization about macroeconomic assumptions both in terms of what economic variables are used and how they are presented. The sensitivity analyses some banks provide, others don't. In fact, I think in the latest disclosure, we are seeing fewer banks provide sensitivity analyses than in earlier disclosures. I think Catherine mentioned that we have limited understanding of probability weightings of the qualitative overlays in, and in my view, importantly, we have very little information on weighted average remaining maturity, which, you know, is critical in determining reserve levels. I think that the second issue, though, that I'll talk about is kind of dovetail with what Joe talked about, and that is assessing core profitability under CECL, and to what extent we do need to make adjustments to the reported loan loss provision? The topic, I feel like we discuss a lot, even prior to CECL adoption given the potential for more volatility in provisioning in any given period, and it's obviously more important now with the pandemic and the big reserve true ups in the first 9 months of last year and more recently the reserve releases, and I think in our research, we've indicated for some time now that there's a very high likelihood. Well, really, I guess we first argued this in late August and September that reserve recaptures weren't going to be likely in that playing out, and going forward, even if you don't think banks are materially over-reserved, provisions are likely going to lag net charge offs, and that's what we have in our model in consensus numbers for 2021-2022, so you have a dynamic where reserves could be falling while net charge offs are rising from historically low levels, so we argued in recent research that you do need to make adjustments, and if we want to think about what core profitability is and core earnings and using those as the base for valuations, we need to look at net charge offs, not loan loss provisions, and on these adjusted estimates, that's how we think banks should be valued. So, I think there are various ways to skin the cat here on assessing core profitability, and maybe you take a PPNR minus some through-the-cycle losses or something like that, but I think the broader point really is that adjustments are likely going to be needed and non-GAAP adjustments will be needed if you really want to get a sense of core earnings or profitability, and I think that's all like that. We can talk about PCD versus or talk about acquisition accounting, and I'll give you my views later, there, but they are very similar I think to what Catherine said. Not really too much to add right now, but I'll stop there and take any questions, I guess.

Hillary Salo: Ok, great, thank you. Maybe Louis. Would you like to provide your

perspectives?

Louis Lau (Brandes): Yeah, sure, so my name is Louis Lau. I am a senior financial analyst at Brande's investment partners, and we're a global investment firm with a long-term investment horizon of typically 3 to 5 years. I'd like to provide a little bit of a different perspective because I not only cover banks in the US, primarily the large cap regional banks, but I also cover a lot of European banks as well as emerging market banks, and right off the bat, I can tell you that I appreciate the disclosures from the U. S. banks because it's at a level of detail that you don't get from banks in other countries. For example, with CECL, the publishing of loan to value ranges for mortgages, for first lien, junior liens, you know, going down to the FICO score ranges, going down to the credit quality of the commercial loan book. These are disclosures that we don't get at other banks that are published. We have to ask the non-U.S. banks for verbal indicators of what these might be, so right off the bat, in a global context, the U. S. banks have the best disclosure, so that's what I appreciate about CECL. I went back to some of the regional bank 10-K's from 5 and 10 years ago, and that credit quality disclosures were not there before, so this is an improvement. On the relationship between the economic scenarios and the loss ratios. What we do is we actually go back and compare what happened to these banks in the previous cycles, so the most recent would be the subprime crisis from 2008 to 2011. There was a 4-year period where charge offs and provisioning was elevated, and so we actually look at the, not just the banks' CECL projections, but we also look at the Fed's stress test and primarily there's a DFAST 2020 severe scenario, but there's also the Fed COVID-19 scenario, which leads to two different adverse scenarios, and rather than rely on these scenarios, we actually make our own scenarios and not to promote a particular trading strategy, but when we see share prices imply the higher end of these loss rates, that's typically a good signal to add, and if you see share prices implying a lower loss ratio, that may be a time to be cautious, right? So, and we don't pay as much attention to the quarterly fluctuations or even the annual fluctuations because what we're more focused on is the bank's management, the credit quality, the long-run credit quality of the bank, and we have a normalized rate of losses for this particular bank that we bake into the income statement to get a longer term view, so a lot of these fluctuations are noise that creates trading opportunities, so I think it's useful to understand the methodology and how they arrive at that, but I think we need to focus on the big picture and what we're trying to do for our clients, which is what share prices imply and what opportunities are created sometimes by some of the accounting and the economic assumptions and where we are in the cycle. With regards to loan modifications and TDRs, there was a question earlier, I'm not going to get into detail, but I just want to put in context the proportionality because when you look at the CARES Act, the loan modifications, especially on the consumer book, that has created a lot of the proportion of the loan book that has been modified, and that is often more important than the TDRs, which are less than a percent of gross loans, right? So, when we look at a situation like COVID, which we expect to be a very sharp, short, well, short is not the right word because it's been longer than expected, but that downturn, we think is going to be a little bit less in magnitude than for example, created by the subprime crisis, right? So, we always look at past crises as a reference point and then make up our minds as to what we think is the most likely scenario. So, I'll

stop there, and you know, happy to take any follow up questions and comment more later on. Thank you.

Hillary Salo: Great, thank you. Hal, it looks like you have a question.

Hal Schroeder: Yeah, Joe, just I'm going to go back to Joe's comment, very quickly, and a yes or no response, Joe, is fine. You said that accounting should reflect the economic reality. Did economic reality change as a result of the stimulus packages, the relief packages that were developed and distributed, and as well as the vaccination development and its distribution? Did the economic reality change as a result of those rapid responses? Yes or no?

Joseph Stieven (Stieven Capital Advisors): Hal, obviously information that comes out on a daily basis always changes the quote-unquote outlook. Yeah, I would say information that comes out today will change the outlook. But again, they are just trying, you know, they are very, very complex and obviously as you know, CECL is a very complex model that's based upon a tremendous number of assumptions. And unfortunately, as we've seen already, a lot of these assumptions have proven, and I won't say they were proven incorrect, but I'll take the words out of some other very bright CEOs: a lot of these assumptions that were used in March, April assumptions were proven incorrect already. So, it's a tough process, Hal. I don't know the exact answer.

Hillary Salo: Thank you, and Fred, it looks like you have a question.

Fred Cannon: Yeah, thanks Hillary. I had a follow up to Louis. Louis talked about the global bank comparisons, and that disclosures were better in the US. Louis, do you have any overall concept of when you step back and look at IFRS 9 versus CECL, any overall concepts of how you think about those two standards? Not necessarily on disclosure but just on the level of reserving that occurred under both. Thanks.

Louis Lau (Brandes): Yes, I think CECL had a faster reaction, and we saw a reserve built much more quickly and much more responsively me, and even IFRS implementation can be influenced by particular accounting regimes, well not regimes, but country regulators, and so, for example, for the French banks, they have a universal banking model, so they're a little bit slower to build reserves, so we didn't see that go up faster, and they and the U. K. banks are both implementing IFRS. The U. K. banks built reserves much faster because of the influenced of the Bank of England and the FSA, so even within IFRS 9, there are differences in the speed of response depending on the influence of the country regulator. So, accounting standards are one thing, but you also have to look at the culture of reserving in each particular country, and so there can be differences in IFRS 9 within different European countries as well. But I would say in general, CECL has been more responsive. Although, I would say some of the IFRS 9 disclosures have been more granular coming from the European banks, particularly the U. K. banks. Won't go into detail here, but I think the U. S. banks do a fine job, but I've seen some IFRS 9 banks provide really rigorous disclosures as well.

Hillary Salo: Right, Thank you. And you know, I think it might be a good time to switch into the preparer perspective, so Victor, I see your hand up. Would you like to give your thoughts?

Victor Cecco (CIT Group): Thank you, Hillary. I actually had a question. Going back to Joseph's comments earlier. Joseph, you said that you perceive that investor focus on charge offs as being a key metric, but obviously that's reflecting what's already happened over the last quarter. Do you also feel that there's an investor focus on any level of preparer projection, and obviously I'm thinking about sort of the old incurred loss model, where you at least have got some sense of what management was thinking 12 to 15 months out?

Joseph Stieven (Stieven Capital Advisors): So, let me try to capsulize your question. I mean, under the old incurred loss model, which is sort of a little misleading, banks and if you look at the statistics that KBW or someone can provide, banks typically were reserved out for 24 months to charge offs, and that's sort of how the math worked out for the last 30 years. I would again go back to, I think CECL does provide the ability for banks to build reserves faster, and then the management teams are allowed to give their reasons for that, but I guess, Victor, where do you want me to go from that comment? I guess I'm confused with what you want me to try to answer.

Victor Cecco (CIT Group): Just whether in your view investors have an interest in the preparer's projections of future credit events, because that's what CECL does. That's what the old incurred lost model did, and a focus on charge offs doesn't really provide that.

Joseph Stieven (Stieven Capital Advisors): No, and again, I was trying to keep my comments brief. We absolutely are very interested in the outlook for management change. However, in CECL, it's not only your outlook. It's the outlook of third parties that when you ask these banks, people say, well, what's your provision going to be this quarter? Let's say you know your charge offs are going to be a certain level. We've had a number of banks, some who are participants on this call, they have already given their estimate for charge offs this quarter, but you ask them what their provision's going to be and their response is: I have no clue until June 30th, and I get the inputs from the third parties, so that's the volatility I'm talking about. You know, many of these banks have already indicated what they think the outlook for charge offs is going to be, not only for the 2nd quarter, but for the whole year, but you ask them about their provisions, and they have a very difficult time giving any type of guidance, and that's really my one point. I don't think it really makes the quote-unquote release of earnings. Very confusing, I'll use some adjectives confusing, misleading. I don't know what exact terms, so you have to make a number of adjustments to try to get what you think is repeatable, sustainable, core, operating profits.

Hillary Salo: Thank you, Joe. Victor, did you have any overall observations you wanted to share with the group before we talk to others?

Victor Cecco (CIT Group): Sure! I mean, we join, Hillary, with the comments that you made earlier. I mean, in terms of being able to implement CECL in a very challenging sort of 1st quarter, we were able to do it. We had good time to prepare. We had not really suffered any adverse operational or disclosure impacts as a result of adopting CECL. We have some thoughts with respect to PCD and acquisitions, which I'll come back in and talk about, but overall, I think we've been happy to implement it.

Hillary Salo: Ok, great, thank you. Brad, I know that you had your hand raised.

Brad Kimbrough (Regions Financial): Thanks Hillary, and you know I'd just say thanks to you and Rich and others who have reached out over the course of the last year. I've enjoyed our couple of conversations that we've had on some of these issues. I want to go back to what Joe and Saul both referred to there as information on the income statement because as we sit here today, and I'm the controller and chief accounting officer at Regions, that's our biggest concern is these reserves that we all built in the 1st and 2nd quarter of last year in good faith with the information we had at the time, but as life has played out to where we are today, it just doesn't look like those losses are going to manifest. And so, as has been discussed, we started to see reserve reductions as early as the 4th quarter and broadly across the industry in the 1st quarter and to the extent that in so many cases you now have credit provisions that are being booked in most of the industry and the quality of earnings for booking a credit provision just does not seem to be appropriate. And while most of us on this call can all look through that information—we have disclosures, can see charge offs, make adjustments as has been indicated to be required or necessary for investors by Joe and Saul—an average investor, who has bought stock in a company, looks at net income and looks at earnings per share, and if they're not getting the true reflection of what's going on in a company, that's not really good quality. That's not good decision-useful information. So, you know, as has been discussed by these investment analysts, I think there could be a framework that could be considered that would have a short-term portion of the true up to the CECL reserve. It would go through the income statement and a longer-term portion go through capital. We all want to make sure we've got enough capital to absorb the losses, but this income statement, and yes, it's volatility, but it's also just something that doesn't seem to be accurate in terms of the reporting period. For instance, a lot of the banks on the panel here today make adjustments to our incentive plans. You can see those in proxy statements. They take net revenues and use charge offs as a reduction against that. So, you know, our compensation committees are making those same adjustments with these investment analysts or making it really wouldn't be very difficult to have a short-term framework that would use something, charge offs for instance could be something that could be used, and we think that would be a good revision to the standard and something that ought to be considered.

