When are expected credit losses decision-useful and new to investors? Evidence from CECL adoption

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Abstract

The Financial Accounting Standards Board replaced the "incurred loss" (IL) model with the "current expected credit loss" (CECL) model, which requires entities to recognize lifetime expected credit losses upon loan origination. We investigate four controversies surrounding CECL to provide evidence on when expected credit losses are decision-useful and new for investors. We examine whether (1) CECL allowances are only decision-useful for larger banks, (2) CECL allowances provide new credit loss information, (3) credit losses expected to emerge beyond one year are relevant for investors, and (4) separately reporting IL and CECL allowance amounts has more information content than reporting a single CECL allowance amount. Contrary to the views of community banks and evidence in prior literature, we find that CECL allowances are decision-useful for both small and large banks. However, CECL allowances are *new* information only for smaller banks. We also find that CECL allowances are decision-useful regardless of the loss emergence period, despite later-emerging losses being unrecognized under IFRS 9, CECL's international counterpart. Finally, we find that reporting a single CECL allowance amount is relatively less decision-useful than an alternative accounting regime that reports incurred and expected future credit losses separately.

1. Introduction

The incurred loss (IL) standard that precluded banks from recognizing credit losses until they were *probable* was roundly criticized as being "too little, too late" and contributing to the depth and duration of the 2007-2009 financial crisis.[1] In response, the FASB and IASB developed separate and different standards of expected credit loss recognition, with the IASB standard (IFRS 9) implemented in 2018 and the FASB standard (ASU 2016-13 – the current expected credit loss standard – CECL hereafter) implemented in 2020. Initial research indicated that future expected credit losses, both under IFRS 9 and based on researcher-constructed estimates prior to CECL adoption, are decision-useful (Wheeler 2021; Lu and Nikolaev 2022; López-Espinosa, Ormazabal, and Sakasai 2021).

However, significant debates emerged about the informativeness and relevance of expected credit loss measurement for different bank business models and loan types. These debates, which have not been addressed by prior research, were reflected in contrasting commentary during the rulemaking process and ultimately divergent IFRS and U.S. GAAP standards. We discuss these debates and how they motivate four primary research questions that we address.

First, both bank trade groups and academics suggested that expected credit loss information may be decision-useful only for larger banks. The Independent Community Bankers of America (ICBA) questioned whether CECL's complex modeling would produce meaningful information for investors in community banks, as these banks' "highly tailored, relationship-based lending model does not easily link with identifiable environmental factors that can accurately depict future economic risks" (ICBA 2013). Perhaps consistent with this concern, prior research found that researcher-constructed estimates of expected losses are not relevant for the equity pricing of

[1] Dugan (2009); Financial Stability Forum (2009); Bernanke (2009); G20 (2009); Basel Committee on Banking Supervision [BCBS] (2011, 2021); FASB (2016); Bischof, Laux, and Leuz (2021).

smaller U.S. banks, i.e., those with less than $10 billion in assets (Wheeler 2021). With respect to the IFRS 9 standard, López-Espinosa et al. (2021) note that they "expect that the effect of IFRS 9 is stronger among [systematically important banks], if not unique to these banks." Our first research question explores whether CECL allowances are decision-useful for both large and small banks.

Second, prior research raises questions about whether CECL would produce new information that investors could not already derive under the IL model. For example, prior research finds that investors and analysts were informed about expected credit losses that were not reflected by the accounting system under the IL regime (e.g., Wheeler 2021; Beatty and Liao 2021). This is particularly true for larger banks, which are generally viewed to have a more robust information environment. Banks with at least $10 billion in total assets had historically been subject to stress testing by banking regulators (Schmidt 2024), which might reveal information about expected credit losses similar to that provided by CECL (e.g., the disclosure of banks' anticipated credit losses under various stress scenarios). For such large banks, CECL allowances may be decision-useful but not provide new information for investors, which would be consistent with the finding of Wheeler (2021) that the pricing of researcher-constructed expected losses is more pronounced among larger banks after the Dodd-Frank Act stress testing. This leads to our second research question, which is whether CECL allowances provide investors with new information and if this differs for smaller versus larger banks.

Third, the significant differences between IFRS 9 and CECL raise questions about whether credit losses expected to emerge beyond one year are relevant to investors. While CECL requires the recognition of lifetime expected credit losses for all loans, IFRS 9 requires only the recognition of losses expected in the next 12 months for stage-1 assets (i.e., those with low credit risk or

without a significant increase in credit risk since loan origination). Since the vast majority of loans are classified as stage 1 under IFRS 9, this represents a significant difference between CECL and IFRS 9.[2] Losses expected to emerge after one year (hereafter referred to as "later-emerging credit losses") may not be relevant for investors, given the difficulty of forecasting so far ahead (Bonsall, Schmidt, and Xie 2025). Consistent with this concern, a group of U.S. banks submitted a comment letter to the FASB proposing an alternative approach where losses expected within the next year would be recognized in income and the remainder of lifetime losses would be recognized in other comprehensive income.[3] Despite recognizing this theoretical tradeoff, empirical studies on researcher-constructed expected credit losses do not discriminate between losses with different emergence periods. Thus, our third research question examines whether estimates of later-emerging credit losses under CECL are relevant to investors.

Finally, we examine whether separately reporting incurred and expected future credit loss amounts would have relatively more information content than reporting a single CECL allowance amount. The prior literature on researcher-constructed estimates of expected credit losses examines a time when incurred losses are observable. However, CECL replaces IL allowances with CECL allowances, meaning incurred and future expected credit losses are not separately observable. Our fourth research question investigates whether reporting CECL allowances as a single amount is less useful than the separate reporting of IL allowances and incremental CECL allowances.

[2] This is consistent with the observations of the CFA Institute, who reiterated it was "disappointed by the FASB and IASB's decision to develop different accounting models" (CFA 2019) and López-Espinosa et al. (2021), who note that CECL and IFRS 9 implementation likely could differ due to "the significant differences between the two standards" (p. 761).

[3] The comment letter can be found here: https://fasb.org/page/ShowPdf?path=AR-2018.UNS.021.FINANCIAL%20INSTITUTIONS%20SEE%20LISTED,0.pdf

Our research design leverages a powerful setting for examining our four research questions. For a set of 200 publicly listed U.S. banks required to adopt CECL for fiscal years beginning after December 15, 2019, we gather credit loss allowances under both the IL and CECL standards for the same bank at the same time. Specifically, we identify the amount of expected credit losses incremental to the IL allowance that banks recognized to comply with the new standard on day one (hereafter, "the CECL day-1 impact"). Our design uniquely allows us to isolate allowance differences between the IL and CECL regimes and hold constant all other differences across banks (i.e., bank, time, and bank × time differences).

First, we examine the decision-usefulness of CECL allowances across bank size. We find that, after controlling for IL allowances, CECL allowances incrementally predict future loan losses, measured as future cumulative net charge-offs, and equity prices (Wheeler 2021) for both community banks (i.e., less than $10 billion in total assets) and larger banks. These findings are inconsistent with concerns raised by bank trade groups and contrast with existing evidence documented in the academic literature, both of which suggest that CECL allowances may not be decision-useful for investors of smaller banks. Instead, our evidence suggests that credit loss information under CECL is relevant for both large banks and smaller community banks.

Second, we investigate (1) whether CECL allowances provide new information to investors or merely confirm expectations investors could form using available information prior to CECL (e.g., Wheeler 2021), and (2) if this differs for larger versus smaller banks. Specifically, we examine how investors respond to changes in estimated CECL day-1 impacts disclosed by banks leading up to CECL adoption, as required by SEC Staff Accounting Bulletin No. 74 (SAB 74). If investors fully anticipate expected credit losses independent of CECL, we would not expect investors to respond to changes in banks' estimated CECL day-1 impacts. We find statistically

significant stock market reactions to CECL day-1 impact forecast revisions, on average, consistent with investors perceiving increases (decreases) in banks' estimated CECL day-1 impacts as bad (good) news not previously impounded into stock prices. However, we find that CECL allowances provide new information *only for community banks*. This is consistent with investors in larger banks having sufficient information to estimate future credit losses in the IL regime, but CECL providing new information for investors in smaller banks.

Third, we analyze the decision-usefulness of CECL allowances across the expected credit loss emergence period. We exploit the fact that real estate loans have longer durations than other loan types. Therefore, to identify expected credit losses that relate to a longer loss emergence period, we use (1) U.S. banks with a relatively high proportion of real estate loans and (2) day-1 impacts specifically attributable to real estate loans. After controlling for IL allowances, we find that CECL allowances relating to a longer loss emergence period are relevant for investors. A potential implication of these findings is that IFRS 9 may omit relevant expected credit loss information by not recognizing losses expected to emerge beyond one year.[4] Furthermore, researchers should be cautious in drawing inferences about CECL based on IFRS 9 evidence. Our findings echo López-Espinosa et al. (2021), who state that "…difference[s] between IFRS 9 and CECL could have nontrivial implications."

Finally, we explore whether separately reporting incurred and expected future losses (i.e., presenting IL allowances and CECL day-1 impacts separately) has relatively more information content than reporting a single CECL allowance amount. We find that separate reporting has more explanatory power for future loan losses and equity prices than a single CECL allowance amount. Subsequent analyses reveal that CECL day-1 impacts and IL allowances have statistically different

[4] We note that it is not possible to examine this question with a sample of banks applying IFRS 9, since we are interested in examining expected credit losses *omitted* under that standard.

relationships with future loan losses, with this difference generally being larger as we extend the horizon over which loan losses are measured. These results suggest that decision-useful information is lost when IL allowances are replaced by total CECL allowances, rather than separately reporting the IL losses, which are incurred, and the expected future credit losses.

