

**DEPARTMENT OF TREASURY**

**Office of the Comptroller of the Currency**

12 CFR Parts 1, 3, 5, 23, 24, 32, 34 and 46

[Docket ID OCC-2018-0009]

RIN 1557-AE32

**FEDERAL RESERVE SYSTEM**

12 CFR Parts 208, 211, 215, 217, 223, 225, and 252

[Regulation Q; Docket No. R-1605]

RIN 7100-AF04

**FEDERAL DEPOSIT INSURANCE CORPORATION**

12 CFR Parts 324, 325, 327, 347, and 390

RIN 3064-AE74

**Regulatory Capital Rule: Implementation and Transition of the Current Expected Credit Losses Methodology for Allowances and Related Adjustments to the Regulatory Capital Rule and Conforming Amendments to Other Regulations**

**AGENCY:** Office of the Comptroller of the Currency, Treasury; the Board of Governors of the Federal Reserve System; and the Federal Deposit Insurance Corporation.

**ACTION:** Final rule.

**SUMMARY:** The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) are adopting a final rule to address changes to credit loss accounting under U.S. generally accepted accounting principles, including banking organizations' implementation of the current expected credit losses methodology (CECL). The final rule provides banking organizations the option to phase in over a three-year period the day-one adverse effects on regulatory capital that may result from the adoption of the new accounting standard. In addition, the final rule revises the agencies' regulatory capital rule, stress testing rules, and regulatory disclosure requirements to reflect CECL, and makes conforming amendments to other regulations that reference credit loss allowances.

**DATES:** The final rule is effective on April 1, 2019. Banking organizations may early adopt this final rule prior to that date.

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### **I. Overview**

#### **A. Background**

On May 14, 2018, the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC) (collectively, the agencies) issued a notice of proposed rulemaking (NPR or proposal) that would have revised certain of their regulations to account for forthcoming changes to credit loss accounting under U.S. generally accepted accounting principles (U.S. GAAP).<sup>1</sup> In particular, the proposal would have amended certain of the agencies' rules to address the Financial Accounting Standards Board's (FASB) issuance of Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses, Topic 326, Measurement of Credit Losses on Financial Instruments (ASU 2016-13).<sup>2</sup> ASU 2016-13 introduces the current expected credit

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<sup>1</sup> 83 FR 22312 (May 14, 2018).

<sup>2</sup> ASU 2016-13 covers measurement of credit losses on financial instruments and includes three subtopics within Topic 326: (i) Subtopic 326-10 Financial Instruments—Credit Losses—Overall; (ii) Subtopic 326-20: Financial Instruments—Credit Losses—Measured at Amortized Cost; and (iii) Subtopic 326-30: Financial Instruments—Credit Losses—Available-for-Sale Debt Securities.

losses methodology (CECL), which replaces the incurred loss methodology for financial assets measured at amortized cost; introduces the term purchased credit deteriorated (PCD) assets, which replaces the term purchased credit-impaired (PCI) assets; and modifies the treatment of credit losses on available-for-sale (AFS) debt securities.

The proposal would have applied to banking organizations<sup>3</sup> that are subject to the agencies' regulatory capital rule<sup>4</sup> (capital rule), to banking organizations that are subject to stress testing requirements, and to banking organizations that file regulatory reports that are uniform and consistent with U.S. GAAP.<sup>5</sup> In particular, the proposal would have revised the agencies' capital rule to distinguish which credit loss allowances under the new accounting standard would be eligible for inclusion in a banking organization's regulatory capital. The proposal would also have provided banking organizations that experience a reduction in retained earnings as a result of adopting CECL with an option to elect a three-year transition period to phase in the effects of CECL adoption on regulatory capital. The proposal also would have revised regulatory capital disclosure requirements applicable to certain banking organizations, amended references to credit loss allowances in other regulations, and required the inclusion of CECL provisions in a

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<sup>3</sup> Banking organizations subject to the capital rule include national banks, state member banks, state nonmember banks, savings associations, and top-tier bank holding companies and savings and loan holding companies domiciled in the United States not subject to the Board's Small Bank Holding Company Policy Statement (12 CFR part 225, Appendix C), but exclude certain savings and loan holding companies that are substantially engaged in insurance underwriting or commercial activities or that are estate trusts, and bank holding companies and savings and loan holding companies that are employee stock ownership plans.