Hillary Salo: Thank you, Brad. Jay?

Jay Cochrane (Truist): Thank you so much for the opportunity to participate. I'm Jay Cochrane, I'm the director of accounting policy for Truist, we really applaud the FASB's

effort and post implementation review, both the opportunities that we've had to share insight and to respond to questions, particularly around PCD and TDR accounting, which I know we'll talk about later in the panel. We would just agree with the comments that Brad has shared that in addition to those, those key areas of post implementation review that we do think it would behoove all of us really to, you know, further consider whether the significant earnings volatility, not in and of itself necessarily, but just the extent to which that was reflective of the quality of earnings in the underlying financial institutions. And really, to the extent that that was useful, or you know, and/or confusing to the analyst and investor community and some of the thoughts have been shared today. So, we would, you know, it's really like we have a case study on the potential impacts that extreme uncertainty from a forecast perspective can have on the income statement in particular. And so, we would strongly recommend, and we would be very willing to participate in any further outreach around just considering the impact that CECL had during this extremely difficult time of, you know, high pandemic related uncertainty. But the impact that CECL had particularly on the income statement and the meaningfulness of that to the investor community. And, you know, even when we look at just a group of 10 of our peers and ourselves, the reserve build, the excess of provision over charge-offs, primarily over the 1st half of the year, was in the tens of billions and just through the 1st quarter of this year, nearly half of that has reversed. And so all of that happening in a very short period of time, where really just a high degree of uncertainty was the defining characteristic that we all have lived through in many respects. And so, we would echo Brad's thoughts that it would behoove us to give consideration to any lessons that we have learned from the extent of the impact to quality of earnings we have seen over the past year. Thank you.

Hillary Salo: Thank you so much. Jason?

Jason Weippert (Capital One): Hi, it's Jason Weippert from Capital One, accounting policy. First of all, I echo both Brad and Jay's comments, so I'm not going to repeat those but do want to highlight that the income volatility was a concern for us through CECL. I think the other thing I'd make; we appreciated the flexibility that the CECL model gave us in estimating losses, in a period of uncertainty and having our framework choices of how we're going to model losses and being able to accommodate those based on the information that was coming out was helpful. The flip side of that coin is that as the investors mentioned the disclosures are uneven because people are making choices differently. And you know, not everybody weighs economic scenarios as part of their core numbers. And so that information may be useful for one bank's reserves and not useful for others. And so, all of that stuff in a period like we went through last year, I could appreciate the frustration that could be to try to understand because it's... you don't have a period of normalcy to try to understand how a bank does things. So we really did appreciate the flexibility and took advantage of it each quarter but yeah that - how to communicate that message and how to have it be comparable when we look at our peer disclosures as well, is definitely a challenge and it's not one we have a ready answer for either because again, each, each bank can make their own choices on how

they get to that best estimate of losses, so that makes it hard to compare going to the next.

Hillary Salo: Great, thank you Jason. John?

John Taylor (M&T Bank): Yes, thank you. My name is John Taylor. I am head of our accounting policy group at M&T bank, and I'll share some of the sentiment that was recently provided. I think Jason said it best. I think what was good about it was it did give you some flexibility to react during this very uncertain time, and of course, as he indicated, that causes some compatibility issues. I think by its very nature the whole process has to be judgmental despite the fact that to get larger institutions, most banks went into a highly qualitative approach. You needed that flexibility as the models were stressed very early on in the process. And frankly, and oftentimes results [Connection Issues] government stimulus and that. So, I guess it's just helpful to remind you and investors that it is very, it requires a lot of judgment on the backend, regardless of what the model results are spitting out. Overall, I think it was a very challenging time. It stressed a very immature process. But I think, you know, I think the banks did a relatively good job doing that. I do think some of the earnings volatility, I do think maybe we as an industry should take another look at that because I think that is impacting the quality what's being reported.

Hillary Salo: Thank you very much. Mark.

Mark Sitlinger (Ally): Thank you, and this is Mark Sitlinger from Ally and echo everyone else's thanks for bringing us together today to have this conversation. Just, I guess piling on to both Jason and John's current comments about the need for judgment and flexibility—just really want to emphasize the fact that, you know, every bank's portfolio is different. The data banks have available to them is different, and all of those things are absolutely paramount to the bank coming up with their best estimate. So, we think those parts of CECL are, you know, are necessary and required. I think going into the CECL implementation, one of our concerns was that maybe over time there would be some narrowing of "well you have to do it this way, or you have to do it that way," and I'm not sure that would be in the best interest of getting to the right numbers in terms of how we estimate our CECL reserves because of the differences at each bank with each portfolio and with the data that's available. So just wanted to add that point and that emphasis, thank you.

Hillary Salo: Thank you, and Doug you have your hand up. We are certainly interested in your perspective because your entity hasn't yet adopted CECL. Is that correct?

Doug Wright (Mission Federal): That's right. This is Doug Wright I am a CFO for Mission Federal Credit Union and we have not adopted yet. But I think, you know, what I think is interesting is the unique interplay between CECL and the pandemic. And I think one thing it points out and one thing we've heard from both the users and the preparers, is that everyone appreciated, quote unquote, the flexibility that CECL provided to be able to increase reserves. What's interesting about that is that the non-

filers basically had that flexibility as well, or the people who haven't adopted yet had that flexibility as well, because I think if you look at the industry, the community bank and the credit union industry, we increased our reserves substantially as well, using the incurred loss model and the Q&E factors. We boosted the Q&E factor and because there was so much uncertainty and you know, kind of lack of good information, we have basically the flexibility, and I think the accounting community essentially allowed the flexibility to boost the Q&E reserves substantially. So, I don't have a comparative about how much we boosted our reserves, or the non-filer community boosted their reserves versus the CECL community, but I think in general, the industry substantially boosted reserves during that period of time. So one of the things I think it's interesting that you play out in that is that, you know, if that flexibility is there, regardless of which model you use, whether it's incurred or CECL, if you have that flexibility, it accomplishes what I think the industry wants to accomplish, which is the ability to increase reserves if you have that kind of forecast or, or that kind of sudden event that requires the increase of reserves. Where I get back to the challenge, I think for both institutions who have already filed, as well as institutions who are, you know, preparing to adopt CECL in the future, is this whole concept of life of loan. And that adds a lot of additional complexity. I think the non-adopters at this point are really wrestling with how do we adapt to not only be able to forecast and have the flexibility to increase reserves if we definitely see an event like a pandemic or recession or whatever coming, but how do we also extend that over the various lives of loans, of all the different loans that we have? And is there a way that we can accomplish where I think what the industry is really wanting to accomplish, which is better forecasting, and you can argue whether you have better forecasting, given the builder reserves and the sudden drop in reserves and the assumptions behind that without the complexity of having to look out over, you know, a long-life asset.

Hillary Salo: Thank you Doug. Don?

Don Antosiewicz (Ford): Hi everyone, thank you for letting me participate - this is Don Antosiewicz from Ford Credit and Ford Motor Company. So, I agree with a lot of the comments that are coming across from all the participants, and as I sort of think back to when we first stepped into CECL and getting ready for that, we have a 3rd party system that we purchased to be able to calculate the reserve. We buy 3rd party economic data to feed into that reserve. We did a lot of data cleansing from our source systems, even though we only have a couple, we do have a lot of different country variations of data within those systems. So, we did a lot of work to get ready and then stepping in, COVID hit, and we overlaid a lot of it with, with demand and management judgment because of the fact that that historical data didn't contemplate anything like we saw at that time, right? and that's what everybody experienced, and everyone took up reserves. So, fast forward a year, we're still struggling with that because, you know, now we have this phenomenon of the losses coming in at very low levels. Even though, you know, unemployment, for instance, one of our key economic factors is at very high, right? And so, we struggle still with trying to figure out how much to make that adjustment for. And you know, how much has the federal stimulus offerings impacted loss rates and how

many losses are not completely forgone, but just deferred and eventually could come to fruition? So, those are the things that we are certainly struggling with, and I don't know if that's necessarily just the CECL model. That's just an overall loss reserving issue, probably, that we would have with the old, incurred model as well. Other practical things that we deal with as well though are also the fact that we do have IFRS locations. So, we go through the process of recognizing entries on a U.S. GAAP basis and release and remove all those effects and get to an IFRS basis for some of our locations. So, there are some practical challenges that we do deal with by having two different sort horizons with the Lifetime versus 12 months.

Hillary Salo: Thank you very much. And just in the interest of time I think I'll go to Linda, and then I'll look to get some feedback from our practitioners and regulators.

Linda Bergen (Citigroup): Hi. Ok. So, I'm going to be a little bit more positive because I think the FASB did a really good job at giving the preparer community lots of flexibility, there was extensive outreach, and there was a lot of responsiveness. For example, with available for sale securities, the FASB took industry input quite seriously and provided a substitute model to the CECL model, but one that's closer to what used to be the OTTI model. I think that one of the big issues we all had because of the pandemic, was that no one contemplated a disaster of the proportion that COVID turned out to be. So, our models were built looking to 2008 as what we thought was an extreme circumstance. So, we all had to rerun our models, provide management adjustments to contemplate the additional severity of COVID, but overall, I think CECL has enabled us to learn a lot more about credit and credit losses. So, I do think that CECL has been helpful in the long run. With response to the volatility that the analysts mentioned and some of the banks did as well, that's what CECL is designed to do. You build your model based upon what you see today and as your outlook changes, then your reserve changes, and that's what happened. No one knew how long it would take to put a new vaccine into effect and whether or not those vaccines would work at bringing down the infection rates. No one knew how long the stimulus programs were going to continue. So, there was lots of uncertainty and the models reflect that, and I think they reflect that pretty widely across at least all the big banks. You know, people reacted in similar directions, maybe not with the exact same numbers. I agree with Mark Sitlinger's comments that all banks are different. Their models therefore are different. Their portfolios are different. We have, like Ford, we have IFRS followers in 69 countries around the world, so, we are doing multiple variations of credit losses, but we were doing that anyway for CCAR versus CECL versus the LLR in previous periods. So that's just something that is part of being a global organization that people need to deal with. I do have some comments about TDRs and PCD, which I'll save, but the one thing I do want to raise is that guarantees, I think, is a miss-fit for the CECL model. I don't think it makes any great sense. Those guarantees are already recorded at their fair value, and they are on the liability side of the balance sheet. So, people don't really understand what that really represents. And then the distinction between performance guarantees and financial guarantees is another distinction that we think doesn't have a lot of merit. Our credit

people think a performance guarantee is one step removed from credit risk. So, we would, if you're going to have guarantees it should be all guarantees. But we think the better answer is just to remove them from the scope of CECL. And I'll stop there.

Hillary Salo: Ok, thank you Linda. And I know we have a couple of hands up from the preparer perspective, but I think we are going to shift over to practitioners for a bit and see if we have time to come back to you. So, we are very interested in understanding from practitioners their experience actually auditing entities that adopted CECL during 2020, as well as from a regulator perspective overseeing entities that adopted CECL. So certainly, looming for perspectives from the group here. Maybe I will start with Chip.