Our study makes three contributions. First, our examination of CECL contributes to the academic literature on expected credit losses. Our results indicate that CECL allowances are decision-useful for larger and smaller banks alike, but that they provide *new* information only for smaller banks. This stands in contrast to the findings and assumptions in prior literature, which suggest that researcher-constructed expected losses are not relevant for the pricing of smaller U.S. banks (Wheeler 2021) and that credit loss information under IFRS 9 is expected to be decision-useful only for larger banks (López-Espinosa et al. 2021). Additionally, we show that credit losses expected to emerge beyond one year are decision-useful for investors, demonstrating that differences between CECL and IFRS 9 are nontrivial. Finally, we extend prior research by examining relative information content. We find that CECL allowances provide relatively more information content than IL allowances, but relatively less information than a regime that reports incurred losses and expected future credit losses separately. Such evidence could not be provided in prior research due to the lack of CECL allowances.

Second, we contribute to the academic literature on accounting standard setting. A large body of research has examined the implementation and consequences of specific, major accounting standards.[5] Our findings suggest that CECL allowances contain new, decision-useful information,

[5] For example, researchers have specifically examined: SFAS 131 related to segment reporting requirements (e.g., Berger and Hann 2003; Botosan and Stanford 2005; Durney, Gee, and Wiebe 2024), SFAS 123 and 123R related to stock compensation expense (e.g., Aboody, Barth, and Kasznik 2004, 2006; Choudhary, Rajgopal, and Venkatachalam 2009; Barth, Gow, and Taylor 2012), and SFAS 161 requiring new disclosures about derivatives and hedging (e.g., Chen, Dou, and Zou 2021). See Section 2 for a discussion of the literature on credit loss recognition.

especially for smaller banks, whose information environments are generally considered to be less robust compared to larger banks. Additionally, we highlight the implications of differing decisions made by different standard setters. By demonstrating that later-emerging credit losses are decision-useful for investors, we provide evidence that IFRS 9 may omit relevant credit loss information that is recognized under CECL.

Third, our study has policy implications for standard setters. Our findings are consistent with CECL "provid[ing] financial statement users with more decision-useful information about the expected credit losses" relative to IL allowances, which was the FASB's stated goal (FASB 2016). We find, however, that the separate reporting of incurred losses and expected future losses is more informative than the reporting of a single total CECL allowance, which is consistent with incurred losses and expected future losses representing distinct components of credit loss estimates. Our evidence also suggests that expected credit loss information is relevant regardless of bank size. This offers support for the FASB's decision to require community banks to adopt CECL, despite requests to exempt them (ICBA 2013).

2. Background

2.1. Institutional Details about CECL and IL Models

Prior to CECL, accounting for credit losses followed ASC 450-20 (formerly SFAS 5) for loans not individually identified as impaired and ASC 310-10-35 (formerly SFAS 114) for loans individually identified as impaired. Most credit losses were covered by ASC 450-20 and treated as loss contingencies, wherein credit losses were recognized only when "probable" and "reasonably estimable." These pre-CECL accounting treatments are commonly referred to as the "incurred loss" (IL) model. Financial statement users criticized the IL model because it (1) delayed recognition of credit losses that were expected but did not meet the threshold of being "probable,"

and (2) led to difficult comparisons of losses across entities due to diversity in entities' determination of "probable" (FASB 2016, para. BC3–BC7).

ASU 2016-13 "Measurement of Credit Losses on Financial Instruments" (FASB 2016) removes the "probable" threshold and requires banks to estimate and record a reserve for lifetime expected credit losses on loans at the time of loan origination. CECL applies principally to financial instruments measured at amortized cost, including loans held for investment, held-to-maturity (HTM) debt securities, purchased credit-deteriorated (PCD) assets, and trade receivables, as well as off-balance-sheet credit exposures (e.g., unfunded loan commitments). Because loans are the most significant financial instrument class for most banks, the largest economic impact of CECL is on banks' loans held for investment. While the IL model generally only required loan loss estimates to be based on past events and current conditions, CECL requires consideration of reasonable and supportable forecasts of factors that could affect the collectability of the reported amount (FASB 2016, p. 3). Banks are required to record a cumulative-effect "day-1" adjustment to credit loss allowances and retained earnings as of the beginning of the first reporting period in which CECL becomes effective.

2.2. Prior Literature on Expected Credit Losses

2.2.1 Researcher-Constructed Estimates of Expected Credit Losses

A stream of recent studies develops empirical models to estimate expected credit losses using publicly available data under the IL regime and concludes that loan loss allowances under these researcher-constructed expected loss models are more informative than those under IL models. Covas and Nelson (2018) estimate expected losses using a vector autoregression methodology to forecast lifetime charge-off rates. Harris, Khan, and Nissim (2018) develop a measure of the one-year-ahead expected rate of credit losses that contains incremental information about one-year-ahead realized credit losses relative to the IL model. Lu and Nikolaev (2022)

develop an empirical model that predicts long-term loan losses and incorporates adjustments for macroeconomic forecasts. Wheeler (2021) develops a measure of lifetime expected credit losses using vintage analysis and finds that stock prices partially reflect this estimated unrecognized expected loss information.[6] These studies offered ex ante perspectives on CECL's potential usefulness to investors, but they did not examine amounts recognized under CECL, which could differ from estimates constructed by researchers in different time periods. Furthermore, these studies do not examine whether CECL allowances provide new information, if the relevance of CECL allowances varies based on bank size and the loss emergence period, or whether separately reporting IL and CECL amounts provides more information than reporting a single CECL amount; we build on these prior studies by investigating these unanswered questions.

2.2.2 Research Examining IFRS 9 Implementation

More recent studies examine the impact of IFRS 9, a standard issued by the IASB that also uses an expected credit losses approach. Most relevant to our study is that of López-Espinosa et al. (2021), who examine a sample of large, systemically important non-U.S. banks and find that credit loss provision amounts under IFRS 9 are more predictive of future bank risk than IL provisions, especially in countries experiencing deterioration in credit conditions, with the stock market and the CDS market reacting to disclosures of the day-1 impact of IFRS 9.[7] While both CECL and IFRS 9 use expected credit losses, the standards differ significantly on when and how expected credit losses are recognized. IFRS 9 categorizes financial assets into three "stages" based

[6] Relatedly, Beatty and Liao (2021) examine analyst forecasts of loan loss provisions as a proxy for expected credit loss estimates of informed market participants. They find that these forecasts are incrementally predictive of expected losses (using measures from Harris et al. 2018 and Wheeler 2021) and actual future losses beyond IL provisions, especially for banks facing greater IL model constraints.

[7] The impact of IFRS 9 is also studied by Lejard, Paget-Blanc, and Casta (2021), who find IFRS 9 leads to less comparable information regarding the allowance for loan losses across banks, and Onali, Ginesti, Cardillo, and Torluccio (2024), who find positive market reactions around various IFRS 9 adoption events.

on their credit quality and applies different credit loss recognition criteria to each stage.[8] Specifically, for loans that represent most of a typical bank's assets (i.e., stage-1 assets), IFRS 9 requires recognition of only the portion of lifetime credit losses expected within the next 12 months (i.e., 12-month expected credit losses). In contrast, CECL requires recognition of the entire amount of lifetime expected credit losses for all loans upon origination.

The substantive differences between the two standards are highlighted in comment letters submitted to the FASB by organizations that represent investors. For example, the CFA Institute expressed concerns that "the difference in the approaches proposed by the FASB and the IASB are likely to produce substantially different credit impairment and interest income recognition patterns over the life of a financial instrument" (CFA 2013). After adoption, the CFA Institute reiterated that it was "disappointed by the FASB and IASB's decision to develop different accounting models" (CFA 2019). Furthermore, López-Espinosa et al. (2021, p. 761) call for research about the specific implementation effects of CECL, noting, "…it is also plausible that the effect of implementing the ECL in the United States differs from that of implementing IFRS 9 in other countries. The difference could be driven not only by the significant differences between the two standards, but also by the unique institutional characteristics of the United States." Our examination of CECL's decision usefulness across the loss emergence period is partly motivated by the noted differences between IFRS 9 and CECL.

2.2.3 Research Examining CECL Implementation

Among the concurrent papers that examine the consequences of CECL implementation in the U.S., Chen, Dou, Ryan, and Zou (2025) find that banks that adopted CECL prior to the COVID-

[8] Stage-1 assets include those with a low credit risk at the reporting date or without a significant increase in credit risk since initial recognition. Stage-2 assets include underperforming financial assets which exhibit a significant increase in credit risk since initial recognition. Stage-3 assets are those in which credit risk increases to a point where it is considered credit-impaired.

19 pandemic reduced loan growth during the accompanying recession more than other banks, and the effect is stronger for CECL adopters with low regulatory capital and weaker for adopters with low heterogeneous loans or large initial CECL adoption impacts. Kim, Kim, Kleymenova, and Li (2023) find that CECL-adopting banks have loan loss provisions that are timelier and better reflect future local economic conditions, have fewer loan defaults, disclose more forward-looking information, and have lending that becomes less sensitive to economic uncertainty after adopting CECL. They conclude that adopting a more forward-looking accounting standard improved the quality of banks' internal information production. Bable, Wong, and Wynes (2023) find that analysts express generally negative perceptions about CECL. Bonsall et al. (2025) find that CECL adoption is associated with a decrease in information content of earnings announcements and analyst LLP forecasts, and an increase in the informativeness of 10-K/Q filings, after CECL is adopted.

Our study differs from these papers in two main aspects. First, our specific research questions are outside the scope of these papers. In particular, these studies do not examine whether CECL allowances provide *new* information to investors, how the decision-usefulness of CECL allowances differs based on bank size and the expected loss emergence period, nor whether separately reporting IL and CECL amounts provides more information than reporting a single CECL amount.

Second, we focus on day-1 CECL implementation, which allows us to compare contemporaneous IL and CECL allowances for the same bank at the same time for our analyses and thereby effectively eliminate bank differences or time differences as alternative explanations for our results. Concurrent studies examining the impacts of CECL, along with López-Espinosa et al. (2021), generally utilize a difference-in-differences design. Using such a design to study CECL

has important limitations because (1) adopting banks are larger than non-adopting banks, (2) CECL adoption coincides with the onset of the COVID-19 pandemic, and (3) market effects or banks' responses to the COVID-19 pandemic could differ based on bank size, confounding identification of the effects of CECL adoption. Our identification strategy uniquely avoids the limitation of the difference-in-differences design, with a tradeoff that we are unable to examine the decision-usefulness of CECL allowances in quarters after day-1 adoption, a period in which banks do not simultaneously provide both IL and CECL allowances.