<sup>4</sup> 12 CFR part 3 (OCC); 12 CFR part 217 (Board); 12 CFR part 324 (FDIC).

<sup>5</sup> See 12 U.S.C. 1831n; see also Instructions for Preparation of Consolidated Financial Statements for Holding Companies, Reporting Form FR Y-9C (Reissued March 2013); Instructions for Preparation of Consolidated Reports of Condition and Income, Reporting Forms FFIEC 031 and FFIEC 041 (updated September 2017); Instructions for Preparation of Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only and Total Assets Less than \$1 Billion, Reporting Form FFIEC 051 (updated September 2017).

banking organization's company-run stress testing projections beginning with the 2020 stress test cycle.

The agencies are adopting as final the proposal. The final rule is effective as of April 1, 2019, but a banking organization may choose to adopt the final rule starting as early as first quarter 2019.

## **B. Changes to U.S. GAAP**

ASU 2016-13 revises U.S. GAAP and, consequently, affects regulatory reports based on U.S. GAAP. CECL differs from the incurred loss methodology in several key respects. First, for financial assets measured at amortized cost, CECL requires banking organizations to recognize lifetime expected credit losses, not just credit losses incurred as of the reporting date. CECL requires the incorporation of reasonable and supportable forecasts in developing an estimate of lifetime expected credit losses, while also maintaining the current requirement that banking organizations consider past events and current conditions. Furthermore, the probable threshold for recognition of allowances in accordance with the incurred loss methodology is removed under CECL. Taken together, estimating expected credit losses over the life of an asset under CECL, including consideration of reasonable and supportable forecasts but without applying the probable threshold that exists under the incurred loss methodology, results in earlier recognition of credit losses.

CECL replaces multiple impairment approaches in existing U.S. GAAP. CECL allowances will cover a broader range of financial assets than the allowance for loan and lease losses (ALLL) under the incurred loss methodology. Under the incurred loss methodology, ALLL generally covers credit losses on loans held for investment and lease financing receivables, with additional allowances for certain other extensions of credit and allowances for

credit losses on certain off-balance sheet credit exposures (with the latter allowances presented as liabilities).<sup>6</sup> These exposures will be within the scope of CECL. In addition, CECL applies to credit losses on held-to-maturity (HTM) debt securities. As previously mentioned, ASU 2016-13 replaces the term PCI assets with the term PCD assets. The PCD asset definition covers a broader range of assets than the PCI asset definition. CECL requires banking organizations to estimate and record a credit loss allowance for a PCD asset at the time of purchase. This credit loss allowance is then added to the purchase price to determine the purchase date amortized cost basis of the asset for financial reporting purposes. Post-acquisition changes in credit loss allowances on PCD assets will be established through earnings. This is different from the current treatment of PCI assets, for which banking organizations are not permitted to estimate and recognize credit loss allowances at the time of purchase. Rather, banking organizations generally estimate credit loss allowances for PCI assets subsequent to the purchase only if there is deterioration in the expected cash flows from such assets.

ASU 2016-13 also introduces new requirements for AFS debt securities. The new accounting standard requires that a banking organization recognize credit losses on individual AFS debt securities through credit loss allowances, rather than through direct write-downs, as is currently required under U.S. GAAP. AFS debt securities will continue to be measured at fair value, with changes in fair value not related to credit losses recognized in other comprehensive

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<sup>6</sup> “Other extensions of credit” includes trade and reinsurance receivables, and receivables that relate to repurchase agreements and securities lending agreements. “Off-balance sheet credit exposures” includes off-balance sheet credit exposures not accounted for as insurance, such as loan commitments, standby letters of credit, and financial guarantees. The agencies note that credit losses for off-balance sheet credit exposures that are unconditionally cancellable by the issuer are not recognized under CECL.

income. Credit loss allowances on an AFS debt security are limited to the amount by which the security's fair value is less than its amortized cost.

Upon adoption of CECL, a banking organization will record a one-time adjustment to its credit loss allowances as of the beginning of its fiscal year of adoption equal to the difference, if any, between the amount of credit loss allowances required under the incurred loss methodology and the amount of credit loss allowances required under CECL. Except for PCD assets, banking organizations will recognize the adjustment to the credit loss allowances with offsetting entries to deferred tax assets (DTAs), if appropriate, and to the fiscal year's beginning retained earnings.