Chip Currie (PwC): Thanks Hillary. You know, thinking about approaching auditing CECL, we started early, you know, tweaking or updating our audit methodologies, bringing in the credit specialist that we had internally to be able to leverage their experience and auditing. You know, we went through many of the same challenges that I think you heard from the banks, right. We spent a long time looking at their models and their processes and their controls as they built them for adoption, and then things had to significantly change, and they had to pivot to deal with the economic environment. But overall, you know, our experience is, it went, it went alright. You know, our banks control frameworks had to morph and change. They held up, you know, we think in the overall they did a pretty good job in pivoting and reacting, and we sort of followed along their process from an auditing perspective. But, it definitely took a lot of preparation and planning, but overall, we thought, you know, our audits went pretty well.

Hillary Salo: Great, thank you Chip. Jon.

Jon Howard (Deloitte): Yeah, a lot of the same observations. I mean I think for us, it wasn't necessarily the CECL adoption that was difficult. It was really the pandemic and the economic environment, and we would have probably had a lot of the same challenges even under an incurred loss model. I think for, you know one observation that we have is probably more for the people that haven't adopted yet. I think, you know, especially a lot of the people that are in this meeting that have adopted, you know, have a lot of their own - more sophisticated entities have a lot of their own internal models and a lot less reliance on 3rd parties for modeling and for the data, And I think, you know, those were the challenges that we had going into it for those that did use 3rd party modeling is not only us getting comfortable with it, but getting the organizations to understand that they need to, management needs to understand what's going into those models and what adjustments they need to make to those to be consistent with their own portfolio. Right? Not just have it be more like market data. And I think for those that are going to be adopting later are – our feed right now, or at least what we're seeing is there's probably an expectation that there is going to be more reliance on 3rd party models with the smaller adopters. And so that process, which granted, they have more time, but the pandemic certainly put a hold on them, maybe even getting their CECL preparation done. So, we're having a lot of those conversations as far as telling them, you know, this isn't something you can just wait and plug into a model, you're going to

have to get comfortable with it. And so that's probably going to be a bigger challenge is for the later adopters and 3rd party models.

Hillary Salo: Thank you Jon. Graham.

Graham Dyer (Grant Thornton): Hi Hillary, yes this is Graham Dyer from Grant Thornton. Echoing what Jon and Chip shared, I think Jon made an important point that, and actually one that Mark raised during the preparer comments, is that one of the challenges we faced in auditing during this particular time period was that a lot of the assumptions that entities had between loss rates and the things that drive those loss rates broke, right? We saw disconnects between unemployment rates and charge off rates between GDP and all kinds of things that had historically been true. So, I think that was a challenge, but that's not a unique CECL challenge. That's just the challenge of the economic environment in which we are auditing. And then to build on to Jon's kind of last point there, I think we – two challenges that we saw that were really acute in our client base, one was establishing the relevance of reliability of 3rd party data in their particular implementation scenarios. So, you're getting nationalized data, but you operate in a regional setting, determining the relevance and reliability of that data was a real challenge and I think it will continue to be, in fact, may even be to some degree exacerbated in the near future because now a lot of that data will include, this time period, where we saw some breakdowns and historical relationships between economic indicators and losses. So, I think that's just, but again, that's just the challenge of the current economic environment. And then I think the other thing, and Jon alluded to this as well, you know, it's not just standing up a process to implement CECL to build a model, it's standing up a process to maintain and continue to evaluate the appropriateness of that model on a go forward basis. And so that's, you know, a challenge, but I mean, that's something I think I've been really quite impressed at the way even smaller, medium sized entities have risen to that challenge to develop those processes. So that I think it's actually been a success story in many ways.

Hillary Salo: Thank you Graham. Sydney.

Sydney Garmong (Crowe): Hi, this is Sydney Garmong from Crowe. Just to maybe add a few more observations, I think what we saw in particular with the smaller adopters, especially under \$10 billion or 15 or so, or even under \$20 billion - They really struggled in terms of just resources because that group was very reliant on 3rd parties. It really could have used, I think, a little bit more time. Because I think what you saw during, especially 2019, was a slippage in the SAB 74 disclosures where we thought we were going to be ready in Q1 to disclose a number, and then minutes slipped and slipped and slipped. And so, I think it just, it just took longer than what everybody expected. I think there could have been more of benefit to more parallel runs, more refining of Q factors and so, as I thought about, well, why is that? I think it's because the banks under \$10 billion, they weren't, they were never subject to the DFAST. And so, I think the institutions that were subject to DFAST pivoted when they didn't have to do that anymore and allocated all those resources – Ok you people now all go do CECL

and so I think that that was an interesting outcome. So, I do think the points about reliance on 3rd parties and lack of resources is going to continue to be a challenge for smaller, smaller institutions.

Hillary Salo: Thank you Sydney. Stavros?

Stavros Zafiridis (EY): Thanks Hillary. Stavros Zafiridis from EY Professional Practice National Office. I think from our perspective, needless to say, a number of challenges in the 2020 adoption just given the pandemic. But with that being said, leading into the January 2020 adoption, we did observe that, you know, preparers in general were well prepared to implement the standard. There were not many questions being asked around the technical application of the standard. The model is well understood and preparers clearly put in the time and work necessary from a model, governance, and process and controls perspective. So, that's a testament to the standard setting process that the FASB undertook, soliciting feedback from all market participants, the TRG process was extremely helpful, and of course, giving preparers the time necessary to build out their frameworks was very beneficial. Needless to say, though, there were a number of challenges in the adoption just given the effects of the pandemic. I would say, you know, we observed that preparers were dealing with, obviously what was a very dynamic environment. The speed at which economic forecasts were changing during the pandemic was quite unique, especially early on in the pandemic. Data and modeling in particular was a challenge for many institutions. And that's an important point that Graham made because models by their very nature have inherent limitations. And those limitations are typically driven by data, right? So, trying to model credit losses in an environment where there's a lack of comparable data is a challenge. But I do think preparers, for their part, as part of their implementation, did a really nice job and developing, you know, governance frameworks that allowed them to pivot and make the necessary adjustments within that framework. So not easy by any means, but we did see companies' processes evolve throughout 2020 and we also saw their disclosures evolve throughout 2020 in a meaningful way.

Hillary Salo: Thank you. Just in the interest of time, are there any views from our regulator participants today?

Lara Lylozian (Federal Reserve): I feel like Stavros was stealing words out of my mouth. I agree with many of his opening remarks, and I think everyone does need to take the step back and, you know, I heard it several times. Everyone recognizes what a challenging year 2020 was. It was a tough year for volatility and uncertainty and given like everything everyone had to deal with. I think everyone should feel good, particularly the preparers and the practitioners about being able to successfully navigate all those challenges and implement CECL in such a tough year. I mean for us, we're definitely in learning mode and we're actively monitoring CECL implementation and the impact it has on financial institutions, including regulatory capital requirements. We're closely monitoring and very much in a learning mode mindset, for now.

Hillary Salo: Thank you. Jeff?

Jeff Geer (OCC): Thanks Hillary. I'm Jeffery Gear, I'm the associate chief accountant at the Office of the Comptroller of the Currency. And so, I'm here in the official role as well as my unofficial role as the president of the friends of the CECL society. Overall, you know, we continue to believe that CECL is an improvement over the incurred method. We are seeing that CECL generally resulted in recognition of credit losses sooner, which actually surprised me a little bit because I feel like the loss event happened in the 1st quarter, but we still see that the incurred losses are lagging. So really the new standards doing exactly what it was designed to do. Allowance levels at our CECL banks approached the highest levels that we saw during the great recession, and they also reflected a sizable coverage of the DFAST stress losses over a 9-quarter period. So fortunately, we were also very happy that CECL banks maintained relatively robust CET1 capital ratios, despite those large allowance builds on day one and the first half of 2020. You know, something that really highlights that CECL has been effective is that we just see earlier recognition in all portfolios where we compared CECL to incurred bank portfolios. CECL was greater coverage and even with commercial loans, where it actually went down at the beginning, and so it was actually under incurred early, is now in excess of incurred, and of course credit cards is probably the most dramatic difference that we've observed. Thank you.

Hillary Salo: Thank you Jeff. John?

John Rieger (FDIC): Yeah, I would just like to echo my peer chief accountants. You know, we spent a lot of time with a lot of you folks pre-CECL implementation, working through the process and the impact of the adjustments coming in and the preparation that took place, we're generally pleased with what took place there. So, you can see that everyone was prepared for it. Now, I will tell you that there is some concerns and we continue to message to the institutions that have not implemented CECL and are planning for 2023. You know, some of you guys took a little time maybe into March of 2020 before you had all the documentation ready. So, we do want to message that we think CECL was effective, it created a great buffer for what we went through with the pandemic, and overall, I think it is the right way to go. We just need to make sure that we don't overburden the smaller institutions as they prepare for CECL.

Hillary Salo: Thank you John. And Jeff did you have a comment that you wanted to add?

Jeff Geer (OCC): Yeah, I forgot I wanted to give Kudos to the CECL banks because we were actually quite impressed at how they implemented so far in the middle of a pandemic, likely remotely. So, I wanted to mention that, and I also wanted to mention that I largely agree with comments that I think came from Jon Howard and Graham Dyer that the problem was the pandemic and the economic situation, not the accounting model. I don't think it would be fair to blame it on CECL.

Hillary Salo: Thank you Jeff.

Chuck Williams (Norway Savings Bank): I am Chuk Williams from Norway Savings Bank, a \$1.6 billion community bank. We've been working with CECL off and on since 2016. The implementation process so far has consumed a lot of resources and we're still not at the point of running parallel. A lot of time has been spent talking thorough methodologies and decision points, including qualitative factors, and then documenting those decisions. The flexibility has been appreciated, but at the same time as Doug mentioned earlier, in a way it has made it more difficult due to the number of decisions that need to be made. We don't have the resources to devote to this project as some of the larger banks do, and when the Pandemic hit last March, we had to put the project off for a few months due to resource constraints as members of the CECL project team had other priorities throughout the bank, but we do feel that we are back on track now which is good. We did form a smaller CECL subgroup which we've been meeting periodically.

PCD Discussion

Catherine Meador (KBW): So just overall, I think one thing on M&A that was challenging for investors was just PCD. I think the separation of PCD versus non-PCD, it overstates the initial tangible book value dilution in a deal, and it overstates the initial accretable yield in a deal, and I think we would love to see acquired loans effectively treated the same way as originated loans and not this bifurcation between non-PCD and PCD and this double mark that I think a lot of investors found to be an overstatement of the discount on the reserve. I would also say in terms of the quantification of the non-PCD, that was all over the board, and so we had some banks that if there was any sign of credit weakness, they would assign the acquired loan as PCD, and so during the pandemic, we had some acquisitions that had over 40 percent of the acquired portfolio was designated as PCD, but are these really at-risk credits? And you had others who were taking a different approach and you maybe only had 10 percent. I don't feel like the definition of PCD versus non-PCD was consistent, and so in that respect, it brought a lot of confusion to investors, and it felt like banks were playing games on how big they wanted their double count to be or not, and that's how they decided how they defined PCD versus non-PCD, and that would just be my big-picture comment there, and we can go back to that when we get to that topic.