3. Research Design, Sample Selection, and Descriptive Statistics

3.1. Research Design

3.1.1. The Decision-Usefulness of CECL Information Across Bank Size

We first examine how the ability of CECL allowances to predict future credit losses differs across bank size. Prior research examines how credit loss reserves in the IL regime predict future credit losses by examining the behavior of banks' quarterly or annual loan loss provision, i.e., the changes in their allowances (Beatty and Liao 2011, 2014; Bushman and Williams 2012, 2015; Nicoletti 2018). We deviate from this design because CECL and IL provisions are not observable contemporaneously; after adopting CECL, banks do not disclose the IL allowances or provisions, and prior to adopting CECL, banks do not disclose the CECL allowances or provisions. Contemporaneous accounting numbers under both the CECL and IL models are available only on day one of CECL adoption in the form of the IL *allowance* and the CECL day-1 *impact* on allowances. Thus, we examine the extent to which CECL and IL allowances on the adoption date predict future credit losses. Following Wheeler (2021), we use future net charge-offs to proxy for future credit losses.

We separately estimate the following equation for CECL adopters above versus below $10 billion in total assets using OLS:[9]

$$\sum\left(\frac{NCO_i}{Assets_i}\right)_{t+1:16} = \alpha_0 + \alpha_1\frac{CECL\_Impact_i}{Assets_i} + \alpha_2\frac{IL\_Allowance_i}{Assets_i} + \alpha_3\frac{RELoans_i}{Assets_i} + \alpha_4\frac{ConsLoans_i}{Assets_i} + \alpha_5\frac{RateSensitive_i}{Assets_i} + \alpha_6\frac{NIBP_i}{Assets_i} + \varepsilon_i \quad (1)$$

where subscript *i* indexes banks. The dependent variable is net charge-offs scaled by total assets cumulated over the future 16 quarters ($\Sigma(\frac{NCO}{Assets})_{t+1:16}$). *CECL_Impact* is the CECL day-1 impact, scaled by total assets as of the adoption date. *IL_Allowance* is the allowance for credit losses under the IL model, scaled by total assets as of the adoption date. We include several variables representing the bank's asset composition and business model, including real estate loans scaled by total assets ($\frac{RELoans}{Assets}$), consumer loans scaled by total assets($\frac{ConsLoans}{Assets}$), and rate-sensitive assets maturing within one year scaled by total assets ($\frac{RateSensitive}{Assets}$). We also control for net income before taxes and credit loss provisions scaled by total assets ($\frac{NIBP}{Assets}$), which reflects overall financial performance. We winsorize all variables at the 1st and 99th percentiles and cluster standard errors by bank to address heteroskedasticity. A significantly positive coefficient on *CECL_Impact* implies that CECL allowances have incremental information content beyond IL allowances in predicting future loan losses.

We next examine whether CECL day-1 impacts are consistent with the information investors use when valuing bank stocks, and whether this differs across bank size. Specifically, we estimate the following equation for CECL adopters above versus below $10 billion in total assets on their adoption date using OLS:

$$Price_i = \alpha_0 + \alpha_1\frac{CECL\_Impact_i}{Shares_i} + \alpha_2\frac{IL\_Allowance_i}{Shares_i} + \alpha_3\frac{BVE\_Adjusted_i}{Shares_i} + \alpha_4\frac{RELoans_i}{Shares_i}$$

[9] $10 billion in total assets represents the Federal Reserve's cutoff for defining community banks (https://www.federalreserve.gov/supervisionreg/community-and-regional-financial-institutions.htm).

$$+ \alpha_5 \frac{ConsLoans_i}{Shares_i} + \alpha_6 \frac{RateSensitive_i}{Shares_i} + \alpha_7 \frac{NIBP_i}{Shares_i} + \alpha_8 \frac{NPL_i}{Shares_i} + \varepsilon_i \quad (2)$$

where subscript *i* indexes banks. The dependent variable is stock price. We measure stock price two quarters after the CECL adoption date (so the bank's first Form 10-Q filing after CECL adoption is available to investors).[10] *CECL_Impact* and *IL_Allowance* are as defined previously. *BVE_Adjusted* is the book value of equity before the IL allowance and is prior to any recognition of the CECL day-1 impact. We include several variables representing the bank's business model and loan composition, including *RELoans*, *ConsLoans*, *RateSensitive*, as well as *NIBP* and nonperforming loans (*NPL*), which reflect overall financial performance and information about underlying loan quality that is available to investors both before and after CECL. Following Barth and Clinch (2009), we deflate all variables by common shares outstanding (*Shares*).

Consistent with prior research (e.g., McInnis, Yu, and Yust 2018; Barth, Li, and McClure 2023), we measure value relevance based on the explanatory power of accounting information for equity values. A significantly negative coefficient on *CECL_Impact* implies that CECL allowances have incremental information content beyond IL allowances in explaining equity values.

3.1.2. Are CECL Allowances New Information for Investors?

Next, we address whether CECL allowance information is new to investors, or whether it merely confirms their expectations (consistent with investors incorporating expected loan loss information before CECL adoption, e.g., Wheeler 2021). We address this question by examining investor responses to banks' SAB 74 disclosures of their estimated CECL day-1 impacts leading up to adoption. While this CECL day-1 impact is officially reported in the first Form 10-Q filed after CECL adoption, entities provide information about the CECL day-1 impact earlier, as required by SAB 74. SAB 74 requires entities to disclose a new standard's anticipated impact on

[10] We find CECL day-1 impacts are incrementally predictive of price when measured at fiscal year-end (untabulated).

the company's financial statements.[11] The SEC paid special attention to enforcing SAB 74 disclosures relating to CECL, urging banks to "not let their implementation planning or disclosure of the anticipated effects of [CECL] lag during 2019."[12]

A well-specified test of investor response to information requires a measure of investors' expectations, as investors should only respond to unexpected CECL day-1 impacts. We hand collect banks' SAB-74 disclosures of their expected CECL day-1 impact estimates from their 10-K/Q filings and focus on *revisions* to their estimated CECL day-1 impacts. If investors learn new information from banks' revisions of their estimated CECL day-1 impacts, then we should observe significant investor responses to them.

We use an event study design around banks' quarterly earnings announcements and periodic filing cycles. Specifically, we examine how abnormal stock market returns are associated with banks' revisions to their expected CECL day-1 impact estimates using the following regression:

$$Return\_SAB74_{i,t} = \alpha_0 + \alpha_1 \Delta SAB74\_Estimate/MVE + \Sigma\alpha_k Controls_{i,t} + \Sigma\alpha_t FE_t + \varepsilon_{i,t} \quad (3)$$

where *Return_SAB74* is market-adjusted abnormal return, calculated as the bank's daily return minus the daily value-weighted market return, cumulated using a buy-and-hold (B&H) or cumulative (CAR) approach. We use two alternative event windows for this test. First, we use the window from the earnings announcement day through one day after the bank's 10-K/Q filing.[13] We use this event window because although banks disclose their estimated CECL day-1 impacts in their 10-K/Q filing, they could have disclosed the information earlier via other disclosure

[11] https://www.sec.gov/interps/account/sabcodet11.htm#M
[12] https://www.sec.gov/news/speech/speech-bricker-121018-1
[13] We use different approaches to cumulating the return because the length of the event window varies for each observation depending on the time lag between the earnings announcement and the 10-K/Q filing, and cumulative (buy-and-hold) returns are customary for shorter (longer) windows.

mediums (e.g., earnings conference calls); while we do not know precisely when the information was disclosed, our event window captures investors' response to any disclosure made between the earnings announcement day and the 10-K/Q filing date. Second, we manually read each bank's earnings announcement 8-K filing in EDGAR to determine whether the bank disclosed a SAB 74 estimate. For the subsample of banks where we identify a SAB 74 estimate during the earnings announcement (66% of the sample), we use the two-day window [t0, t+1] relative to the earnings announcement date. *ΔSAB74_Estimate/MVE* is the change in a bank's estimated CECL day-1 impact, scaled by the market value of equity.

The vector *Controls* includes control variables intended to capture the banks' general liquidity and information environment, the impact of unexpected earnings for that quarterly reporting cycle (*UE*), and properties of the estimated CECL day-1 impact. We include the natural log of one plus the number of analysts following the firm (ln(1+*Analysts*)); the natural log of the market value of equity (ln(*MVE*)); the market-to-book ratio (*Market-to-Book*); the cumulative bank stock return starting 50 trading days before the earnings announcement until five days before the announcement (*Pre-EA Return*); analyst earnings forecast error scaled by stock price (*UE*); and an indicator for point forecasts (*Point*), which takes a value of 0 for a range forecast (in which case we take the mean of the high and low ends of the range estimate for purposes of constructing *SAB74_Estimate*). We also include each quarter's loan loss provision (*Provision/MVE*) as a control for other loan loss information released concurrently with the CECL day-1 impact information.

We estimate equation 3 for our full sample and separately for banks above versus below $10 billion in total assets. We winsorize all continuous variables at the 1st and 99th percentiles, and cluster standard errors by bank to account for banks with multiple estimated day-1 impact revisions.

3.1.3. The Decision-Usefulness of CECL Information Across the Loss Emergence Period

Our third set of tests examines whether the decision-usefulness of CECL allowance information differs across the expected loss emergence period. These tests are motivated by differences between CECL and IFRS 9. For loans with a low credit risk at the reporting date or without a significant increase in credit risk since initial recognition (i.e., stage-1 loans), IFRS 9 recognizes only credit losses expected to occur within the next 12 months and omits credit losses expected beyond 12 months. In contrast, CECL recognizes lifetime expected credit losses for such loans. Despite our earlier evidence on the relevance of CECL allowances, estimates of later-emerging credit losses might be too inaccurate to be relevant, such that the relevance of CECL could primarily come from losses expected only over the very near term.