The effective date of ASU 2016-13 varies for different banking organizations. For banking organizations that are U.S. Securities and Exchange Commission (SEC) filers,<sup>7</sup> ASU 2016-13 will become effective for the first fiscal year beginning after December 15, 2019, including interim periods within that fiscal year. For banking organizations that are public business entities (PBE) but not SEC filers (as defined in U.S. GAAP),<sup>8</sup> ASU 2016-13 will become effective for the first fiscal year beginning after December 15, 2020, including interim periods within that fiscal year. For banking organizations that are not PBEs (as defined in U.S.

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<sup>7</sup> For this purpose, an SEC filer is an entity (e.g., a bank holding company or savings and loan holding company) that is required to file its financial statements with the SEC under the federal securities laws or, for an insured depository institution, the appropriate federal banking agency under section 12(i) of the Securities Exchange Act of 1934. The banking agencies named under section 12(i) of the Securities Exchange Act of 1934 are the OCC, the Board, and the FDIC.

<sup>8</sup> A PBE that is not an SEC filer would include: (1) an entity that has issued securities that are traded, listed, or quoted on an over-the-counter market, and (2) an entity that has issued one or more securities that are not subject to contractual restrictions on transfer and is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available periodically (e.g., pursuant to Section 36 of the Federal Deposit Insurance Act and Part 363 of the FDIC's rules). For further information on the definition of a PBE, refer to ASU 2013-12, Definition of a Public Business Entity, issued in December 2013.

GAAP), ASU 2016-13 will become effective for the first fiscal year beginning after December 15, 2021, including interim periods within those fiscal years.<sup>9</sup> A banking organization that chooses to adopt ASU 2016-13 early may do so in a fiscal year beginning after December 15, 2018, including interim periods within that fiscal year. The following table provides a summary of the effective dates.

<b>CECL Effective Dates</b>		
	<b>U.S. GAAP Effective Date</b>	<b>Regulatory Report Effective Date*</b>
<b>PBEs that are SEC Filers</b>	Fiscal years beginning after 12/15/2019, including interim periods within those fiscal years	3/31/2020
<b>Other PBEs (Non-SEC Filers)</b>	Fiscal years beginning after 12/15/2020, including interim periods within those fiscal years	3/31/2021
<b>Non-PBEs</b>	Fiscal years beginning after 12/15/2021, including interim periods within those fiscal years	3/31/2022
<b>Early Adoption</b>	Early adoption permitted for fiscal years beginning after 12/15/2018, including interim periods within those fiscal years	3/31 of year of effective date of early adoption of ASU 2016-13

*\*For institutions with calendar year-ends*

### **C. Regulatory Capital**

A banking organization's implementation of CECL will likely affect its retained earnings, DTAs, and allowances and, as a result, its regulatory capital ratios. Retained earnings are a key component of a banking organization's common equity tier 1 (CET1) capital. An increase in a

<sup>9</sup> The FASB amended the effective date to the periods indicated for non-PBEs through an ASU issued November 15, 2018, ASU No. 2018-19, Codification Improvements to Topic 326: Financial Instruments—Credit Losses. ASU 2016-13 will now take effect for non-PBEs for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Thus, a non-PBE with a calendar year fiscal year must adopt ASU 2016-13 as of January 1, 2022, if the entity does not elect to early adopt prior to January 1, 2022, and would first report in accordance with the credit losses standard in its regulatory reports and any financial statements for March 31, 2022.

banking organization's allowances, including those estimated under CECL, generally will reduce the banking organization's earnings or retained earnings, and therefore its CET1 capital.<sup>10</sup> DTAs arising from temporary differences (temporary difference DTAs) must be included in a banking organization's risk-weighted assets or deducted from CET1 capital if they exceed certain thresholds. Increases in allowances generally give rise to increases in temporary difference DTAs that will partially offset the reduction in earnings or retained earnings.<sup>11</sup> Under the capital rule's standardized approach for risk-weighted assets (standardized approach), ALLL is included in a banking organization's tier 2 capital up to 1.25 percent of its standardized total risk-weighted assets (excluding standardized market risk-weighted assets, if applicable), as those terms are defined in the rule.<sup>12</sup> An advanced approaches banking organization<sup>13</sup> that has completed the parallel run process<sup>14</sup> includes in its advanced-approaches-adjusted total capital any eligible

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<sup>10</sup> However, allowances recognized on PCD assets upon adoption of CECL and upon later purchases of PCD assets generally would not reduce the banking organization's earnings, retained earnings, or CET1 capital.

