ACCOUNTING ADVISORY

Current Expected Credit Loss Overview

Private and publicly traded smaller reporting companies ("SRCs") will need to adopt Topic 326 in 2023. The Current Expected Credit Loss ("CECL") standard requires that companies evaluate and update their allowance methodologies.

Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments — Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments* applies to all financial instruments carried at amortized cost and is effective for years beginning after December 15, 2022.

The new credit impairment standard is intended to improve financial reporting by requiring earlier recognition of credit losses on loans, held-to-maturity debt securities and certain other financial assets. CECL replaces the current incurred loss impairment methodology which recognizes losses only when a probable threshold is met. The new standard requires risk segmentation of financing receivables and a reasonable supportable forecast that supports the lifetime expected credit loss model.

Additionally, CECL addresses available-for-sale ("AFS") securities and requires an allowance approach versus a direct write-down of the amortized cost basis. Below are examples instruments that are in scope:

- **Financing receivables**
- **Held-to-maturity debt securities**
- **Receivables from revenue transactions within the scope of ASC 606, Revenue from Contracts with Customers**
- **Reinsurance receivables within the scope of ASC 944**
- **Net investments in leases recognized by a lessor in accordance with ASC 842, Leases**
- **Certain off-balance sheet credit exposures**

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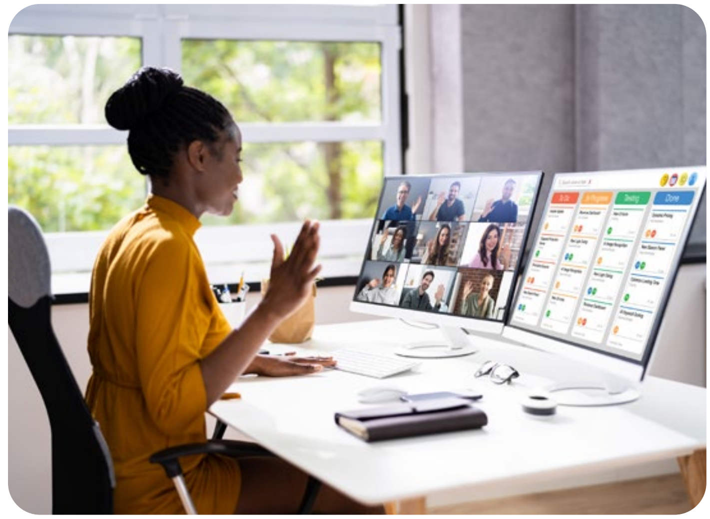
How We Can Help

Our Accounting Advisory professionals provide a full range of CECL services and consulting. Example offerings include the following:

- Outline all balance sheet accounts that are in scope
- Summarize the allowance methodology used for each instrument or collection of risk segments
- Assist in reviewing or documenting the Company's reasonable and supportable forecasts
- Assess and quantify the impact of the new forecast as compared to legacy allowance methodologies
- Provide recommendations based on our experience assisting public companies and financial institutions who have previously adopted CECL
- Prepare a CECL adoption memo for management
- Assist with drafting or review of footnote disclosures



Our approach is to understand your business and your current allowance process. We then assist with balance sheet scoping, which will be an integral part of the adoption memo.

Our team of experienced professionals provides practical solutions that allow you to optimize the forecast and allowance process. Key outcomes of our services include, creating the necessary documentation outlining the adoption of CECL and focusing on scoping, key decisions, model inputs and related forecasts.

For more information on how we can help you implement CECL, reach out to your Cherry Bekaert advisor or our Accounting Advisory team.

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