To understand the potential relevance of credit losses expected beyond the next 12 months for stage-1 loans, we cannot use banks reporting under IFRS 9 because the standard does not require recognition of such losses; thus, our question requires the examination of banks reporting under CECL. Among banks adopting CECL, we would ideally isolate the precise portion of banks' CECL day-1 impacts representing losses expected to emerge beyond the next 12 months for loans classified as stage-1 under IFRS 9. This approach is not possible, however, because banks do not disaggregate CECL day-1 impacts based on the loss emergence period.

We, therefore, attempt two complementary approaches that provide the next best alternatives to investigate our question. First, we identify a set of banks with a high proportion of loans meeting two criteria: (1) the loans have a long duration and (2) the loans would likely be classified as stage-1 under IFRS 9. We use real estate loans—comprised mainly of residential and commercial real estate mortgage loans—to proxy for long-duration loans because mortgages typically have longer durations than non-real-estate loans (e.g., auto loans and commercial and

industrial loans).[14] We approximate stage-1 real estate loans as total real estate loans minus the sum of real estate loans more than 30 days past due and nonaccrual real estate loans. For a bank with a high proportion of such loans, we expect a substantial portion of its CECL day-1 impact to reflect expected credit losses beyond the next 12 months, which would be omitted under IFRS 9 but are recognized under CECL. We partition our sample of banks based on the sample median; 81.0 (48.3) of the above-median (below-median) banks' loans are identified as real estate loans that would likely be classified as stage 1 under IFRS 9. For a bank with a longer estimated loss emergence period, evidence that CECL day-1 impacts are decision-useful would be consistent with IFRS 9 potentially omitting relevant expected credit loss information. We estimate equations 1 and 2 for each of the two subsamples to understand the extent to which CECL day-1 impacts provide decision-useful information for each set of banks.

Second, most banks in our sample disclose the day-1 impact by loan type. We hand-collect these disclosures from the banks' initial 10-Q filings following CECL adoption. In particular, similar to the test described above, we are interested in the day-1 impact for real estate loans, since these loans have a longer duration than other loan types. We estimate equations 1 and 2 but replace the day-1 impact variable with the day-1 impact from real estate loans (*RE_CECL_Impact*) and from non-real estate loans (*NonRE_CECL_Impact*).

3.1.4. The Decision-Usefulness of Separate Reporting Versus Reporting Single CECL Amount

Our final set of analyses examines whether separately reporting IL and CECL allowance amounts has relatively more information content than reporting a single CECL allowance amount. It is important to distinguish between incremental and relative information content (Biddle, Seow,

[14] For example, among our sample banks are TFS Financial Corporation (nearly 100% real estate loans) and American Express (0% real estate loans); in their 2019 10-Ks, the former discloses that 82% of its loans mature beyond 10 years, while the latter discloses that 0.2% of its loans mature beyond 5 years.

and Siegel 1995) in the context of CECL because standard setters replaced the IL model, rather than supplementing it with incremental expected credit loss information. To examine this issue, we estimate equations 1 and 2, which include *IL_Allowance* and *CECL_Impact* separately, and compare the explanatory power of the model to one that replaces these two variables with *CECL_Allowance*, defined as *IL_Allowance* plus *CECL_Impact*. To compare the explanatory power of the two models, we use the Clarke (2003; 2007) test.[15]

3.2 Sample Selection

An entity's required CECL adoption date depended on whether the entity was considered a smaller reporting company (SRC) by the SEC.[16] Non-SRCs were required to adopt CECL in fiscal years beginning after December 15, 2019, while SRCs were required to adopt CECL for fiscal years beginning after December 15, 2022. We focus our study on non-SRCs, the first adopters of CECL, such that our sample comprises banks required to adopt CECL between January 1, 2020 and January 1, 2021.[17]

Table 1 presents the sample selection procedure. We begin with all publicly traded U.S. banks (identified using SIC codes 6000–6299) available on S&P Capital IQ Pro ("SPCIQ," formerly SNL Financial) with a credit loss allowance balance and coverage in CRSP as of December 31, 2019, yielding 402 banks. Removing banks not adopting CECL yields 212 banks. For the analyses on the decision-usefulness of the CECL day-1 impact (as described in Sections

[15] Given two non-nested models, the Clarke test determines whether a significantly greater number of observations have lower unexplained variation based on one model or the other. Clarke (2007) finds that this nonparametric test is more powerful in choosing the model with better explanatory power than the Vuong (1989) test, and the Clarke test has been used in recent accounting research (e.g., Barth et al. 2012; Campbell, Gee, and Wiebe 2022).

[16] SRCs are companies that have (i) public float of less than $250 million or (ii) annual revenues less than $100 million and either no public float or public float less than $700 million (https://www.sec.gov/smallbusiness/goingpublic/SRC).

[17] Non-SRCs were afforded an option to delay adoption under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, passed on March 25, 2020, and the Consolidated Appropriations Act (2021), signed into law on December 27, 2020. We identify 31 banks in our sample who delayed their CECL adoption until on January 1, 2021. Our main results are similar if we remove these later adopters from our sample.

3.1.1, 3.1.3, and 3.1.4), we classify banks with non-missing CECL day-1 impacts (*CECL_Impact*) data in SPCIQ as CECL adopters.[18] After dropping banks without the necessary bank-level variables from the "Companies" dataset in SPCIQ, we arrive at our final samples for the value relevance (future credit losses) analyses of 200 (174) publicly traded banks that adopted CECL between January 1, 2020 and January 1, 2021.

For the SAB 74 investor response analyses, we begin by hand-collecting SAB 74 estimated CECL day-1 impacts for the 212 CECL-adopting banks described above. We drop 37 banks that did not have at least two consecutive quarters of interpretable estimates (two quarters are required to first establish a baseline for a subsequent revision to investor expectations). We then drop 17 banks with missing data for the variables required in the regression, leaving 158 banks, from which we have 244 quarterly observations.

3.3. Descriptive Statistics

The descriptive statistics for variables used in the decision-usefulness analyses are presented in Panel A, Table 2. The average CECL day-1 impact on credit loss reserves is approximately 0.2% of total assets ($\frac{CECL\_Impact}{Assets}$); for comparison, the average allowance for loan and lease losses under the IL model is approximately 0.7% of total assets ($\frac{IL\_Allowance}{Assets}$). Thus, for the average bank, day-1 adoption of CECL increased its credit loss allowance by close to 30%. For nearly 90% of the 200 sample banks, the CECL day-1 impact on allowances was positive (i.e., CECL adoption increased credit loss reserves for all but a small minority of sample banks).

[18] Day-1 impact variables are obtained from the "Regulated Depositories (U.S.)" dataset in SPCIQ. When CECL day-1 impacts in SPCIQ are 0, we hand-collect day-1 impact data from regulatory filings (i.e., FR Y-9C reports and call reports) and SEC filings (i.e., 10-Qs) to confirm banks' adoption of CECL and day-1 impact amounts. We also hand-collect day-1 impact data for non-SRCs (i.e., banks required to adopt CECL) with missing CECL day-1 impacts in SPCIQ, because it is unclear whether these banks have adopted CECL or delayed adoption.

The descriptive statistics for variables used in the SAB 74 investor response analysis are presented in Panel B, Table 2. The average investor response is negative and the average SAB 74 disclosure revises the bank's estimated CECL day-1 impact upward (i.e., larger expected credit losses). The mean of *Pre-EA Return* is -0.221, which is largely attributable to significant declines in bank valuations during the latter part of Q1 2020.

4. Results

4.1. The Decision-Usefulness of CECL Information Across Bank Size

Table 3 presents the results of estimating equation 1 separately for larger banks (column 1) and smaller banks (column 2). In both columns, the coefficient on $\frac{CECL\_Impact}{Assets}$ is significantly positive. These results indicate that, for both sets of banks, CECL day-1 impacts incrementally predict future loan losses beyond IL allowances. Table 4 presents the results of estimating equation 2 separately for larger banks (column 1) and smaller banks (column 2). The significant coefficient on $\frac{CECL\_Impact}{Shares}$ in both columns indicates that, for both sets of banks, CECL day-1 impacts provide incremental information to investors beyond IL allowances. The evidence in Tables 3 and 4 indicates CECL allowances are decision-useful for both large and small banks, in contrast to concerns expressed by community banks during the development of CECL (ICBA 2013).

4.2. Are CECL Allowances New Information for Investors?

Figure 1 illustrates the timing of revisions to banks' SAB 74 CECL estimates in the quarters leading up to adoption; revisions are more frequent as CECL adoption approaches. Table 5, Panel A reports the OLS estimation of equation 3, which examines investor response to banks' revisions of estimated CECL day-1 impacts. Columns 1 and 2 report the results using the full sample of banks using the longer-window return variables. Columns 3 and 4 report the results using the subsample of banks disclosing a SAB 74 estimate during the earnings announcement, and thus use

the shorter-window return variables. *Return_SAB74* is measured as buy-and-hold abnormal return (cumulative abnormal return) in columns 1 and 3 (2 and 4). The coefficient on *ΔSAB74_Estimate/MVE* is negative and significant in all four columns, which suggests that investors perceive an increase (decrease) in banks' estimated CECL day-1 impacts as bad (good) news. This is consistent with CECL providing new information to investors; if investors already knew expected credit loss information independently from CECL, we would not expect a market reaction to revisions.