<sup>11</sup> Deferred tax assets are a result of deductible temporary differences and carryforwards which may result in a decrease in taxes payable in future years.

<sup>12</sup> See 12 CFR 3.2 (OCC); 12 CFR 217.2 (Board); 12 CFR 324.2 (FDIC). Any amount of ALLL greater than the 1.25 percent limit is deducted from standardized total risk-weighted assets. 12 CFR 3.20(d)(3) (OCC); 12 CFR 217.20(d)(3) (Board); 12 CFR 324.20(d)(3) (FDIC).

<sup>13</sup> A banking organization is an advanced approaches banking organization if it has consolidated assets of at least \$250 billion or if it has consolidated on-balance sheet foreign exposures of at least \$10 billion, or if it is a subsidiary of a depository institution, bank holding company, savings and loan holding company, or intermediate holding company that is an advanced approaches banking organization. See 12 CFR 3.100 (OCC); 12 CFR 217.100 (Board); 12 CFR 324.100 (FDIC). On October 31, 2018, the OCC and the Board issued a notice of proposed rulemaking that would modify the definition of an advanced approaches banking organization. On November 20, 2018, the FDIC issued a substantively identical notice of proposed rulemaking.

<sup>14</sup> An advanced approaches banking organization is considered to have completed the parallel run process once it has completed the advanced approaches qualification process and received notification from its primary federal regulator pursuant to section 121(d) of subpart E of the

credit reserves that exceed the banking organization's total expected credit losses, as defined in the capital rule, to the extent that the excess reserve amount does not exceed 0.6 percent of the banking organization's credit risk-weighted assets.<sup>15</sup>

## **II. Summary of the Proposal**

### **A. Proposed Revisions to the Capital Rule to Reflect the Change in U.S. GAAP**

The agencies proposed to amend the capital rule to identify which credit loss allowances under the new accounting standard would be eligible for inclusion in a banking organization's regulatory capital.<sup>16</sup> In particular, the proposal would have added allowance for credit losses (ACL) as a newly defined term in the capital rule. As proposed, ACL would have included credit loss allowances related to financial assets measured at amortized cost, except for allowances for PCD assets. ACL would have been eligible for inclusion in a banking organization's tier 2 capital subject to the current limit for including ALLL in tier 2 capital under the capital rule's standardized approach.

Further, the agencies proposed to revise the capital rule, as applicable to an advanced approaches banking organization that has adopted CECL, and that has completed the parallel run process, to align the definition of eligible credit reserves with the definition of ACL in the proposal. The proposal would have retained the current limit for eligible credit reserves in tier 2

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capital rule. *See* 12 CFR 3.121(d) (OCC); 12 CFR 217.121(d) (Board); 12 CFR 324.121(d) (FDIC).

<sup>15</sup> 12 CFR 3.10(c)(3)(ii) (OCC); 12 CFR 217.10(c)(3)(ii) (Board); and 12 CFR 324.10(c)(3)(ii) (FDIC).

<sup>16</sup> Note that under section 37 of the Federal Deposit Insurance Act, the accounting principles applicable to reports or statements required to be filed with the agencies by all insured depository institutions must be uniform and consistent with U.S. GAAP. *See* 12 U.S.C. 1831n(a)(2)(A). Consistency in reporting under the statute would be addressed by the agencies' proposed CECL revisions to the Call Report pursuant to the Paperwork Reduction Act. *See* 83 FR 49160 (September 28, 2018).

capital. The proposal also would have provided a separate capital treatment for allowances associated with AFS debt securities and PCD assets that would have applied to all banking organizations upon adoption of ASU 2016-13.

Before the agencies issued the proposal, some banking organizations expressed concerns about the difficulty in capital planning due to the uncertainty about the economic environment at the time of CECL adoption. This is largely because CECL requires banking organizations to consider current and future expected economic conditions to estimate allowances and these conditions will not be known until closer to a banking organization's CECL adoption date. Therefore, it is possible that despite adequate capital planning, uncertainty about the economic environment at the time of CECL adoption could result in higher-than-anticipated increases in credit loss allowances. To address these concerns, the agencies proposed to provide a banking organization with the option to phase in over a three-year period the day-one adverse effects of CECL on the banking organization's regulatory capital ratios.