Saul Martinez (UBS): Yeah, I guess I'll be fairly brief here actually because I don't know that I have a ton to add in terms of going into the minutia of the accounting. I think the proposal is good in a couple respects. Obviously, the treatment of non-PCD and the double hit to equity effectively when you take the fair value mark or the credit mark, I should say, and a loan loss reserve, getting rid of that is a positive, and the simplification of definitions is important as well. I think Catherine mentioned the inconsistency in terms of the treatment among the banks. I think where I still struggle a little bit here, though, with the proposal, and maybe this is my somewhat uninformed view or something, but you still are comingling the NII impacts and the deferred recognition of the loan loss provision when you gross up the loan balances for the allowance, so that still creates a fact that maybe is not optimal, and I think that from our perspective, you do have that, and I don't cover as many companies as say Catherine does that have gone through M&A transactions. My focus is on the largest banks, so I

do cover Truist and PNC and M&T, but for Truist, for example, how we are treating the purchase accounting accretion and the impact of that and how that will evolve and whether we should adjust for that in terms of the earnings, those are all sort of relevant questions, so the dynamic where we are, if my understanding of the example is correct, where we are effectively deferring that allowance and also the negative impact to NII is a little bit problematic. Maybe in practice it's not going to be such a big deal, but that's what I would say. It does seem to be an improvement from a definitional standpoint and certainly getting rid of the double hit to equity is something that seems to be a pretty relevant positive, and that's pretty much what I would say about it.

Hillary Salo: OK, thank you. And maybe Catherine, I'll give you an opportunity to provide a few more thoughts

Catherine Meador (KBW): And I would agree. A lot of what I like about this new proposal is that I like that we are going to look at all acquired loans as PCD. I think that takes away the double count that provided a lot of, we talked a lot about the volatility in the income statement, so on day one of the merger close, we have that large provision build to provide for day two, so that would get rid of that, so that's a net positive. I agree with Saul in that if you think about the way we look at originated loans whenever they are, as the credit changes with originated loans it comes through the provision, and net interest income, the yield impact comes through the margin, and so I think from an investor perspective, just very simply, I think it makes sense to keep credit changes in the provision and in the reserve and interest rate marks and changes in the margin. One thing that we liked about CECL is that it took away the volatility in accretable yield. But I do worry that if you still incorporate some kind of a credit mark in the discount, you're still going to have some credit component within the yield accretion that still may drive volatility and confusion for investors. So if there is a way to kind of look at this more simply where we are just day one, we have all acquired loans are PCD, or acquired loans treated as PCD loans, they get a reserve that goes in as equity, it doesn't come through income statement, it just goes through kind of a mark on day one, and then any kind of interest rate marks are in the discount, and that's what kind of flows in through what we call accretable yield. I think from the investor community that makes more sense because it is more reflective of how we think about the originated loan pools as well.

Hillary Salo: OK, great. Louis or Joe?

Louis Lau (Brandes): I can chime in. The first I think I struggled with this was in 2008 with the acquisition of national city by PNC bank. And back in those days, the difference between the core NIM or net interest margin and the reported net interest margin I think became quite apparent because it was distorted by the effects of a large acquisition. So I care less about the securities being subject to PCD. But really, I would like to see large acquisitions, particularly if material in size, you know, for example, the SunTrust and the BB&T merger resulting in Truist, I mean, that's very material, and to this day there is a 30-50 basis point difference in the NIM caused by purchase accounting accretion, so I would like to have the loan marks also identified by duration, so the loan mark, the

credit mark, you know, how long is that going to reverse? Because I'm going to do a present value analysis of when that is going to be accreted to the bank value and then have that net interest margin be free of any credit reversals, because I'm also performing interest rate sensitivity in a rising rate environment on the net interest margin, so I want that to reflect basically how the yield would move and not really the reversal of credit, so I agree with Catherine that we need to do a better job separating the interest rate effects with the credit effects. And I'll stop there.

Hillary Salo: Thank you. Joe?

Joseph Stieven (Stieven Capital Advisors): In the interest of time, I won't reiterate thoughts. Number one, in getting rid of the non-PCD, I think is good because it eliminates just another form of accounting for loans, so that will be down to two: originated and then PCD. And most of the comments from the 3 previous panelists, most of the comments I agree with. I do think the 800-pound gorilla in the room, though, is the fact that acquisition accounting absolutely needs to be looked at. Because what is happening with the current acquisition accounting is putting many entries on the balance sheet that then either become amortized or accreted, which investors end up backing out because of the complexity. So, and I talked to Rich about this. I mean, I think the acquisition accounting model, the simplest one, is that, and when I was a regulator 38 years ago, goodwill was considered valueless. However, banks are required to put all this goodwill on their balance sheet in an acquisition, a typical acquisition, and now I hear that the FASB is looking at do we amortize? Not amortize? Again, we are rearranging deck chairs that don't matter, so I would just say I agree getting rid of non-PCD, but I think it also brings up a point. At some point in time, simple combination accounting has to be explored.

Hillary Salo: Thank you, Joe. So with that, I'd be interested in getting perspectives from others within the group here, so maybe we'll start with Lee.

Lee Campbell (MetLife): Good morning. It's Lee Campbell, I'm a vice president in the technical accounting group at MetLife. I'm also representing the ACLI along with Caleb from Athene, so I think our views are in a large part aligned, and so I'll try to be as succinct as possible, and thanks for including us in this ever-changing accounting landscape, so I appreciate the time. Overall, from a PCD perspective, I do think we struggle fundamentally with the concept of PCD. Not only because of the cost and complexity and some of the inconsistencies and the different models with the different instruments, which in a large part can't be helped, conceptually we struggle because essentially we're showing on our balance sheet as a purchaser credit losses that are never going to be incurred by us as a purchaser, and so starting with that point, there's a little bit of a struggle just conceptually. Although, we were able to implement the standard and you know, there was some issues in implementation regarding PCD related to debt securities in unrealized gain position, where the FASB offered relief. On top of that, I think this model seems to go a little bit further. And I think Catherine was alluding to it whereby you're forecasting credit losses you will incur and taking those through yield over time. I think you get to the same place. It's a timing thing. However, it

feels a little odd to have credit losses impacting yields, so that seems a little odd to us and we think those should be separated. So overall, I don't think we would view the purchased loans PCD model as favorable. We think purchased loans are no different than originated loans. And you know, I think it will also create some complexity and confusion. With that being said, I'm going to pivot a little because there was a point made. I think it was initially made by Joseph and then kind of elaborated by Brad, which we haven't really thought through, but it seems somewhat viable to me whereby you can have, you know, the estimated credit loss is going through your equity or OCI, and then have some sort of loss emergence hitting the P&L. That seems like a viable solution, and really, that's not the view of MetLife or ACLI, but more me just thinking through, and from there it seems like that would eliminate one of our adjustments to get to our non-GAAP measures, which I think is always, you know, a favorable answer. And you know, I think that would create consistency. I would actually go a step further if we're going to entertain something like that. We should think about debt securities as well and try to align all the different financial instruments. So, I'll stop there. I don't know if there's questions or you go to the next person, Hillary, but thank you.

Hillary Salo: Thank you, Lee. Chuck? You're on mute, Chuck.

[comments not related to PCD]

Hillary Salo: Thank you, Chuck. Really appreciate it. Caleb, did you have specific thoughts on purchased financial assets?

Caleb Brainerd (Athene): Yeah, sure. So, I'm Caleb Brainerd. I'm the head of the accounting and transactions advisory group for Athene. Like Lee said, I'm representing Athene, and him and I are also representing the ACLI. I really appreciate the opportunity to share our thoughts. You know, just a quick general observation. We do appreciate the flexibility that was provided in the standard for the implementation and the methodologies that were used. We think that that was probably of greatest benefit to the implementation process and likely will be of greatest benefit, you know, going forward as we proceed down this journey. As it relates to PCD, and I know a lot of the discussion so far has been related to loans, from our perspective, PCD became very relevant for us in the security space, so PCD securities, particularly beneficial interests, like Lee said philosophically fundamentally, you know, we are challenged conceptually with—with, you know, the concept of PCD securities. When a company is purchasing a security at a steep discount, you know, that steep discount exists. You know, potentially for a variety of reasons, right? interest rates and the market's view of credit, and to the extent that a security is discounted significantly due to credit, at that time the purchaser is acquiring that at a discount reflecting the fact that the seller has incurred credit losses. But the PCD model then requires us to gross up our amortized cost basis for expected credit losses and effectively requires us to hold the sellers credit realized credit losses on our balance sheet. And we think that that provides misleading information. It distorts the size of the allowance for users of the financial statements. A company that is a heavy investor in PCD securities is likely going to present a larger credit allowance. But it's not actually reflective at all of what that company has expected

losses are going to be, and so from that perspective we have challenges with that model. We also experience challenges in implementing the models, specifically as it relates to PCD securities. Because at the time of implementation, many of the PCD securities that were purchased, you know, several years ago during the financial crisis, are now in unrealized gain positions, and there was a lot of ambiguity in the guidance as to how to transition, which ultimately led Athene to submit a comment letter in November of 2019 shortly before implementation seeking further guidance on how to apply the transition, which alternately led to us concluding that for PCD securities that were in an unrealized gain position at transition that we should not apply the PCD model, and so no gross up would be applied. We also had issues with the application of the fair value floor and the prospective yield adjustments that are required for beneficial interests when the fair value floor kicks in. We believe that the interaction of the fair value floor and the allowance with yields creates unnecessary volatility. That obscures the information that's provided to users and makes it less transparent and less reflective of the economics. For those reasons, we are skeptical about the expansion of the gross up model to all purchased financial assets. We do believe that there's very little difference between a purchased loan and an originated one. But because of these issues and the fact that effectively by grossing up, you're bifurcating the expected yield between the credit, the allowance, and your actual interest accretion, and we think that that makes information much more confusing to have your yield coming through effectively two different portions of the income statement, but we do appreciate the attempt and the fact that the FASB is looking at trying to solve a problem with the, you know, quote-unquote, CECL double count, specifically as it relates to purchase accounting. We are going to be going through a purchase accounting process here in the very near future. This has been a significant point of discussion for us during our process. And you know, simply put, we don't think that it makes sense to acquire assets at fair value and immediately put up an allowance so expansion of the gross up methodology would solve that problem, which we, which we appreciate. But we think that it would cause other transparency issues for the go-forward financial statements that may be just as bad as the problem that's being solved, so we would be supportive of further looking into this and looking for other potential solutions, and then the last thing that I would say is that we have some concerns in general with the application of CECL and the establishment of allowances for assets that are held at fair value on a balance sheet, so whether that's AFS securities or securities that are held at fair value through the income statement. We think that the application of the establishment of allowances for those securities is less meaningful than when you're talking about loans or held to maturity securities, and as it specifically relates to beneficial interests, we believe that the previous model, which was an accrete to expected cash flows model, was a better model and would welcome a reversion to that. But at a minimum, we would certainly welcome the FASB looking at eliminating the requirement to make prospective yield adjustments when the fair value floor bites because that at least would eliminate the yield volatility that is, you know, nonsensical and noneconomical.

Hillary Salo: Thank you, Caleb.

Caleb Brainerd (Athene): And with that, I'll pass it back to you. Thanks, Hillary.

Hillary Salo: Jason?