While we interpret our results as CECL providing new information about expected credit losses to investors, it is possible that the market response is related to other (i.e., non-SAB 74) information about expected credit losses released contemporaneously in earnings announcements or periodic (i.e., 10-K/Q) filings. Any such information could confound our inferences only if it exhibits a similar signed relation with returns as does our *ΔSAB74_Estimate/MVE* variable. In untabulated analyses, we supplement equation 3 with a control related to analysts' loan loss provision forecasts, which Beatty and Liao (2021) find reflect information about expected credit losses and which we use to represent potential non-SAB 74 information. Inferences under this approach are identical to those in Panel A of Table 5, i.e., the coefficients on *ΔSAB74_Estimate/MVE* remain significantly negative. This finding offers additional evidence consistent with CECL providing new information about expected credit losses for investors.[19]

Figure 1 indicates that many day-1 impact revisions are disclosed in Forms 10-K for Q4 2019 and Forms 10-Q for Q1 2020. Both forms were filed in 2020, potentially after banks knew of COVID-19's onset. Thus, some of the market responses that we document in Table 5 could be

[19] In subsequent tests, we find that CECL day-1 impacts are only new information for smaller banks. For other credit-loss information to explain our results, smaller banks would have to be more transparent with such information than larger banks.

attributed to banks "backdating" COVID-19 information into their estimated day-1 impacts. Such a practice by banks would not be in accordance with CECL implementation guidance because information after the CECL adoption date should be reflected in allowances in future periods instead of in the day-1 impact. If banks improperly backdated COVID-19 information, we would expect to see larger estimated day-1 impacts (i.e., larger increases in allowances) for revisions made in Forms 10-Q for Q4 2019 or Q1 2020. In untabulated analyses, we find that the average bank (1) reduced (rather than increased) its day-1 impact estimate in its 10-K filing for Q4 2019 and (2) maintained almost the exact same estimated magnitude in its 10-Q filing for Q1 2020. These findings are inconsistent with banks' day-1 impacts reflecting COVID-19 information.

Table 5, Panel B reports the OLS estimation of equation 3 separately for larger banks (columns 1 and 2) and smaller banks (column 3 and 4). We find a significantly negative coefficient on *ΔSAB74_Estimate/MVE* only for smaller banks, consistent with CECL day-1 impacts providing new information only for community banks (differences in coefficients across the samples are significant at the $p < 0.05$ level, untabulated).[20] Our results in Panel B of Table 5 imply that CECL allowances provide new information for investors when other relevant expected credit loss information is less available.

4.3. The Decision-Usefulness of CECL Information Across the Loss Emergence Period

Table 6 presents the results of estimating equation 1 separately for banks with a low versus high proportion of loans with a longer expected loss emergence period (columns 1 and 2, respectively) and for banks' day-1 impacts from real estate vs non-real estate loans (column 3). In columns 1 and 2, the significantly positive coefficients on $\frac{CECL\_Impact}{Assets}$ indicate that, regardless of

[20] Our finding does not address whether other information under CECL available after adoption, such as vintage disclosures, provide new information; our evidence is strictly related to credit loss allowances under CECL.

the expected loss emergence period, CECL day-1 impacts incrementally predict future loan losses beyond IL allowances. In column 3, the coefficient on $\frac{RE\_CECL\_Impact}{Assets}$ is also significantly positive, suggesting that the day-1 impacts from loans with longer loss emergence periods incrementally predict future loan losses compared to IL allowances, consistent with columns 1 and 2.

Table 7 presents the results of estimating equation 2 separately for banks with a low versus high proportion of loans with a longer expected loss emergence period (columns 1 and 2, respectively) and for banks' day-1 impacts from real estate vs non-real estate loans (column 3). In columns 1 and 2, the significantly negative coefficients on $\frac{CECL\_Impact}{Shares}$ indicate that, regardless of the expected loss emergence period, CECL day-1 impacts provide incremental information to investors beyond IL allowances. In column 3, the coefficient on $\frac{RE\_CECL\_Impact}{Shares}$ is also significantly negative, suggesting that the day-1 impacts from loans with longer loss emergence periods are incrementally value relevant compared to IL allowances, consistent with columns 1 and 2.

A potential implication of the findings in Tables 6 and 7 is that IFRS 9 may omit relevant expected credit loss information by not recognizing losses expected to emerge beyond one year. Furthermore, researchers should be cautious in drawing inferences about CECL based on IFRS 9 evidence.

4.4. The Decision-Usefulness of Separate Reporting Versus Reporting Single CECL Amount

Table 8, Panel A presents the results of estimating equation 1 using three different models, where the inclusion of the IL and CECL allowance variables is varied. As a benchmark, in column 1, only *IL_Allowance* is included in the model. Column 2 includes *IL_Allowance* and *CECL_Impact* as separate variables, whereas column 3 includes only *CECL_Allowance*. Comparing columns 1 and 3, we find that CECL allowances have relatively more information content than IL allowances. Specifically, CECL allowances better predict losses than IL

allowances for approximately 76 percent of banks (Clarke test p-value < 0.01). Comparing columns 2 and 3, we find that CECL allowances have relatively less information content than a reporting regime where incurred losses and expected future credit losses are presented separately. Specifically, separate reporting of credit losses better predicts future net charge-offs for approximately 60 percent of banks (Clarke test p-value < 0.01).[21]

One potential reason separate reporting, compared to reporting a single amount, better predicts future loan losses is that IL allowances and incremental CECL allowances could have different associations with future loan losses, particularly as they relate to the loss emergence period. To examine this, we re-estimate equation 1 but consider four different outcome variables: net charge-offs cumulated over the future (1) four, (2) eight, (3) twelve, and (4) sixteen quarters. We estimate these models in the seemingly unrelated regressions framework (Zellner 1962) and conduct two tests: whether the coefficients on *IL_Allowance* and *CECL_Impact* are statistically different and whether the difference between the two coefficients increases as we extend the horizon over which we measure loan losses.

These results are presented in Panel B of Table 8. In all four columns, we find that the coefficients on *IL_Allowance* and *CECL_Impact* are significantly different. Furthermore, the difference in the coefficients is generally larger when we measure loan losses over longer horizons (i.e., between eight and sixteen quarters in columns 2–4) compared to when we measure loan losses over a four-quarter horizon (column 1).[22] Taken together, the results in Panel B of Table 8 are

[21] In these and similar comparisons of relative explanatory power, we test the benefits of reporting separate credit loss amounts relative to reporting a single CECL allowance. Because both were feasible choices standard setters could have made, we do not penalize or adjust for differences in the number of variables between models.

[22] We note that the comparison of the differences between columns 1 and 4 is not statistically significant (p-value 0.194). This is likely attributable to lower power, as the estimated magnitude of the difference is in between those estimated in columns 2 and 3 (which are statistically different compared to column 1).

consistent with IL allowances and incremental CECL allowances having different associations with future loan losses, particularly as the loss emergence period is extended.

Table 9 presents the results of estimating equation 2 using three different models, analogous to those in Panel A of Table 8. Comparing columns 1 and 3, we find that CECL allowances have relatively more information content than IL allowances. Specifically, CECL allowances better predict price than IL allowances for approximately 77 percent of banks (Clarke test p-value < 0.01). Comparing columns 2 and 3, we find that CECL allowances have relatively less information content than a reporting regime where incurred losses and expected future credit losses are presented separately. Specifically, separate reporting of credit losses better predicts price for approximately 74 percent of banks (Clarke test p-value < 0.01).

Taken together, the results in Tables 8 and 9 suggest that decision-useful information is lost when IL allowances are replaced with CECL allowances, rather than separately reporting the two amounts. This is potentially due to the different information CECL day-1 impacts and IL allowances provide regarding the timing of future expected credit loss emergence.

5. Conclusion

Motivated by the significant debates surrounding the terms and implementation of CECL and IFRS 9, we examine four aspects of CECL that have not been addressed by the prior literature: whether (1) credit loss information under CECL is only decision-useful for larger banks, (2) CECL allowances provide new credit loss information, especially for larger banks, (3) credit losses expected to emerge beyond one year are relevant for investors, and (4) separately reporting IL and CECL allowance amounts would have relatively more information content than reporting a single CECL allowance amount.

We document four novel findings. First, contrary to criticisms raised by community banks and the expectations of the prior literature, we document that CECL provides decision-useful information regardless of bank size. Second, we show that CECL allowances provide new information to investors, suggesting that CECL does not merely confirm investor expectations. Furthermore, CECL only provides new information for smaller banks, suggesting that the market reacts to CECL allowance information only when other information about expected credit losses is less available. Third, we find that CECL allowances are decision-useful regardless of the expected loss emergence period, which suggests that IFRS 9's divergence from CECL may omit relevant information from credit loss allowances, highlighting the important differences between the two standards. Fourth, we find that allowances under CECL are relatively less decision-useful than a regime that reports incurred losses and expected future credit losses separately, potentially due to the different information CECL day-1 impacts and IL allowances provide regarding the timing of future expected credit loss emergence.

While our focus on day-1 CECL implementation allows us to compare CECL and IL allowances for the same bank at the same time, such that differences between these allowances cannot be attributed to different banks or periods, we note that this strong identification precludes us from examining implications beyond CECL's adoption date, which future research can address.