The proposal also would have revised regulatory capital disclosure requirements<sup>17</sup> that would have applied to certain banking organizations following their adoption of CECL.<sup>18</sup> The proposal would have provided conforming amendments to the agencies' other regulations that refer to credit loss allowances to reflect the implementation of ASU 2016-13. In particular, the proposal would have amended the Board's and FDIC's company-run stress testing rules to require a banking organization that has adopted CECL to include its CECL provisions as part of its stress testing projections beginning with the 2020 stress test cycle.

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<sup>17</sup> For the agencies' proposed revisions to regulatory reports to address the revised accounting for credit losses under ASU 2016-13, including CECL, see 83 FR 49160 (September 28, 2018).

<sup>18</sup> For certain banking organizations, sections 63 and 173 of the capital rule requires disclosure of items such as capital structure, capital adequacy, credit risk, and credit risk mitigation.

Finally, the proposal would not have changed the limit of 1.25 percent of risk-weighted assets governing the amount of allowances eligible for inclusion in tier 2 capital. The agencies stated in the proposal that they would intend to monitor the effects of this limit on regulatory capital and bank lending practices. This ongoing monitoring would have included the review of data, including data provided by banking organizations, and would have assisted the agencies in determining whether any further change to the capital rule's treatment of ACL might be warranted in the future.

### **B. Summary of Comments Received on the Proposal**

The agencies received 25 comment letters from banking organizations, trade associations, public interest groups, and individuals. Most commenters supported the agencies' proposal to provide an option to elect temporary regulatory capital relief as banking organizations adopt CECL. Most commenters also requested further additional measures for addressing CECL's effect on regulatory capital. Many commenters supported the agencies' proposal to provide a three-year transition provision to phase-in CECL's day-one effect on a banking organization's regulatory capital ratios, with most of these commenters favoring a longer five-year transition period. Some commenters offered targeted recommendations regarding implementation of a transition provision that would phase in CECL's effect in periods after CECL's day-one implementation. Several commenters requested that, instead of a transition provision, the agencies should provide a temporary neutralization adjustment of CET1 capital while further consideration of the effect of CECL is undertaken. Many of these and other commenters asserted that any transitional provision would be inadequate and preferred neutralizing the effect of CECL on regulatory capital ratios by either adjusting the CET1 capital calculation or revising the overall capital requirements.

One commenter requested that the agencies expand the scope of credit loss allowances eligible for inclusion in a banking organization's tier 2 capital to permit banking organizations to include post-acquisition allowances for PCD assets when PCD assets exceed a materiality threshold. Some commenters requested that the agencies increase or remove the current limit on allowances includable in tier 2 capital. Several commenters raised concerns with the proposed schedule for incorporation of CECL provisions into the stress testing cycle. One commenter requested that CECL's implementation in the stress testing cycle align with the proposal's three-year transition provision to allow time for industry standard practices to converge. Other commenters raised concerns and requested guidance in connection with how CECL interacts with regulatory capital and stress testing. Many of these commenters requested that the agencies undertake additional "cost-benefit" and impact studies to assess CECL's effect on the regulatory capital of banking organizations of various sizes and under varying economic conditions over time. Numerous commenters urged the agencies to delay CECL's implementation until additional impact studies have been completed, and to intervene on commenters' behalf with the FASB to revise the accounting treatment of credit losses.

### **III. Final Rule**

#### **A. Changes to the Capital Rule to Reflect the Change in U.S. GAAP**

##### *1. Introduction of Adjusted Allowances for Credit Losses as a New Defined Term*

The agencies are adopting as final the proposal for the credit loss allowances that would have been eligible for inclusion in tier 2 capital, with one non-substantive change from the proposal with respect to terminology. The final rule includes a new term, adjusted allowances for credit losses (AACL), which replaces the term ACL, as used in the proposal. The agencies believe that the term AACL for regulatory capital purposes minimizes confusion, as its meaning

is different from the term ACL used in applicable accounting standards. The term allowance for credit losses as used by the FASB in ASU 2016-13 applies to both financial assets and AFS debt securities. In contrast, the term ACL as used in the proposal for regulatory capital purposes excludes credit loss allowances on PCD assets and AFS debt securities. Consistent with the proposal and as described in the following sections, the AACL definition includes only those allowances that have been charged against earnings or retained earnings. Under the final rule, the term AACL, rather than ALLL, will apply to a banking organization that has adopted CECL. Consistent with the treatment of ALLL under the capital rule's standardized approach, amounts of AACL are eligible for inclusion in a banking organization's tier 2 capital up to 1.25 percent of the banking organization's standardized total risk-weighted assets (excluding its standardized market risk-weighted assets, if applicable).