Jason Weippert (Capital One): Yeah, thanks. So, couple thoughts on PCD that Capital One has: one, we don't love the idea of two models for acquired assets because it's confusing internally to try to explain why the treatment is different and can imagine it will be externally as well. Something that Catherine mentioned at the very beginning that kind of piqued my interest was equating the PCD definition with the term "at-risk" loans, and that's not clear whether that's really what's supposed to happen or not, but I think a lot of thoughts is that we're applying this as PCI plus a little bit is what PCD means, and I'm just not sure if that's really the intent or if it was supposed to be, unless it's insignificant, in which case the double count shouldn't matter, it should be under this PCD model, that's not how it's being applied, and so the amount of double count of losses ends up being fairly significant to the overall size of an acquisition because of that, and another thought: definitionally, what's the unit of account? And when it was day one only, it didn't really matter. I'm speaking specifically about credit cards and revolving facilities, but the recovery cap for unamortized discounts brings in day 2 accounting considerations, and so did I apply PCD to the credit card account or to the balance? And there is no good answer to that either way. If it's just the balance, then I'm bifurcating credit card balances between PCD and originated, which is extremely complex. If it's to the account, then the PCD designation lasts forever, which also doesn't feel like, especially in thinking about how it's incorporated in regulatory capital, that doesn't feel like that was the intent as well, so if we keep a PCD model and we keep that non-credit discount day two accounting consideration, I think we have to clarify the unit of account. It's for revolving facilities. We would like one model, but there's been debate whether the avoidance of the double count on losses is worth, as people have mentioned, the effect on yield, you know. If on day one you can tell somebody I built a million dollars in allowance and set it, and that's what it is, when that million is bleeding in and causing a drag on your margins, it's just not as obvious and not necessarily material to talk about on an ongoing basis, but does reflect that yield, and we don't like that piece. And I think that, so the last comment I'll make and then turn it to others, but you know, if it's all acquired loans, I like the idea. I think the term seasoning was thrown out there. It just feels like it's like having a model that supports I'm going to have a non-bank 3rd party originate a loan, and then I'll buy it and now I can avoid an allowance build. This doesn't seem like a good idea, and so like having some way of applying acquisition accounting and making sure it's not bleeding into a replacement of us originating our own loans would be good.

Hillary Salo: Thank you, Jason. Linda?

Linda Bergen (Citibank): Yeah, I'd like to build on some of the comments that Jason just made. We were thinking we have not had a lot of experience with PCDs. The pandemic has definitely slowed down the acquisitions of portfolios of loans. But when we did do it, it's very frequently credit cards. And I wouldn't think of it as applying PCD to the whole customer. I would think of it as applying to the balance on the loan, and Jason makes a good comment that it's not clear what the right way to look at it is. But if

it applies to the balance only, then I think what banks would need to do is establish two accounts for each credit card, and that gets a PCD designation, so that there would be the one that gets the special PCD accounting with the gross up and the amortization of the discounts and premiums and the yield problems, and then you have your regular originated balances subsequent activity on that credit court account, so it doubles the number of credit card accounts that makes life much more complex, and that's been true with many aspects of CECL and credit cards, but I don't think that's something that should be ignored. It needs to be thought through. I like the idea of having one model, and if I had my choice, I would go to the non-PCD model because that's closer to the originated loan model and would avoid the problems that Jason mentioned that with, "seasoning," you know, you hold the loan for 2 weeks and then sell it to somebody else, so they get a purchased loan. You know, you have to have some sort of rules around that. I agree that would be important if you went to an all PCD acquisition model, so I'll stop there. Oh, I forgot to say, I'm from Citibank.

Hillary Salo: Thank you, Linda. Doug?

Doug Wright (Mission Federal Credit Union): Yeah, I would agree with what most of the preparers have already said in that, you know, I think one model would certainly be helpful. It would reduce the complexity. I also wanted to comment on kind of the scope issue. Because I think this because of the pandemic and the excess liquidity, I think this will impact many, many, many more institutions than it did in prior-pandemic, prior-excess liquidity. I think you're finding a lot of institutions, not only because they have excess liquidity, but because of digital lending and third party partners and fintechs purchasing loans now, whereas many smaller institutions didn't used to do that. They only originated loans, so that brings the complexity, I think, into kind of more focus, particularly for smaller institutions because we're going to have to, and a lot of smaller institutions are going to have to deal with this on a frequent basis, and it won't be, you know, kind of a one single acquisition of another institution type of thing where we deal with it all at once. It will be an ongoing issue as we, by participation, or we buy, you know, or purchase whole loans and so on. So, I think that really argues for simplifying the model and choosing one model or the other model. I think, you know, theoretically it makes sense that when you're purchasing a loan, even if you're purchasing, well, regardless of whether you're purchasing at a premium or at a discount, you're probably taking on some additional credit risk, so I would agree, I think, with Linda that I prefer kind of the PCD accounting where you can deal with it right up front and, you know, kind of work with it from there. But I think kind of the emphasis for my point is that we need to probably choose one model and try to make it as simple as possible because it impacts all sizes of institutions and many, many and more institutions, and much more frequently than probably it did 4 or 5 years ago.

Hillary Salo: Thank you, Doug, and Jay, I believe you have a question for the group?

Jay Shah: Just a clarification question, for Jason and Linda, I think I understood what you two were saying, but just want to make sure I clearly understood it, so with credit cards under a PCD model, when you purchase a credit card portfolio, you would apply

the credit cards to that outstanding balance as of that date, but those future draws, you wouldn't apply PCD accounting to unless you change the unit of account to the customer or that entire relationship. So that way, whenever there is a future draw down on that credit card, it still follows the PCD accounting model. So, is that what you guys meant on having that [unintelligible]?

Jason Weippert (Capital One): Yes, if it's one financial instrument, it's one financial dataset. I mean it's the same complexity to some degree that we all debated a couple years ago about credit cards and CECL, but it's, do I have to then bifurcate and come up with some payment allocation method for PCD purchase, the recoup of the discount related to PCD, then the recovery to purchases that were made after the fact, and that type of thing is just much more complex than what at least our systems are able to do at this point. I mean, I would have to come up with a lot of builds to be able to do that.

Linda Bergen (Citibank): That's right. I agree with Jason. So, if you chose the customer as the unit of account, so then you would have the day one PCD accounting like everybody else would, but with every success and successive purchase, you'd have to do the same kind of a gross up, and you'd have to then figure out how each receivable that's a component of that account gets amortized off over time, and then you run into, you can't use, can you use an average life for the amortization, or can you not? What's the length of the life of each specific component? each receivable? And we've avoided those sorts of questions with the CECL model for originated loans, and I think that it would be enormously complex, and our system certainly can't handle it at this point, so I would, if we went that way, I would say it's just the originated balance at the date of purchase that you could possibly do the PCD model for.

Jay Shah: Thank you. That's helpful.

Hillary Salo: Jeff?

Jeff Geer (OCC): Yes, thank you. And I also wanted to thank the FASB staff for the paper that they put together for this round table. We thought it was really well written, easy to understand and kind of flushed out the issues, so thank you for that. This issue, I would say, the theme for the OCC, and I think I speak for my fellow regulators as well, our position on non-PCD accounting is if it ain't broke, don't fix it. We don't believe that non-PCD accounting is broken. There's nothing here to fix. Although, I'm surprised you didn't think doing away with PCD was going to be an option, so we're speaking from the original question of expanding PCD accounting. So non-PCD accounting was thoroughly vetted when CECL was being developed, and we believe the FASB got the answer right the first time. Probably, the best explanation of why no change is needed is found in the basis of conclusions for ASU 2016-13. The issues being raised now are not new, and it's like I'm watching the same movie that I saw earlier over again. And looking at the 3 different types of loans, you've got originated loans, non-deteriorated loans, and purchased credit deteriorated loans, and we believe that non-PCD loans are more like originated loans than they are like PCD loans, and so you can go back to when you were like a kid in school: which one's not like the others. For us, it's the PCD is the one

that's not like the others, and if there needs to be a separate accounting model, that's where the line should be drawn. You know, otherwise you're going to create this incentive for banks to, if you expanded it to purchased loans rather than originated loans, and I worry we'd get in this, you know, you originate loans for me, I'll originate loans for you swap, and it just feels like it would be a perverse accounting incentive. Again, we think the Board drew the line in the right place, and you know it was extensively deliberated. It was thoroughly vetted. We went through a couple rounds of due process. The consequential alternatives were fully explored. The Board made the right decision, and so, you know, just because non-PCD is operating exactly as it was designed, we don't understand what has now changed to cause the need to reconsider when it's so early in the life of a new standard. Our banks spend a lot of time and effort to implement the standard and changing it now would be costly, operationally burdensome, and really not needed or appropriate, and let's see, I'll skip over that point in the interest of time. If you do go back, though, and look at the Board's basis conclusion, they decided not to extend the gross up approach to all purchased assets because they said the credit risk may be difficult to reliably isolate from other discounts related to the purchase price when it's insignificant, and the benefits would not justify the incremental costs associated with the crime to separate credit and non-credit, and then to allocate the credit discount to each loan. When the amounts are insignificant, and the accretion of that discounted income due to credit would be insignificant, and the last point I want to make is in that third example of applying PCD accounting to loans purchased at par, the first line of paragraph 30 of that paper gave me chills, and it says "in this acquisition, the non-credit premium represents the deferred provision expense on this pool of loans, and we do not like deferring provision expense at the regulators, so here the credit loss expense is obscured as a yield adjustment reported as part of interest income. Over time, it's not recognized as a credit loss expense, and so to us, this really represents a step backwards. It's worse than the too little too late of the incurred model that CECL was designed to address. Thank you.

Hillary Salo: Thank you, Jeff. Mario?

Mario Mastrantoni (Wells Fargo): Hi, Mario Mastrantoni from Wells Fargo. Just a couple of brief comments. We've had limited experience with PCD accounting at Wells Fargo, but we would not object to the expansion, certainly. Although, we would recommend that it only apply to loans, and we would recommend that it would exclude securities. I think that's an unnecessary complication. Would be interested, I'd assume, if we expand the model that the PCD designation will no longer be necessary. In other words, you wouldn't have to continue to assess more than insignificant credit deterioration if you're applying it to all purchased loans, and to address some of the comments that have been made, particularly Jeff's, and the seasoning, I don't think banks will be swapping loans. I think that can be fixed. I think standard setting to address anti-abuse provisions is the worst kind of standard setting. It never results in good outcomes, and there are always unintended consequences. I think the FASB can create a principle, the whole standard is based on principle that assets that are acquired shortly after origination, and we can define what shortly after means ourselves, would be treated as originated loans. And I don't think you have that issue. Those are all the

comments that I have.

Hillary Salo: Thank you, Don?

Don Antosiewicz (Ford): We don't have a lot of experience with PCD either. It was interesting reading through the proposal and thinking through it a bit and you know, going back to that sort of upfront decision, which is, you know, admittedly highly judgmental, whether it's a PCD or a non-PCD. You know, ideally I think you'd like, as actuals eventually happen on those securities, you'd get to the same accounting result. You know, once everything comes through, and it's fully collected on, and you hate to get to a different accounting result because of an upfront judgmental decision that went one way or the other. As I sort of think about the discount, though, there's a lot of reference to it being a double count, and you do a loss provision, and you're paying that through already in the discount. I'm just not sure if I think of the discount any different than just as a form of compensation for the additional risk, and you know, if it were a higher coupon, we wouldn't be thinking about it as being a double count. You know, and that's certainly the originated model, right? Where we might have high originated loans, we still take a credit loss reserve. The risk compensation is coming through that higher APR, and the discount that we're buying a PCD at is trying to get to a comparable yield that a newly originated security would be at. I think that there is a benefit to have just one model, but I would lean towards something that looks more like the originated model and not sort of move all of the purchased towards the PCD model, and I think it's a little more common across all types of purchasing originated loans and also addresses some of the systems implementation issues that we would have trying to bifurcate purchase discounts between an accretable portion and an amount that doesn't accrete and it goes into a loss reserve. There are certainly a lot of implications that would come with that as well.

Hillary Salo: Thank you. Mark?