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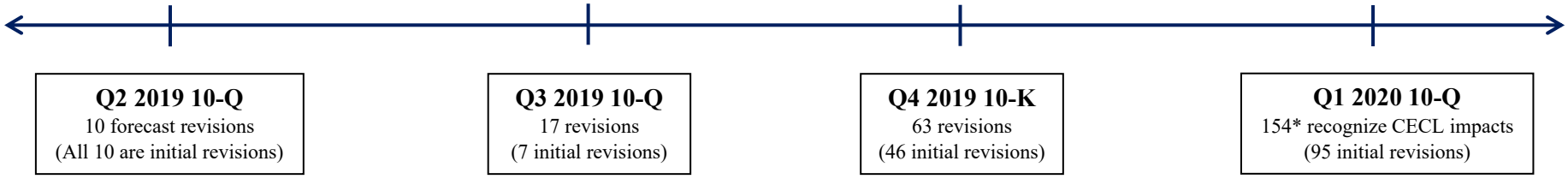
Appendix: Variable Definitions (in Alphabetic Order)[23]

Variable	Definition
Analysts	The number of analysts contributing to the I/B/E/S consensus street forecast that is used in calculating unexpected earnings (*UE*).
Assets	Total assets (SPCIQ Keyfield 280297).
BVE_Adjusted	Book value of equity excluding minority interest (SPCIQ Keyfield 280318) plus the allowance for loan and lease losses under the incurred loss model (SPCIQ Keyfield 280287).
CECL_Allowance	The total CECL allowance, calculated as *IL_Allowance* + *CECL_Impact*.
CECL_Impact	The effect of day-1 CECL adoption on allowances for credit losses on loans and leases held for investment and held-to-maturity debt securities (SPCIQ Keyfield 319096), including the initial allowance gross-up for any purchased credit-deteriorated assets held as of the adoption date.
ConsLoans	Total consumer loans outstanding (SPCIQ Keyfield 290161).
IL_Allowance	The allowance for loan and lease losses under the incurred loss model (SPCIQ Keyfield 280287).
Market-to-Book	Market value of equity scaled by book value of equity.
MVE	The market value of equity in $ millions. Market value of equity is calculated as price per share from CRSP (abs(*prc*)/*cfacpr*) multiplied by the number of shares outstanding from CRSP (*shrout* *cfacshr*), divided by 1,000.
$\Sigma NCO_{t+1:16}$	Net charge-offs scaled by total assets cumulated over the next sixteen quarters. Net charge-offs are equal to gross charge-offs (BHCK/RIAD 4635) minus recoveries (BHCK/RIAD 4605). This variable is obtained from regulatory reports (i.e., Y-9Cs and call reports).
NIBP	Net income before taxes and loan loss provision, calculated as net income before taxes (SPCIQ Keyfield 280344) plus loan loss provision (SPCIQ Keyfield 280330).
NonRE_CECL_Impact	The CECL day-1 impact for non-real estate loans, hand collected from banks' first 10-Q filing after adoption.
NPL	Nonperforming loans, calculated as nonaccrual loans (SPCIQ Keyfield 281530) plus loans past due 90 days or more but still accruing (SPCIQ Keyfield 281489).
Point Estimate	Indicator equal to 1 if the bank's CECL SAB 74 estimate is a point forecast, and zero otherwise.
Pre-EA Return	The bank's cumulative return in the [-50, -5] trading-day window prior to the earnings announcement.
Price	Stock price per share from Compustat (*prccq*).
Provision	Loan loss provision (SPCIQ Keyfield 280330).

[23] With one exception, we extract bank financial data from the "Companies" dataset in S&P Capital IQ Pro, which provides better coverage of the variables we need than the "Regulated Depositories (U.S.)" dataset. As a result, our data item numbers (called "Keyfields") for the bank financial variables often differ from those of other studies that pull bank financial data from the "Regulated Depositories (U.S.)" dataset (e.g., Wheeler 2021). For example, the Keyfield for total assets (the allowance for loan and lease losses under the incurred loss model) is Keyfield 280297 (280287) in the "Companies" dataset, and thus is what we use in our study, but is Keyfield 215382 (215372) in Wheeler (2021). The one exception is that we extract the CECL day-1 impact variable (SPCIQ Keyfield 319096) from the "Regulated Depositories (U.S.)" dataset because that variable is not available in the "Companies" dataset.

Variable	Definition
RateSensitive	Rate-sensitive assets maturing within one year (SPCIQ Keyfield 280515).
RE_CECL_Impact	The CECL day-1 impact for real estate loans, hand collected from banks' first 10-Q filing after adoption.
RELoans	Total real estate loans outstanding (SPCIQ Keyfield 290155).
Return	Abnormal stock return around a bank's disclosure of its estimates of expected day-1 CECL impact as required by SAB 74, calculated over two different windows: (1) beginning on the day of the earnings announcement through one day after the bank's 10-K/Q filing and (2) beginning on the day of the earnings announcement through one day after the earnings announcement. Abnormal return is calculated as the bank's daily return minus the daily value-weighted market return, cumulated using a buy-and-hold (B&H) or cumulative (CAR) approach.
ΔSAB74_Estimate	Change in the bank's estimate of the day-1 impact of CECL on its credit loss allowances, calculated as the CECL SAB 74 estimate for quarter *t* minus the most recently disclosed CECL SAB 74 estimate (with the final quarter's change calculated using the actual recognized CECL day-1 impact).
Shares	Number of shares outstanding from Compustat, in thousands (*cshoq**1,000).
UE	Unexpected earnings, measured as I/B/E/S street earnings minus the most recent mean consensus street EPS forecast from I/B/E/S, scaled by stock price at fiscal quarter-end.

Figure 1 – Timeline of CECL SAB 74 forecast revisions



This figure shows the timeline and frequency of initial and subsequent CECL SAB 74 forecast revisions, which were collected from banks' SEC filings. Forecast revisions are the difference between the forecasted amount in quarter *t* and the forecasted amount in quarter *t-1*(e.g., Q2 2019 revisions are relative to the Q1 2019 forecast). *Although there are 158 unique banks in this sample, four banks did not have a usable final revision due to mergers, data availability, etc.

Table 1 – Sample Selection

Part I:	
Sample Selection for the Analyses on Decision-Usefulness (Tables 3-4 and 6-9)	
Number of unique publicly traded banks in SNL (SIC codes 6000-6299) with an incurred-loss allowance balance and coverage in CRSP	402
Less: CECL non-adopters	190
Number of unique publicly traded banks that adopted CECL	212
Less: Banks with missing data for variables required in the regressions	12
Sample of banks used for Tables 4, 7, and 9	**200**
Less: Banks that were acquired or are otherwise missing 16-quarters-ahead NCO	26
Sample of banks used for Tables 3, 6, and 8	**174**
Part II:	
Sample Selection for the Analyses on SAB 74 Investor Response (Table 5)	
Number of unique publicly traded banks that adopted CECL	**212**
Less: Banks with less than two disclosed SAB 74 CECL estimates	37
Less: Banks missing data for variables required in the regressions	17
Sample of banks used for Table 5	158
Sample of quarterly observations for 158 banks represented in Table 5	**244**

Part I of this table presents the sample selection procedures for the sample used to explore whether the decision-usefulness of the CECL day-1 impact varies across bank size, the expected loss emergence period, and combined versus separate reporting of the CECL day-1 impact and the IL allowance. Part II presents the sample selection procedures for the analyses that explore whether CECL allowances represent new information to investors (i.e., the SAB 74 investor response analyses).

Table 2 – Descriptive Statistics

Panel A: Descriptive statistics for the sample used in decision-usefulness analyses (Part I tests)

Variable Name	N	Mean	p25	p50	p75	SD
Dependent Variables						
$\Sigma(NCO/Assets)_{t+1:16}$	174	0.005	0.001	0.003	0.005	0.010
$Price_{t+2}$	200	34.667	16.795	25.420	39.780	31.456
Independent Variables						
IL_Allowance/Assets	174	0.007	0.005	0.006	0.008	0.004
CECL_Impact/Assets	174	0.002	0.000	0.001	0.003	0.003
CECL_Allowance/Assets	174	0.009	0.006	0.008	0.010	0.006
RELoans/Assets	174	0.453	0.374	0.482	0.578	0.183
ConsLoans/Assets	174	0.054	0.005	0.015	0.061	0.110
RateSensitive/Assets	174	0.363	0.262	0.365	0.433	0.135
NIBP/Assets	174	0.004	0.004	0.004	0.005	0.002
CECL_Impact/Shares	200	0.507	0.036	0.244	0.600	0.870
IL_Allowance/Shares	200	1.861	0.794	1.298	2.077	1.926
CECL_Allowance/Shares	200	2.399	1.064	1.676	2.558	2.665
BVE_Adjusted/Shares	200	35.529	21.314	29.979	38.434	27.051
RELoans/Shares	200	113.255	66.977	100.180	143.794	76.475
ConsLoans/Shares	200	15.392	0.917	3.540	11.663	34.729
RateSensitive/Shares	200	115.256	49.354	74.847	129.358	130.312
NIBP/Shares	200	1.286	0.644	0.960	1.521	1.231
NPL/Shares	200	1.481	0.491	0.839	1.493	2.134

Panel B: Descriptive statistics for the SAB 74 investor response analyses (Part II tests)

Variable Name	N	Mean	p25	p50	p75	SD
Dependent Variables						
Return[EA day 0 to 10-K/Q+1]B&H	244	-0.043	-0.097	-0.043	0.008	0.085
Return[EA day 0 to 10-K/Q+1]CAR	244	-0.042	-0.097	-0.041	0.012	0.089
Return[EA day 0 to EA day+1]B&H	160	0.000	-0.038	-0.002	0.041	0.066
Return[EA day 0 to EA day+1]CAR	160	0.000	-0.038	-0.001	0.041	0.066
Independent Variables						
ΔSAB74_Estimate(x100)/MVE	244	0.042	-0.030	0.000	0.175	0.480
ln(1+Analysts)	244	2.217	1.792	2.079	2.890	0.644
UE/MVE	244	-0.010	-0.013	-0.003	0.001	0.017
ln(MVE)	244	8.054	6.590	7.662	9.102	1.876
Market-to-Book	244	1.041	0.711	0.919	1.208	0.523
Pre-EA Return	244	-0.221	-0.388	-0.256	-0.005	0.218
Point Estimate	244	0.787	1.000	1.000	1.000	0.410
Provision/MVE	244	0.021	0.003	0.012	0.027	0.030

Panel A (B) of this table presents the summary statistics for the sample for the decision-usefulness (SAB 74 investor response) analyses. In Panel A, the number of observations for each variable differs because we use the largest sample possible for different analyses (see Table 1). In Panel A, except for variables with subscripts (e.g., $Price_{t+2}$), the subscript for all other variables is quarter *t* (as of the end of the fiscal quarter immediately before CECL adoption) and is omitted. In Panel B, except for the dependent variables (which are abnormal stock returns measured either (1) from the earnings announcement day to one day after the 10-Q/K filing day or (2) from the earnings announcement day to one day after the earnings announcement day), the subscript for all other variables is quarter *t*, as of the end of the fiscal quarter. See the Appendix for variable definitions.