AACL covers a broader range of financial assets than ALLL under the incurred loss methodology. Under the standardized approach of the capital rule, ALLL includes valuation allowances that have been established through a charge against earnings to cover estimated credit losses on loans or other extensions of credit as determined in accordance with U.S. GAAP. Under CECL, credit loss allowances represent an accounting valuation account, measured as the difference between the financial assets' amortized cost basis and the amount expected to be collected on the financial assets (i.e., lifetime credit losses). Thus, AACL includes allowances for expected credit losses on HTM debt securities and lessors' net investments in leases that have been established to adjust these assets to amounts expected to be collected, as determined in accordance with U.S. GAAP. AACL also includes allowances for expected credit losses on off-balance sheet credit exposures not accounted for as insurance, as determined in accordance with U.S. GAAP. As described below, however, credit loss allowances related to AFS debt securities

and PCD assets are not included in the definition of AACL. As with the definition of ALLL, AACL under the final rule also excludes allocated transfer risk reserves.

## *2. Definition of Carrying Value*

The agencies are adopting as final, without change from the proposal, the definition of carrying value. Under the final rule, carrying value means, with respect to an asset, the value of the asset on the balance sheet as determined in accordance with U.S. GAAP. Furthermore, carrying value under the final rule provides that, for all assets other than AFS debt securities and PCD assets, the carrying value is not reduced by any associated credit loss allowance. The agencies did not receive comments on the proposed treatment of AFS debt securities and, as discussed below, received one comment on the proposed treatment of PCD assets.

Current accounting standards require a banking organization to make an individual assessment of each of its AFS debt securities and take a direct write-down for credit losses when such a security is other-than-temporarily impaired. The amount of the write-down is charged against earnings, which reduces CET1 capital and results in a reduction in the same amount to the carrying value of the AFS debt security. ASU 2016-13 revises the accounting for credit impairment of AFS debt securities by requiring banking organizations to determine whether a decline in fair value below an AFS debt security's amortized cost resulted from a credit loss, and to record any such credit impairment through earnings with a corresponding allowance. Similar to the current regulatory treatment of credit-related losses for other-than-temporary impairment, under the final rule all credit losses recognized on AFS debt securities will correspondingly affect CET1 capital and reduce the carrying value of the AFS debt security. Since the carrying value of an AFS debt security is its fair value, which would reflect any credit impairment, credit

loss allowances for AFS debt securities required under the new accounting standard are not eligible for inclusion in a banking organization's tier 2 capital.

Under the new accounting standard, PCD assets are acquired individual financial assets (or acquired groups of financial assets with shared risk characteristics) that, as of the date of acquisition and as determined by an acquirer's assessment, have experienced a more-than-insignificant deterioration in credit quality since origination. The new accounting standard will require a banking organization to estimate expected credit losses that are embedded in the purchase price of a PCD asset and recognize these amounts as an allowance as of the date of acquisition. As such, the initial allowance amount for a PCD asset recorded on a banking organization's balance sheet will not be established through a charge to earnings. Including in tier 2 capital allowances that have not been charged against earnings would diminish the quality of regulatory capital. Post-acquisition increases in allowances for PCD assets will be established through a charge against earnings.