Mark Sitlinger (Ally): Thank you, and again, this is Mark from Ally, just a couple of thoughts, you know, on Jeff's comment about originations and gamesmanship. I agree completely with Mario. I think, you know, that's what the seasoning consideration might be. You could do some anti abuse. I don't think that would be as big an issue as might be considered. On Linda's and Jason's comments about the issues, and I'm not ignoring, we don't house credit card, but I understand the credit card challenges. If you go back to the PCI standard, revolving loans were scoped out of PCI. You could do that with the scope out. You could move those out, you know, revolving loans would not be considered under a said model. And then I just go back to again Mario's comments, I think personally, and we at Ally had discussed this at length even though we haven't done a big acquisition, we're very cognizant of that CECL double count. We don't like the idea of having it, so we would be supportive of moving everything to the PCD model, calling it an acquisition model, not a PCD model, because as Mario said, you really don't have to assess whether there's credit deterioration. You're just applying that model to all acquired loans. Thank you.

Hillary Salo: Thank you. Mark Northan?

Mark Northan (KPMG): Thanks, hi, Mark Northan with KPMG. Just a couple things I wanted to say up front: one, just appreciate the post implementation review process that you're undertaking. I think it's a very important process, and you know, also at the outset, I wanted to say we believe there is a lot of importance in just the inherent stability in financial reporting, right? There's benefit in that. Both preparers have recently incurred a lot of costs related to change with CECL, so I think investors are still getting used to the financial reporting results from the CECL model, and there's obviously an inherent benefit in trying to maintain some stability at this point, but I also think as you're doing right now that there's certainly room to talk about how the standard and the financial reporting can be improved in a way that doesn't create a lot of additional instability. On the purchased loans specifically, I think I'm going to end up echoing some of the comments that Caleb started and Jeff Geer picked up on. When we talk about a proposal that would extend PCD accounting to all purchased loans and just stop there, you know, the thing that stands out the most to me is that that proposal would result in dissimilar accounting for similar economic transactions and specifically dissimilar accounting for purchased loans and for originated loans, even though those may be in substance the same asset, and the dissimilarity in accounting as people have picked up on it really arises from two things: one, an origination of a loan would still result in a day one loss. A purchased loan would not, but then in addition, a purchased loan would. Its yield going forward would be netted down by a credit component. Whereas for an originated loan, it would not, and so on the latter point, that seems like it could create sort of confusing financial reporting. Where you've got, you know, different types of yields going through for similar assets, which may make it difficult for investors to really understand what is a representative yield for that portfolio going forward, and then maybe necessitate a lot of separate reporting of the acquired portfolio that is running off versus the originated portfolio, and so I think I would really caution against, you know, a proposal that would result in that sort of dissimilar accounting for purchased loans and originated loans. Some people have referred, you know, in different ways, I think Jeff brought up the potential for structuring. I think that when we change the accounting standards in a way that results in dissimilar accounting for similar economic transactions, it will open the door to structuring for those that don't want a day-one loss on originated loans and try to find a structure that would enable them to account for those as purchased loans without changing the economics and could result in a need for the FASB to end up having to promulgate literature about what is an origination versus what is a purchase because we have drawn this distinction in the accounting, so I think there are some real drawbacks to the accounting that was in the CECL standard today around purchases. I think a lot of those were debated in the deliberation process, and I think, you know, it makes sense to try and improve the accounting. I would just really encourage the FASB to think about solutions that don't result in this dissimilar accounting for similar economic transactions, and I'll mention just one point on the scoping of what gets PCD accounting. I think a lot of the challenges today are coming from the fact that PCD, purchase credit deteriorated, involves some relative comparison of the credit quality at origination against the credit quality at acquisition. That can be very challenging. It can be very dependent on what information is available from one

acquisition to another, which can cause a lot of differences and a lot of disparity between entities. And so certainly thinking about, you know, scoping alternatives that would be based on just the credit quality at acquisition would help resolve, I think, some of those disparities, so that people could look and say, well, I'm going to apply it to things that are purchase impaired, plus maybe past-due assets that are on nonaccrual. I think that would result in some more consistency and scoping, so I think there are some [Microphone cut out for one second] available to address some of the concerns that folks have raised, but I would definitely encourage just people to think about maybe smaller changes versus larger scale changes that create differences between similar transactions. Thank you.

Hillary Salo: Thank you, Mark. And I know we're coming up on our time related to this section, but I know we have a few more folks with their hands up, so we'll try and get to you, and then we'll do a quick break because I know everyone has been sitting for two hours. I realize that's very challenging in this environment, but maybe I can go to Jay.

Jay Cochrane (Truist): Thank you, Hillary. I'll make this brief. I think we have a little bit of unique perspective just given the merger of equals that we closed just prior to the effective date of CECL and then, the materiality of our purchase, our mark, on the acquired loans. I think that Saul and Catherine, and Louis made the points very well in terms of the potential confusion to the user and investor community and in terms of the impact of the double count, and I think when we advocate for the expansion of the PCD accounting model to all acquired loans, it is set in the context of a material business combination, where the impact of the underlying double count of the credit component, which is reliably measured in the context of fair valuation of an acquired portfolio in the context of a business combination, that the double count between that and its significance relative to the additional provision, that's provided on top of that. One of the things that we've attempted to do, which hopefully has been helpful, is to provide further context to investors in our, and this became part of our, quarterly earnings deck as early as the first quarter of last year is just to provide additional context on the embedded loss absorbency because the underlying credit component of your total purchase accounting mark to the extent that as you begin to incur actual charge offs on acquired loans. You know that the unamortized balance provides dollar for dollar loss absorbency that then is not needed in terms of the duplicate provision that you provided for that same loss risk, and it turn then, that would reverse back out through the income statement, and so I think just being prepared for banks that are contemplating or are in the midst of material business combinations to provide additional insight into the underlying loss absorbency potential of the unamortized fair value mark is something to consider. Just one other aspect of it that we and Jay, I'll direct this to you, that we would welcome the opportunity to further interact on that we found challenging, specifically within the application of PCD accounting is relates to acquired loans that had a partial charge off, you know, prior to the merger date. Under our application of PCD, we essentially reversed those partial charge offs and replaced them with a credit mark. However, what that created was basically day one charge off exposure. And so, you know, we found that confusing to both internal and external, you know, both internally and then to external constituents in the sense that it essentially resulted in having to charge off

loans that had already previously been charged off by the acquiree from an accounting perspective, and one that didn't necessarily run through provision expense originally, so that's something that we would ask for clarification on as to the potential to clarify that the day one gross up would not be required for amounts that have been charged off previously by the acquiree, where we would agree with that without treatment.

Hillary Salo: Thank you, Jay. Jim, I see you have a hand up?

Jim Kroeker: Yeah, I just wanted to follow up with the users really quickly. Hopefully, it's a quick question for them. On the question about the operational difficulties of applying the PCD model to revolving lines of credit, credit cards, etc. If we were to exclude the, let's say we expanded the scope of PCD, but excluded revolving lines, would that frustrate users' analyses given sort of the operational challenges you've heard?

Hillary Salo: Any thoughts from our user group?

Louis Lau (Brandes): Yeah, this is Louis, I think it would to some degree if the consumer loans were or the revolving loans were a big component. I think it would create something that merited special attention, but if that exception was explained, and some of the differences quantified, I think we could live with that. I don't think it's a huge deal breaker, excuse the pun, but we'll have to pay special attention to it.

Hillary Salo: Any other thoughts from our users? Ok, then I think what we'll do is Sydney and Graham, if you could provide your thoughts and then we will go to a break, if that makes sense. Sydney?

Sydney Garmong (Crowe): I thought about why do we have PCD accounting? And I went all the way back and was thinking this through, so it goes all the way back to Practice Bulletin Six, right? That was issued way back in the late eighties, right after the sef crisis. And it was issued because there were loans being acquired at very deep discounts, and so the objective was to not over accrete those discounts, so that's how we ended up with PB 6 and then SOP 03-3, so I remember at the time the criteria in 03-3, the evidence of credit deterioration was actually inserted, included in the standard to avoid buying of allowances, and so then I kind of walked this forward and what was the Board trying to do? Well, people found PCI accounting complicated, and so with PCD as part of CECL, I think the Board was really looking to simplify that accounting. But then if you step back and say, okay, well then, is that distinction between PCD and non-PCD relevant today? and personally for me, it's a different objective, so I think, what we're trying to do is simplify the accounting. It's just a different objective today, and I think it's also somewhat counterintuitive, and by the way, we now have like buying of allowances, right? Because that's what now happens with PCD, so I think expanding it, so all acquired assets probably in a business combination will leave the double count, and the only downside that I can think of is then you're potentially back to the gamesmanship of buying allowances. But again, I think for me that's how I got to PCD for all acquired assets. Now, if you don't like the PCD model, that's something

completely different, but to me the distinction isn't relevant.

TDR Discussion

Mario Mastrantoni (Wells Fargo): I don't think there is a lot of complexity in the modification model. I think we certainly would support the elimination of TDRs. We don't think they're necessary in the CECL model. We don't think the distinction provides more useful information. So, eliminating the recognition measurement component of TDRs I think would be beneficial. I think we do believe that disclosures on modifications is important. Take away disclosures related to borrowers that are troubled or experiencing financial difficulty - I don't think we can get away from at least that assessment. What we're really talking about is getting rid of the assessment of the concession and perhaps even the cumulative effect of concessions. I think that's an issue to come up and has been more prominent recently with all these COVID modifications and how that impacts that assessment pre and post. So you know, I think there's probably a discussion around whether the disclosures on modifications are adequate or whether they need to be enhanced as it relates to the new loan versus modification model. Again, I don't think that you're exchanging one set of complexities for another. I think we can continue to live with the same model. I think it's as simple as just changing the words from troubled debt restructuring to borrower experiencing financial difficulty, or just leaning on the market rate requirements. I'm not aware of any loans to troubled borrowers that are made at a market rate. So I don't think that's a high hurdle to overcome. So those would be the comments I have.

Hillary Salo: Thank you, Chris?

Chris Lynch (Bank of America): Yeah. Hi, Chris Lynch from Bank of America. I would agree with what Mario said. I think one, if you look back at TDR accounting, I think it was a whole lot more meaningful when we were in an incurred world, where you were moving from a loss emergence period to a lifetime loss estimate. But that's really not that relevant under CECL today, so I think that piece has gone away. And I do think when you get to disclosures, you may look at the past 5 quarters. We really haven't been focused on TDRs disclosures. We've been focused the modification disclosures around COVID, and they have been voluntary. So it just shows you that, you know, TDR in this environment is less relevant and modifications are more relevant, so I would agree with what Mario said.

Hillary Salo: Alright, thank you. Mark?

Mark Sitlinger (Ally): Yeah, I'll just echo the measurement comments that both Mario and Chris said. The measurement is certainly not useful any longer now that everything is on a lifetime model. With respect to, you know, identification of the loan as a continuation of the old loan or a new loan, I wonder if there can be some consideration for, you know, I'll call it more of a principal-based determination. Rather than doing that 10 percent test on all consumer loans, which I think most of us probably, you know,

don't always do, I think our loss mitigation teams, as we look at these loans, we know which loans we're modifying in a loss mitigation situation versus which loans we're truly refinancing or are really in a lot of ways a new loan. So I wonder if we can build a principle rather than a quantitative test to make that determination. But otherwise agree with everything that has been said so far.

Hillary Salo: Thank you, Rebecca?