Table 3 – Predictive ability of CECL day-1 impact by bank size

	Assets>$10 bln		*Assets*<$10 bln
		$\Sigma(NCO/Assets)_{t+1:16}$	
VARIABLES	(1)		(2)
CECL_Impact/Assets	0.685***		0.962***
	(4.00)		*(2.76)*
IL_Allowance/Assets	0.670***		0.378*
	(4.15)		*(1.90)*
RELoans/Assets	-0.003		-0.007
	(-1.41)		*(-0.87)*
ConsLoans/Assets	0.054***		0.002
	(6.96)		*(0.14)*
RateSensitive/Assets	0.004		0.005
	(1.28)		*(1.47)*
NIBP/Assets	0.035		-0.072
	(0.13)		*(-0.17)*
Constant	-0.003*		0.002
	(-1.89)		*(0.29)*
Observations	92		82
Adjusted R-squared	0.945		0.208

This table presents analyses that examine the usefulness of the CECL day-1 impact in predicting future net charge-offs, separately for banks with total assets above versus below $10 billion. The dependent variable is net charge-offs scaled by total assets, cumulated over the next sixteen quarters. As described in Table 1, the sample consists of 174 publicly listed U.S. banks that adopted CECL from January 1, 2020–January 1, 2021. Except for *CECL_Impact* (which is measured on the adoption date), all other independent variables are measured as of the fiscal quarter-end immediately before CECL adoption (i.e., one day before the CECL adoption date). See the Appendix for variable definitions. All continuous variables are winsorized at the 1st and 99th percentiles before estimating the regressions. Standard errors are clustered by bank to address heteroskedasticity. Robust t-statistics are reported in parentheses below coefficient estimates. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 4 – Usefulness of CECL day-1 impact in valuing stocks by bank size

	Assets>$10 bln		*Assets*<$10 bln
		$Price_{t+2}$	
VARIABLES	(1)		(2)
CECL_Impact/Shares	-8.031**		-6.625**
	(-2.40)		*(-2.49)*
IL_Allowance/Shares	-5.528***		-0.154
	(-2.76)		*(-0.10)*
BVE_Adjusted/Shares	0.204		0.912***
	(1.07)		*(3.30)*
RELoans/Shares	0.050		-0.027
	(1.29)		*(-0.94)*
ConsLoans/Shares	-0.057		0.097
	(-0.61)		*(1.08)*
RateSensitive/Shares	-0.034		-0.006
	(-1.09)		*(-0.22)*
NIBP/Shares	30.204***		13.163**
	(9.18)		*(2.00)*
NPL/Shares	-0.722		1.032
	(-0.69)		*(0.63)*
Constant	2.688		-5.230**
	(0.87)		*(-2.11)*
Observations	107		93
Adjusted R-squared	0.839		0.712

This table presents the analysis of the usefulness of the CECL day-1 impact in valuing stocks, separately for banks with total assets above versus below $10 billion. The dependent variable is two-quarter-ahead stock price. As described in Table 1, the sample consists of 200 publicly listed U.S. banks that adopted CECL from January 1, 2020–January 1, 2021. Except for $Price_{t+2}$ (which is measured two quarters after the CECL adoption date—after the bank's first 10-Q filing would be available to investors following CECL adoption) and *CECL_Impact* (which is measured on the adoption date), all other variables are measured as of the fiscal quarter-end immediately before CECL adoption (i.e., one day before the CECL adoption date). See the Appendix for variable definitions. All continuous variables are winsorized at the 1st and 99th percentiles before estimating the regressions. Standard errors are clustered by bank to address heteroskedasticity. Robust t-statistics are reported in parentheses below coefficient estimates. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 5 – Investor response to revisions to CECL SAB 74 estimates

Panel A: Pooled sample

	Full Sample		EA Disclosure Sample	
	Long-Window Returns		*Short-Window Returns*	
	Buy-and-Hold	*CAR*	*Buy-and-Hold*	*CAR*
VARIABLES	(1)	(2)	(3)	(4)
ΔSAB74_Estimate/MVE	-1.790*	-1.930*	-1.979*	-1.980*
	(-1.67)	*(-1.72)*	*(-1.80)*	*(-1.81)*
ln(1+Analysts)	0.031*	0.032*	0.048***	0.048***
	(1.95)	*(1.95)*	*(3.25)*	*(3.29)*
UE/MVE	0.433	0.593	0.316	0.341
	(0.65)	*(0.86)*	*(0.69)*	*(0.75)*
ln(MVE)	0.003	0.002	-0.013*	-0.014*
	(0.43)	*(0.35)*	*(-1.86)*	*(-1.94)*
Market-to-Book	0.015*	0.016*	0.013	0.013
	(1.78)	*(1.78)*	*(0.93)*	*(0.94)*
Pre-EA Return	-0.117**	-0.131**	-0.087*	-0.083*
	(-2.05)	*(-2.25)*	*(-1.93)*	*(-1.85)*
Point Estimate	0.007	0.007	0.006	0.005
	(0.60)	*(0.60)*	*(0.49)*	*(0.38)*
Provision/MVE	0.275	0.285	-0.306	-0.292
	(0.82)	*(0.81)*	*(-1.25)*	*(-1.20)*
Observations	244	244	160	160
Adjusted R-squared	0.164	0.155	0.088	0.087

Panel B: Sample split based on size

	Assets>$10 bln		*Assets*<$10 bln	
	Long-Window Returns			
	Buy-and-hold	*CAR*	*Buy-and-hold*	*CAR*
VARIABLES	(1)	(2)	(3)	(4)
ΔSAB74 Estimate/MVE	0.165	0.134	-4.468***	-4.784***
	(0.13)	*(0.10)*	*(-2.81)*	*(-2.78)*
ln(1+Analysts)	0.018	0.020	0.002	0.003
	(0.77)	*(0.84)*	*(0.10)*	*(0.11)*
UE/MVE	-0.644	-0.529	2.307**	2.647***
	(-0.93)	*(-0.74)*	*(2.45)*	*(2.65)*
ln(MVE)	0.001	0.000	0.011	0.011
	(0.07)	*(0.01)*	*(0.62)*	*(0.55)*
Market-to-Book	0.016**	0.016*	0.047*	0.050
	(1.96)	*(1.95)*	*(1.67)*	*(1.62)*
Pre-EA Return	-0.102	-0.115	-0.176**	-0.193**
	(-1.28)	*(-1.43)*	*(-2.15)*	*(-2.20)*
Point Estimate	0.004	0.004	0.029*	0.030*
	(0.26)	*(0.26)*	*(1.79)*	*(1.72)*
Provision/MVE	0.206	0.203	0.208	0.308
	(0.68)	*(0.64)*	*(0.32)*	*(0.45)*
Observations	158	158	86	86
Adjusted R-squared	0.173	0.164	0.194	0.190

This table examines investor response to revisions to banks' CECL estimates leading up to adoption, with Panel A presenting the results using the pooled sample and Panel B presenting the results splitting the sample based on bank size. The dependent variable is the bank's abnormal stock return around its disclosure of its revision to its expected CECL day-one impact estimate as required by SAB 74, calculated over two different windows: (1) beginning on the day of the earnings announcement through one day after the bank's 10-K/Q filing (columns 1 and 2 in Panel A and all columns in Panel B) and (2) beginning on the day of the earnings announcement through one day after the earnings announcement (columns 3 and 4 in Panel A). Abnormal return is calculated as the bank's daily return minus the daily value-weighted market return, cumulated alternatively using a buy-and-hold or cumulative (CAR) approach. The test variable is *ΔSAB74_Estimate/MVE*, which is the revision to a bank's CECL day-one impact estimate, scaled by market value of equity. See the Appendix for variable definitions. All continuous variables are winsorized at the 1st and 99th percentiles before estimating the regressions. Quarter fixed effects are included in all regressions. Standard errors are clustered by bank. Robust t-statistics are reported in parentheses below coefficient estimates. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 6 – Predictive ability of CECL day-1 impact by loss emergence period

	Shorter loss emergence period	*Longer loss emergence period*	
		$\Sigma(NCO/Assets)_{t+1:16}$	
VARIABLES	(1)	(2)	(3)
CECL_Impact/Assets	1.229***	0.488**	
	(4.89)	*(2.63)*	
RE_CECL_Impact/Assets			0.508***
			(2.72)
NonRE_CECL_Impact/Assets			1.499***
			(6.19)
IL_Allowance/Assets	0.505*	0.383*	0.489***
	(1.89)	*(1.84)*	*(3.31)*
RELoans/Assets	-0.009*	0.002	-0.004
	(-1.91)	*(0.81)*	*(-1.23)*
ConsLoans/Assets	0.035***	0.003	0.033***
	(3.44)	*(0.38)*	*(4.07)*
RateSensitive/Assets	0.007*	0.005	0.004
	(1.73)	*(1.51)*	*(1.54)*
NIBP/Assets	0.565*	0.140	0.360
	(1.80)	*(0.60)*	*(1.47)*
Constant	-0.004	-0.004	-0.004*
	(-1.57)	*(-1.51)*	*(-1.66)*
Observations	87	87	166
Adjusted R-squared	0.888	0.131	0.869

This table presents analyses that examine the usefulness of the CECL day-1 impact in predicting future net charge-offs, separately based on the expected loss emergence period. The dependent variable is net charge-offs scaled by total assets, cumulated over the next sixteen quarters. In columns 1–2, we partition the sample into banks with below (column 1) versus above (column 2) the median of real estate loans with no evidence of significant deterioration in credit quality as a proportion of total loans. In column 3, we replace *CECL_Impact* with *RE_CECL_Impact* and *NonRE_CECL_Impact*, which are defined as the day-1 impact specific to real estate and non-real estate loans, respectively, obtained from banks' first 10-Q filing after adoption. As described in Table 1, the sample consists of 174 publicly listed U.S. banks that adopted CECL from January 1, 2020–January 1, 2021, with 8 banks dropping from the analyses due to a lack of data on the day-1 impact by loan type in column 3. Except for the CECL day-1 impact variables (which are measured on the adoption date), all other independent variables are measured as of the quarter-end immediately before CECL adoption (i.e., one day before the CECL adoption date). See the Appendix for variable definitions. All continuous variables are winsorized at the 1st and 99th percentiles before estimating the regressions. Standard errors are clustered by bank to address heteroskedasticity. Robust t-statistics are reported in parentheses below coefficient estimates. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 7 – Usefulness of CECL day-1 impact in valuing stocks by loss emergence period