Accordingly, the agencies are maintaining the requirement that valuation allowances be fully charged against earnings in order to be eligible for inclusion in tier 2 capital. The agencies also are clarifying that valuation allowances that are charged to retained earnings in accordance with U.S. GAAP (i.e., the allowances required at CECL adoption) are eligible for inclusion in tier 2 capital. The final rule, however, excludes PCD allowances from being included in tier 2 capital; rather, a banking organization calculates the carrying value of PCD assets net of allowances. This treatment of PCD assets, in effect, will reduce a banking organization's standardized total risk-weighted assets, similar to the proposed treatment for credit loss allowances for AFS debt securities. One commenter recommended that the agencies require or provide an option to allow banking organizations to use a bifurcated approach for the treatment

of PCD assets whereby a banking organization could include post-acquisition allowances on PCD assets in tier 2 capital when the banking organization's PCD balances exceed a materiality threshold. The commenter was concerned that the proposed approach could discourage banking organizations from acquiring distressed firms if the post-acquisition allowance were not includable in regulatory capital. As noted in the proposal, the agencies are concerned that a bifurcated approach could create undue complexity and burden for banking organizations and believe that requiring banking organizations to calculate the carrying value of PCD assets net of allowances appropriately accounts for post-acquisition allowances in the calculation of regulatory capital.

#### **B. CECL Transition Provision**

In the preamble of the proposal, the agencies noted that some banking organizations have expressed concerns about the difficulty in capital planning due to the uncertainty about the economic environment at the time of CECL adoption. This is largely because CECL requires banking organizations to consider current and future expected economic conditions to estimate allowances and banking organizations will not understand these conditions until closer to their CECL adoption date. Therefore, it is possible that despite adequate planning to prepare for the implementation of CECL, unexpected economic conditions at the time of CECL adoption could result in higher-than-anticipated increases in allowances. To address these concerns, the agencies proposed to provide banking organizations with the option to phase in over a three-year period the day-one adverse effects of CECL on their regulatory capital ratios.

Several commenters requested that the agencies extend the transition period from three years to five years or longer. In particular, commenters noted that effects of CECL on bank capital in the aggregate and for individual banks cannot be precisely estimated prior to actual

adoption of CECL. Some commenters noted that a five-year transition would help to soften any adverse effects due to unresolved interpretive issues with respect to CECL implementation. According to one commenter, a five-year transition period would allow a bank to transition through the vast majority of the expected life of its loan portfolio. One commenter argued that a three-year transition period might not be sufficient for firms that enter a stress environment at the time of CECL implementation. One commenter supported the proposed three-year transition period.

A few commenters asked the agencies to adopt a dynamic transition provision, whereby a banking organization could calculate and phase-in additional capital differences between CECL and the current incurred loss methodology (or a proxy for the incurred loss methodology) for any new credit loss allowances generated throughout the entire transition period, rather than just at initial adoption of CECL. Several commenters requested that the agencies delay the implementation of CECL or neutralize the impact of CECL on regulatory capital until further study of the effect of CECL has been completed.

The agencies note that ASU 2016–13 was issued in 2016 and becomes mandatory in 2020 at the earliest for banking organizations that are U.S. SEC filers, which provides banking organizations with at least a four year period to plan for CECL implementation. Most banking organizations are not required to adopt CECL until 2021 or 2022, according to the U.S. GAAP effective dates for ASU 2016-13.

While the exact effects of CECL adoption may not be known currently, a banking organization will be able to better understand and estimate the macroeconomic factors that may affect the size of the banking organization’s one-time adjustment to CECL closer to its CECL adoption date. The agencies recognize that these estimates may change, and the three-year

transition period may help mitigate capital volatility due to refinements in CECL allowance estimates that may be made as a banking organization approaches its CECL adoption date.

The agencies continue to view the period of at least four years that banking organizations will have had to plan for the implementation of CECL, combined with the proposed three-year transition period, as a sufficient amount of time for a banking organization to adjust and adapt to any immediate adverse effects on regulatory capital ratios resulting from CECL adoption. Further, the agencies considered adopting a dynamic or ongoing transition approach, but believe, that relative to the straight-line approach, it would create unnecessary complexity and operational burden. Therefore, the agencies are finalizing the three-year transition period as proposed.

As previously stated, many commenters requested that the agencies take action to “neutralize” the effect of CECL on regulatory capital on a more permanent basis. The agencies acknowledge that because changes in allowances may reduce retained earnings, which is a key component of CET1 capital, CECL implementation could affect regulatory capital levels at some banking organizations. In defining regulatory capital, the agencies have long sought to recognize the ability of capital to absorb losses and to support the ongoing operations of a banking organization. The agencies recognize commenters’ concerns with CECL and intend to closely monitor the effects of CECL on regulatory capital and bank lending practices as the standard is implemented.