Becky Carey (JP Morgan): Hi, I thank you. I am Becky Carey from JP Morgan Chase. Again, thank you for having all of us. I would, on the topic of measurement, definitely echo the comments that Mario and Chris each made. We would support eliminating the measurement requirements and certainly think that once a preparer is in a CECL model, there's limited utility from a measurement perspective. Maybe a little bit more on whether or not we should then turn to apply the modification versus extinguishment test to these. And I like the way that Mario described it - modifications for troubled borrowers. You know, another potential unintended consequence of perhaps applying that test would be that, you know, many of these modifications might be deemed significant enough in order to call this an extinguishment, and then when you think about the vintage disclosure that came in as a requirement of CECL, I wonder if it would have the unintended consequence of perhaps reducing the utility of those vintage disclosures. When you think about why we would be doing one of these modifications for a troubled borrower, we're essentially doing this as a creditor in order to improve our opportunity for recovering that initial investment. So, I think the vintage disclosures and their usefulness in that framework should be considered.

Hillary Salo: Thank you. Lara.

Lara Lylozian (Federal Reserve): Thank you Hillary. Hi. This is Lara Lylozian from the Federal Reserve Board. I'm coming at it from a regulatory point of view. I'll share my perspective, which is really rooted in my experience in the crisis last year. We spent a significant amount of time talking about TDRs with a wide range of stakeholders during 2020. What it is, what it isn't, the impact of the CARES Act, how it fits into our examination process, what it means for the allowance, how to report it, and I was just so surprised by all the misconceptions about TDRs, and I think some of them are still out there despite all our education and outreach efforts. I think all the focus on TDRs in that label somewhat checked one of our main messages throughout the crisis, which was to encourage banks to work with their customers and borrowers. Just yesterday, that message was reiterated during the hearing with the house committee on financial services chair when he was being asked about what he thinks about loan modifications. So, I think that if removing the TDR label helps open that up in that regard then I'm in favor of exploring it further under CECL. As I mentioned before, I think from a measurement standpoint, there's much less of an impact on that side. I agree with Mario and Rebecca and others who have said that even if you remove the TDR label, you know, we would still want to continue to see robust and consistent disclosure requirements around loan modifications. And I think this a real opportunity for us to build

on existing disclosure requirements and also include, you know, additional, more uniform information about the types of modification and performance that would allow users of the financial statements to better assess the ultimate success of a modification. And as mentioned, some of the banks were voluntarily disclosing this last year, particularly in Q2 and Q3 at the height of all of this. It would be nice to see this in a more uniform and consistent way in the financials. But, I guess the challenge would be not to overburden preparers, particularly community banks. As regulators, we ultimately care about loan modifications and being able to have these disclosures. It's an additional data point for us on an institutions credit risk management practices and overall credit quality of an institution.

Hillary Salo: Thank you. Don.

Don Antosiewicz (Ford): Hi. I agree with others on day one measurement loss and the removal of that. I don't think that that's very useful, especially now in our CECL world that we're in. I do have some concerns, I guess about carrying over some of the disclosures, expanding disclosures, around modifications and just thinking of, you know, what a modification is and referring back to the diagram that's in the materials. In many cases, these modifications are very insignificant. So, to expand disclosures around that portfolio of loans doesn't seem like it's very beneficial. And I think there's probably sufficient information already provided through the existing CECL disclosures.

Hillary Salo: Thank you Don. Stavros.

Stavros Zafiridis (EY): Yeah, I can be quick, Hillary. We would concur with the notion that for those that are under CECL, from a measurement perspective, a TDR is just not as meaningful as it was under the incurred loss model and would highlight that really throughout 2020 a number of banks put a lot of voluntary disclosures around modifications that we thought were helpful and provided a pretty good framework for period modification disclosures around what users might find helpful, but I would be interested in hearing from the users and as well, in terms of what they view as being helpful.

Hillary Salo: Maybe we can open it up from the user perspective for what information would be helpful if we were to remove the TDR designation. Do we have any Feedback? Catherine, I see your hand up.

Catherine Meador (KBW): I would just say it was really helpful throughout the past year when we saw disclosures on modifications - which modifications were principal, interest, both, so I think that was helpful. Of course, the loan types as well were helpful. And I would agree with all the commentary about TDRs not being as relevant under CECL as well.

Hillary Salo: Great. Saul?

Saul Martinez (UBS): I agree. I think I'm indifferent about TDR accounting, but I found the information in the disclosures helpful and the total number of accommodations,

balances and percentages that are current, categorization by type, all of that I think that is useful information and obviously it was much more top of line for investors and analysts in the second and third quarter and then has kind of become less relevant given how credit has been. The ongoing discourse has been very helpful. I would certainly be more in favor of having some sort of standardization there.

Hillary Salo: Louis or Joe?

Joseph Stieven (Stieven Capital Advisors): This is Joe Stieven. I would agree with Mario and Chris I think the TDR designation has probably outlived its useful life. I think that banks were very good in their disclosures on modifications, and if 2020 teaches us anything we obviously have had two stress tests for the largest banks and an actual pandemic, and the industry was soundly profitable while doubling loan loss reserves. I just think requiring more disclosures at some point in time it's, um, I think we've, I think the banks have had more than enough disclosures.

Hillary Salo: Thank you.

Louis Lau (Brandes): This is Louis Lau. I think for the context of US banks, when your TDR is less than one percent, it's really not material for analysts to look at. Some of the other countries like Indonesia or India, where restructuring is a persistent issue where TDRs are 6-8 percent of gross loans, that's something that we need to look at and adjust. So for US banks context it's not very relevant. If you go back to the financial crisis of 08-09, some of the consumer banks had TDRs of 2 percent or more, and I would say, going back to the subprime crisis that was more relevant. But today it will be much less relevant. And I also agree that the modification disclosures, some of them were really impressive. We saw what kind of terms were modified and then also the duration of the modification. And also, the percentage of the modified loans that were current, past due, even up to 90 days. Some of the banks had really good disclosure on loan modifications, and loan modifications were 9 to 11 percent of the total loan book which was material. So as long as such information on modifications continues to be available, then I think from a user perspective, that will be very, very helpful.

Hillary Salo: Great, thank you. Linda?

Linda Bergen (Citigroup): I'm all in favor of having good disclosures and I agree with all the comments that have been made so far. They've all been very consistent. I just want to add a couple of points. One of the things, or two of the things that have been troublesome about TDRs is this concept of once a TDR, always a TDR, so where at one point you had a troubled borrower, but maybe the borrower had lost a job but now they're employed and they've been performing, the concept that you have to continue to measure their allowance in a special way for the life of the loan doesn't make a lot of sense. The other concept relating to TDRs is this concept in CECL of a reasonably expected TDR and needing to use that to determine the life of the asset and then the allowance. Well, number one, it's pretty difficult to figure out what's a reasonably expected TDR so there are difficulties there. And secondly, even if you decide that it is,

you know, a reasonably expected TDR, it only matters if your modification extends the life of the loan because that would extend the life of the contract, which would need to be subject to the CECL reserve. So I think it's a provision that really isn't very useful and should be struck.

Hillary Salo: Thank you. John Rieger?

John Rieger (FDIC): Thanks, as a regulator I'm hesitant to say that we can do away with the TDR classification. I understand it from a measurement perspective, especially with the larger institutions. But my concern is that we've gone through periods of time in the past where there's just been, been a concept of extend and pretend. And the TDR classification is a way to help smaller institutions into being required to identify those modifications that may or may not be at the market rate and appropriate. So I would, I'm hesitant to do away with it. I understand from a measurement perspective, CECL in theory neutralizes the provisioning side of it. But I am concerned maybe there is another category or disclosure that the FASB can work on that would help us identify those loans that may or may not be at a market rate. And so, I mean, that's my two cents worth.

Hillary Salo: Thank you. Chip?

Chip Currie (PwC): Yes, we would certainly be supportive of, you know, removing TDR as a concept that drives measurement and classification. And I do think you could replace it, similar to what Mario said with more of a judgmental provision around when you're making modifications to borrowers that are experiencing financial difficulty. I mean being able to identify when modifications are being made to borrowers that are having potential difficulty, that'll still be important to John's point in calculating the allowance and, you know, and controls and processes can be built around those. And then I think those same controls and processes that are helping identify that to make sure the allowance is being calculated could be leveraged to the concept Mario raised with we could change the modification guidance to just say, you know, if it's not a new loan it's a TDR to if it's a loan that's being modified with financial difficulty, to borrowers with financial difficulty, and that could certainly spring into the disclosure. So I think there is still a framework there that would allow for, you know, application across things we've talked about. The only other thing that I would observe is, I think that this is something, an amendment that could be made to the literature in isolation. It doesn't necessarily need to wait for other changes to the model that will be contemplating as part of the post implementation review process, or any other process. I do think this is a discrete item that could be done fairly quickly, and I think it would provide some relief to the people and processes, and I think that would be a good idea.

Hillary Salo: Thank you. Jay, I see you have a hand up.

Jay Shah: Yeah, just a question for the analysts. Over the last year or so, or last five quarters from what someone mentioned, what was your take on the disclosures that you've seen related to loan modifications? Have you found that information was

comparable? What kind of quality were you seeing? That sort of question. Just curious what the analysts think about that.

Saul Martinez (UBS): Yeah Jay, as I mentioned I think the disclosures have been pretty good. There are some differences in the disclosures, and I don't have all of the disclosures from all of the banks I cover at my fingertips, but they're pretty consistent in terms of the number of the loans modified and balances, percent of loans that have been modified that are current, the percentage of accounts that have exited deferral. There are some differences but in general, you know the evolution of the balance, balance by type, and who's making payments and percentage that are current. I personally think it's been pretty helpful, and there are some differences like I said, but it's been fairly consistent across the bigger banks in terms of what they are providing.

Catherine Meador (KBW): I would agree. Disclosures were generally consistent and very helpful. You know, a lot of the times we get them in presentations versus in press releases, which was great and they gave a lot, there is a lot of data given. I think very early loan modification was a very big focus in the investor community. The banks responded very quickly to that, and I found all of the disclosures very helpful. I think knowing principal, interest, loan type and kind of seeing the progression with coming in and what's coming off the modification was very helpful.

Louis Lau (Brandes): Yeah, I won't repeat what Saul and Catherine have mentioned. But for us, we're just trying to get an overall sense of the repayment status of the modified loans. And if we see the repayment status being low or deteriorating, then we would come up with an additional adjustment on the firm value to deduct that. But you know, the disclosures have been impressive. I actually was happy that I got more than what I expected.

Saul Martinez (UBS): Yeah, and I'll just make one more point, I think it did into the 3rd quarter, the evolution of that was something investors were really asking about and caring about, and it did give investors a sense of comfort that credit was holding in there pretty well, so it was a useful disclosure that I think helped folks get comfortable about credit quality evolution.

Hillary Salo: Mario I see your hand do you want to jump in?