	Shorter loss emergence period	*Longer loss emergence period*	
		Price$_{t+2}$	
VARIABLES	(1)	(2)	(3)
CECL_Impact/Shares	-9.970**	-5.620*	
	(-2.39)	*(-1.75)*	
RE_CECL_Impact/Shares			-7.029**
			(-2.26)
NonRE_CECL_Impact/Shares			-11.198***
			(-4.14)
IL_Allowance/Shares	-4.448***	-0.916	-2.433*
	(-2.75)	*(-0.57)*	*(-1.90)*
BVE_Adjusted/Shares	0.240	0.433**	0.305**
	(1.13)	*(2.31)*	*(2.22)*
RELoans/Shares	-0.006	0.048	-0.001
	(-0.17)	*(0.94)*	*(-0.04)*
ConsLoans/Shares	-0.039	0.011	-0.073
	(-0.37)	*(0.06)*	*(-0.97)*
RateSensitive/Shares	-0.047*	-0.009	-0.059**
	(-1.68)	*(-0.26)*	*(-2.42)*
NIBP/Shares	27.111***	17.897***	28.355***
	(6.66)	*(3.28)*	*(8.42)*
NPL/Shares	0.852	-1.516**	0.210
	(0.64)	*(-2.29)*	*(0.18)*
Constant	11.028***	-2.416	4.118**
	(2.78)	*(-1.18)*	*(2.11)*
Observations	100	100	189
Adjusted R-squared	0.749	0.907	0.832

This table presents the analysis of the usefulness of the CECL day-1 impact in valuing stocks, separately based on the expected loss emergence period. The dependent variable is two-quarter-ahead stock price. In columns 1–2, we partition the sample into banks with below (column 1) versus above (column 2) the median of real estate loans with no evidence of significant deterioration in credit quality as a proportion of total loans. In column 3, we replace *CECL_Impact* with *RE_CECL_Impact* and *NonRE_CECL_Impact*, which are defined as the day-1 impact specific to real estate and non-real estate loans, respectively, obtained from banks' first 10-Q filing after adoption. As described in Table 1, the sample consists of 200 publicly listed U.S. banks that adopted CECL from January 1, 2020–January 1, 2021, with 11 banks dropping from the analyses due to a lack of data on the day-1 impact by loan type in column 3. Except for *Price$_{t+2}$* (which is measured two quarters after the CECL adoption date—after the bank's first 10-Q filing would be available to investors following CECL adoption) and the CECL day-1 impact variables (which are measured on the adoption date), all variables are measured as of the quarter-end immediately before CECL adoption (i.e., one day before the CECL adoption date). See the Appendix for variable definitions. All continuous variables are winsorized at the 1st and 99th percentiles before estimating the regressions. Standard errors are clustered by bank to address heteroskedasticity. Robust t-statistics are reported in parentheses below coefficient estimates. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 8 – Predictive ability of CECL day-1 impact by reporting regime

Panel A: Comparing separate reporting of IL allowance and CECL day-1 impact to single CECL allowance

	$\Sigma(NCO/Assets)_{t+1:16}$		
VARIABLES	(1)	(2)	(3)
CECL_Impact/Assets		1.058***	
		(5.91)	
IL_Allowance/Assets	0.707***	0.583***	
	(3.66)	*(3.54)*	
CECL_Allowance/Assets			0.758***
			(5.62)
RELoans/Assets	-0.002	-0.004	-0.004
	(-0.63)	*(-1.36)*	*(-1.33)*
ConsLoans/Assets	0.055***	0.037***	0.040***
	(6.54)	*(4.74)*	*(4.63)*
RateSensitive/Assets	0.005	0.004	0.004
	(1.44)	*(1.51)*	*(1.48)*
NIBP/Assets	0.575**	0.531**	0.439**
	(2.13)	*(2.45)*	*(2.14)*
Constant	-0.006**	-0.005**	-0.005**
	(-2.52)	*(-2.31)*	*(-2.34)*
Observations	174	174	174
Adjusted R-squared	0.809	0.846	0.843

Panel B: Difference between CECL day-1 impact and IL allowance by loss emergence period

	Σ*(NCO/Assets)*			
Future loan loss horizon:	[*t+1:t+4*]	[*t+1:t+8*]	[*t+1:t+12*]	[*t+1:t+16*]
VARIABLES	(1)	(2)	(3)	(4)
(1) *CECL_Impact/Assets*	0.427***	0.704***	0.942***	1.058***
	(4.10)	*(4.17)*	*(4.07)*	*(6.01)*
(2) *IL_Allowance/Assets*	0.188***	0.303***	0.432***	0.583***
	(3.36)	*(3.33)*	*(3.29)*	*(3.60)*
(3) *RELoans/Assets*	-0.002	-0.002	-0.004	-0.004
	(-1.48)	*(-1.42)*	*(-1.59)*	*(-1.39)*
(4) *ConsLoans/Assets*	0.014***	0.020***	0.029***	0.037***
	(4.34)	*(3.84)*	*(4.08)*	*(4.82)*
(5) *RateSensitive/Assets*	0.002	0.003	0.003	0.004
	(1.57)	*(1.46)*	*(1.00)*	*(1.54)*
(6) *NIBP/Assets*	0.138	0.294	0.471**	0.531**
	(1.04)	*(1.60)*	*(2.00)*	*(2.49)*
(7) Constant	-0.002*	-0.003**	-0.004**	-0.005**
	(-1.84)	*(-2.04)*	*(-1.98)*	*(-2.35)*
χ^2 test: (1) – (2) = 0	0.239**	0.401**	0.510**	0.475**
	(5.92)	*(6.25)*	*(5.22)*	*(4.11)*
χ^2 test: Col. (2) Diff. – Col. (1) Diff. = 0	0.162**			
	(5.08)			
χ^2 test: Col. (3) Diff. – Col. (1) Diff. = 0	0.271**			
	(3.87)			
χ^2 test: Col. (4) Diff. – Col. (1) Diff. = 0	0.236			
	(1.68)			
Observations	174	174	174	174
Adjusted R-squared	0.748	0.766	0.796	0.846

This table presents analyses that examine the usefulness of the CECL day-1 impact in predicting future net charge-offs, separately based on the reporting regime. Panel A presents the results of tests comparing the separate reporting of the IL allowance and CECL day-1 impact to the reporting of a single CECL allowance amount. Panel B compares the difference between the IL allowance and the CECL day-1 impact's relationship with future loan losses, where future losses are calculated over different horizons. The dependent variable is net charge-offs scaled by total assets, cumulated over the next sixteen quarters in Panel A and over the next four, eight, twelve, and sixteen quarters in columns 1–4, respectively, in Panel B. As described in Table 1, the sample consists of 174 publicly listed U.S. banks that adopted CECL from January 1, 2020–January 1, 2021. Except for the CECL day-1 impact/allowance variables (which are measured on the adoption date), all other independent variables are measured as of the quarter-end immediately before CECL adoption (i.e., one day before the CECL adoption date). See the Appendix for variable definitions. All continuous variables are winsorized at the 1st and 99th percentiles before estimating the regressions. Standard errors are clustered by bank to address heteroskedasticity. Except at the bottom of Panel B, robust t-statistics are reported in parentheses below coefficient estimates (χ^2 statistics are reported at the bottom of Panel B). ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 9 – Usefulness of CECL day-1 impact in valuing stocks by reporting regime

	$Price_{t+2}$		
VARIABLES	(1)	(2)	(3)
CECL_Impact/Shares		-9.525***	
		(-3.54)	
IL_Allowance/Shares	-4.838***	-3.811***	
	(-2.63)	*(-2.63)*	
CECL_Allowance/Shares			-5.015***
			(-3.43)
BVE_Adjusted/Shares	0.256	0.328*	0.261
	(1.34)	*(1.91)*	*(1.46)*
RELoans/Shares	0.055*	0.031	0.053*
	(1.74)	*(1.15)*	*(1.81)*
ConsLoans/Shares	-0.112	-0.020	-0.029
	(-1.43)	*(-0.25)*	*(-0.32)*
RateSensitive/Shares	0.000	-0.037	-0.011
	(0.01)	*(-1.35)*	*(-0.34)*
NIBP/Shares	24.166***	25.491***	25.308***
	(5.43)	*(6.73)*	*(6.31)*
NPL/Shares	-1.080	-0.162	-0.471
	(-1.15)	*(-0.15)*	*(-0.43)*
Constant	0.555	3.357	1.277
	(0.20)	*(1.50)*	*(0.45)*
Observations	200	200	200
Adjusted R-squared	0.772	0.804	0.787

This table presents the analysis of the usefulness of the CECL day-1 impact in valuing stocks, separately based on the reporting regime. The dependent variable is two-quarter-ahead stock price. As described in Table 1, the sample consists of 200 publicly listed U.S. banks that adopted CECL from January 1, 2020–January 1, 2021. Except for $Price_{t+2}$ (which is measured two quarters after the CECL adoption date—after the bank's first 10-Q filing would be available to investors following CECL adoption) and the CECL day-1 impact/allowance variables (which are measured on the adoption date), all variables are measured as of the quarter-end immediately before CECL adoption (i.e., one day before the CECL adoption date). See the Appendix for variable definitions. All continuous variables are winsorized at the 1st and 99th percentiles before estimating the regressions. Standard errors are clustered by bank to address heteroskedasticity. Robust t-statistics are reported in parentheses below coefficient estimates. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.