Mario Mastrantoni (Wells Fargo): Thank you Hillary I do. I just want to comment on disclosure commentary. I mean, I think, you know, there are a lot of things to keep in perspective here. I think the COVID situation was a very public, large, discrete event. And I think companies reacted really well to providing that information. And, you know, I think from the FASB standpoint, I think the SEC kind of pushes all the public registrants to make sure that you've got transparent, voluntary disclosure, right? And so, we've all done that so you have to think about, you know, whether or not companies that are not SEC registrants would provide the same level of information on a voluntary basis. At the same time, I would caution that you should not over engineer any new disclosures. I think, you know, I think I'd be interested to hear from the analysts what they think about

the current disclosures for TDRs because I think they're pretty onerous trying to provide sort of the financial effects of those modifications and many times, A plus B does not equal C because you make multiple modifications to the same loan and trying to add all of that information across doesn't always make sense and it's very difficult to track and calculate. What I would envision, and I heard some of the commentary earlier where I think most companies have work out programs, they have loss mitigation programs. So it's not going to be that hard to identify what types of loans analysts and others are going to be interested in understanding in terms of modifications. So, if you're isolating those types of populations, I think, you know, any new disclosure requirements or replacement, I'll call them replacement disclosures, can be based on that type of a principle in terms of, you know, what financial difficulty is and isn't and what those modifications may be. And you know, I think qualitative disclosures on what that is, the amount of loans that are being modified and maybe some qualitative discussion around the types of modifications I think would be important. But if you're not talking about large discrete events trying to provide that same disclosure that we all just provided for COVID would be difficult. We don't want to get into once a TDR, always a TDR through disclosure because we have to continue to provide cumulative effect of all these modifications we made through the life cycle of all these loan portfolios. I think that would be very difficult, and I'm not sure how useful it would be, so I just wanted to make that point.

Hillary Salo: Thank you and Joe did you want to jump in?

Joseph Stieven (Stieven Capital Advisors): In general, I would agree with everyone's comments so far. No need to take time.

Hillary Salo: Okay thank you Joe. Mark Northan?

Mark Northan (KPMG): Yeah, I want to weigh in, I actually do think that TDR accounting has some benefit. I just think that there are some strong indications that the costs are significantly outweighing those benefits. So, I mean, the benefit of TDR accounting is it gives us a model, and I think it has a noble purpose. It gives us a model where the economic cost of a modification to a troubled borrower is measured and it's agnostic to the form. So it's agnostic as to whether that concession was granted in the form of principal forgiveness and interest rate concession or a payment deferral, I mean there's nothing else in CECL that's going to provide, you know, that sort of guidance. And so, you know, at its best, that sort of gives you an idea of measurement of the economic cost of the concessions that were granted to troubled borrowers that would allow some information about evaluating credit quality trends if you could look at those period over period, but you know, we pulled a small number of disclosures - It looks like very few financial institutions are disclosing that allowance effect of TDRs. They are disclosing a lot of other very meaningful information that can help users understand - the impact of TDRs and the impact on financial performance going forward. So that's already being disclosed even though the allowance effect is not. And so, you know, continuing to calculate these net present value effects in the allowance, I think there is a

real question as to the costs, which are very tangible. They are very high. And so, I think there's a real question about, you know, whether it be the costs are really outweighing the benefits with respect to the measurement right now. I do think there will be a need to have some sort of designation of loans made because I think the footnote disclosure should relate solely to modifications of troubled borrowers. Expanding that to the modifications more broadly, I'm not sure what that would add from a financial reporting standpoint, so it seems like there would still need to be some troubled borrower designation used to differentiate types of modifications. But one specific ask I make: sometimes the preparers who use a discounted cash flow approach are often overlooked. And so, you know, if there is a change made to remove the measurement guidance, don't forget about the preparers that use a discounted cash flow approach to calculate the allowance. If they don't manipulate or mitigate or provide some sort of manipulation in their model, they will still pick up the impact of TDRs, so I think the Board would need to have some thought specifically to discounted cash flow preparers, and where they want them to manipulate the model in some way to remove the effects of TDRs, or whether this is sort of an intentional and acceptable difference that would be built into the model between DCF preparers and non DCF preparers. I would say that this would probably be the largest difference between DCF preparers and non-DCF preparers. So just a specific ask to, you know, think specifically about the DCF folks. Thank you.

Hillary Salo: Thank you Mark, Jon?

Jon Howard (Deloitte): This is Jon Howard from Deloitte. I agree with most everybody's comments. I think the TDRs have kind of outlived their usefulness as far as the accounting goes. I think with CECL, the FASB justifiably, and I think rightly, said we're not going to tell you how you need to calculate your credit losses. We're going to come up with a principle. And then we kind of ran into this issue where TDR accounting made that impossible for interest rate concessions, and I think what came out of a lot of the TRG discussions was even just how entities thought about losses and thought about risk. Not collecting contractual interests that might accrue in the future that are not going to collect anyways isn't really credit loss. They're kind of looking at how much of my investment did I not get back. How much of what I lent did I not get back. And you're really trying to decide between what is appropriate yield versus what's a credit loss and I, the more that we move away from actually how they think about losses and be able to use historical lost data applied to their portfolios, outside of a DCF scenario, the more you realize it kind of makes it difficult for them to use their own data to come up with a credit loss. So I just think it's kind of inconsistent with CECL to maintain this notion for interest rate concessions. And to echo what Chip said, I think that anything the FASB could do to, to make this go away as soon as possible would be greatly appreciated. Thank you.

Hillary Salo: Thank you, Jeff?

Jeffrey Geer (OCC): My theme here, the OCC's theme here on TDR accounting would be let's make sure that the cure isn't worse than the condition we're trying to address. Today we've only heard from the bigger banks and analysts and auditors of bigger banks and so we understand the support for removing TDRs as being less relevant under CECL, and we could be open to changes to current TDR accounting. However, at OCC, we have reservations about moving forward with such an idea for two main reasons: one is first, for community banks, TDR accounting has served as a trigger for recognizing credit losses. And so, you know, obviously our hope is that CECL is going to result in earlier credit loss recognition not later, and we're worried removing that next stop could further delay recognition of credit losses at some smaller institutions. And second, before evaluating the merits of doing away with TDRs, I need to more fully understand what the replacement would be. I think we need to understand what that replacement is, and it seemed to me like in the paper that it was only looking to the current non-TDR modification guidance and kind of lumping those together. And maybe I'm misreading the intent, but I think that those two different kinds of modifications are very different. One done in the ordinary course of business at market rates is very different from one done to a troubled borrower at a non-market rate, so I think they would have to be segregated in terms of their disclosures. As far as TDRs being a trigger event, you know, again, for some community banks, we've seen that my whole 36 years of doing this. We've seen it in recent letters from their trade organizations. We've seen it in the push for legislation from congress to provide relief for TDRs because unfortunately, some have the view that that means if it's not a TDR you don't need an appropriate allowance, you don't need to put it on nonaccrual, you don't need to charge off uncollectible amounts, and you don't need to assign the appropriate credit risk rating. We certainly do not support or condone that practice. We've tried to expel that notion very frequently, but I'm afraid that's not going to magically go away with the adoption of CECL. And so, I think I'll stop there. Well, one other point: It's not clear to me, when I'm looking at the flow chart in the appendix, if you would actually ever get to the 10 percent test or if you would say, you know, most TDRs would fail the favorable rate. But I don't think that there is a rate for those kinds of loans. I think it's hard to measure that first criteria If you have a troubled borrower - banks don't typically make loans to those guys. So what a market rate is for that is it's hard to discern. But the 10 percent, to me that seems even more difficult for TDR accounting for our little banks rather than the TDR test, and in fact, we often don't see that modification guidance being used in practice in the retail portfolio, they're just this kind of presumption that they are new loans. Thank you.

Hillary Salo: Thank you Jeff. Doug?

Doug Wright (Mission Federal): As a smaller institution, I think I'd like to respond to some of the concerns that John and Jeff raised. I fully agree that if we're modifying loans for borrowers that are troubled, then we need to account for that in the allowance. I think the challenge with the TDR designation goes back to once a TDR, always a TDR. Because I think, you know, what we end up doing is we end up classifying borrowers as

TDRs, and then 10 years later, we're still carrying those loans as TDRs and still representing those loans as TDRs, and technically under the guidance, they are. But clearly those loans are paid as agreed for 10 years. And therefore, I guess the additional operational costs and the additional complexity and trying to explain to our board and our investors why these loans are quote-unquote just still troubled debt is very difficult - but I think there's other ways that we can approach the allowance and making sure that we're reserving on modified loans. It's not that hard, honestly, to pull up a list of loans for which modifications are made over the past year. If you're from an examiner standpoint, and take a look and ask and dive into what institutions have done with those in terms of the allowance. I think just some additional rule making or some additional procedures, if that's the biggest concern, is making sure that we're reflecting an appropriate allowance for those borrowers can be handled in different ways without the operational complexity and without honestly the disclosure complexity and the investor confusion around why is this loan that was made in 2008 and modified in 2011 and has paid as agreed for 10 years still classified as a troubled debt restructuring now? So, I would be fully supportive of eliminating the TDR designation and taking a look at both, you know, some potential additional disclosure requirements around modifications as well as ensuring you know, kind of there is a process by which, you know, institutions are taking a look and considering the allowance impacts of modifying loans for troubled borrowers.

Hillary Salo: Thank you so much. Graham?

Graham Dyer (Grant Thornton): Thanks, Hillary. Yeah, just one last point and really want to echo something that Mark mentioned, which is, you know, I think we are going to lose a little bit if TDRs go away because that measurement, that economic loss, will sort of disappear for accounting. But I think in our outreach, we found that that's not a big area of focus for either of our clients, investors, or their boards. So, while I think that's going away, seems like the cost benefit is probably there. And I think on the cost side, you know, we do spend a lot of time in our audits auditing, making sure that our clients are identifying TDRs. Our clients are spending a lot of time having processes stood up to make sure they're identifying TDRs. As everyone's mentioned, this is all over something that it seems like other disclosures seem to cover the relevant information, and it doesn't impact measurement. So, I think to the degree, and in a year like this you think about annual reporters, where they're going to capture a ton of restructuring activity at the end of this year, to the degree that there is going to be a change to happen if it could happen quickly, that would provide a significant amount of operational cost relief for a lot of preparers.

Hillary Salo: Thank you Graham. And Sue, I see you have your hand up?

Sue Cospers: Yeah, I just had a quick question and maybe it's for the investors. You know Mario coined the phrase "borrower experiencing financial difficulty," which I thought was a nice phraseology, if you will, and Jeff Geer talked a little bit about disaggregating some of the information we may get on modifications if we were to put

disclosures in for modification on a go-forward basis between ordinary and troubled, and I just wondered what level of disaggregation, um I mean I understand that today there has been a lot of voluntary disclosures around modifications because of the pandemic, but on a go-forward basis, the challenge that we will always have is consistency amongst borrowers, or amongst the banks. So, I wondered from an investor perspective, what level of disaggregation would they expect?

Catherine Mealor (KBW): I can start. I think very simply, I haven't found a lot of help out of the current TDR disclosures because, to the point we made earlier, there hasn't been a lot of movement in TDRs because of the whole concept of once a TDR, always a TDR. So, because of that, I kind of see TDRs as a bucket. I make sure it's not a really large number, and then I kind of move on. And so, what I focus more on as an analyst is trying to watch credit migration as I look at movements from watch, into criticized, into classified, and I use that as a better gauge as to credit migration versus anything on TDRs. So, I think no matter what we ultimately decide on in terms of what we disclose for modifications, know that investors are more looking at the migration in and out of that asset class, or that classification, more so that categorizing it as that and always keeping it at that. So, I think the biggest flaw in TDRs is that there hasn't been any movement out, so we don't really pay attention to it anymore.

Louis Lau (Brandes): This is Louis, I'll just chime in and say I usually like to draw the distinction between something that was initiated by the bank to help troubled borrowers or it was something imposed by an external force. For instance, COVID or during the subprime crisis, there may have been regulatory or political pressure to modify some of the loans to help the borrower where there wasn't a voluntary decision by the bank. So, understanding special external forces that cause loan modifications and separating that out from something that a bank would do in the normal operations to help its borrowers, I think that is something that I look out for. And I might model those two categories separately, but typically that is what I pay attention to.

Hillary Salo: Closing remarks.