#### *1. Election of the Optional CECL Transition Provision*

Under the final rule, a banking organization that experiences a reduction in retained earnings due to CECL adoption as of the beginning of the fiscal year in which the banking organization adopts CECL may elect to phase in the regulatory capital impact of adopting CECL

over a three-year transition period (electing banking organization). An electing banking organization is required to begin applying the CECL transition provision as of the electing banking organization's CECL adoption date. An electing banking organization must indicate in its Consolidated Reports of Condition and Income (Call Report) or Form FR Y-9C, as applicable, its election to use the CECL transition provision, by reporting the amounts in the affected line items of the regulatory capital schedule, adjusted for the transition provisions, beginning in the regulatory report for the quarter in which it first reports its credit loss allowances as measured under CECL. For example, an electing banking organization would adjust the amount of retained earnings it reports in Schedule RC-R of the Call Report or Schedule HC-R of the Form FR Y-9C to incorporate the transition provision.

A banking organization that does not elect to use the CECL transition provision in the regulatory report for the quarter in which it first reports its credit loss allowances as measured under CECL will not be permitted to make an election in subsequent reporting periods and will be required to reflect the full effect of CECL in its regulatory capital ratios beginning as of the banking organization's CECL adoption date. For example, a banking organization that adopts CECL as of January 1, 2020, and does not elect to use the CECL transition provision in its regulatory report as of March 31, 2020, must include the full effects of CECL adoption in its regulatory capital schedule as of March 31, 2020, and will not be permitted to use the CECL transition provision in any subsequent reporting period.

A banking organization that initially elects to use the CECL transition provision in the final rule, but opts out of the transition provision in a subsequent reporting period, will not be permitted to resume using the transition provision at a later date within the three-year transition period. A banking organization may opt out of applying the transition provision by reflecting the

full impact of CECL on regulatory capital in Schedule RC-R of the Call Report or Schedule HC-R of Form FR Y-9C, as applicable.

A depository institution holding company subject to the Board’s capital rule and each of its subsidiary institutions is eligible to make a CECL transition provision election independent of one another.

## *2. Mechanics of the CECL Transition Provision*

Under the final rule, an electing banking organization must calculate transitional amounts for the following items: retained earnings, temporary difference DTAs, and credit loss allowances eligible for inclusion in regulatory capital. For each of these items, the transitional amount is equal to the difference between the electing banking organization’s closing balance sheet amount for the fiscal year-end immediately prior to its adoption of CECL (pre-CECL amount) and its balance sheet amount as of the beginning of the fiscal year in which it adopts CECL (post-CECL amount). An electing banking organization must phase in the transitional amounts to its regulatory capital calculations over a three-year period beginning the first day of the fiscal year in which the electing banking organization adopts CECL.

An electing banking organization’s “CECL transitional amount” is equal to the difference between its pre-CECL and post-CECL amounts of retained earnings (CECL transitional amount). An electing banking organization’s “DTA transitional amount” is equal to the difference between its pre-CECL and post-CECL amounts of temporary difference DTAs. An electing banking organization’s AACL transitional amount is equal to the difference between its pre-CECL amount of ALLL and its post-CECL amount of AACL (AACL transitional amount).

Under the standardized approach, an electing banking organization must phase in over the three-year transition period its CECL transitional amount, DTA transitional amount, and

AACL transitional amount. The electing banking organization also must phase in over the transition period the CECL transitional amount to its average total consolidated assets for purposes of calculating its tier 1 leverage ratio. Each transitional amount must be phased in over the transition period on a straight-line basis.

When calculating regulatory capital ratios during the first year of an electing banking organization’s CECL adoption date, the organization must phase in 25 percent of the transitional amounts. The electing banking organization would phase in an additional 25 percent of the transitional amounts over each of the next two years so that a banking organization would have phased in 75 percent of the day-one adverse effects of adopting CECL during year three. At the beginning of the fourth year, the banking organization would have completely reflected in regulatory capital the day-one effects of CECL. See Table 1 below for further details:

**Table 1: CECL Transition Amounts to Apply to Regulatory Capital Components**

	Year 1	Year 2	Year 3
<b>Increase</b> retained earnings and average total consolidated assets by the following percentages of the CECL transitional amount	75%	50%	25%
<b>Decrease</b> temporary difference DTAs by the following percentages of the DTA transitional amount			
<b>Decrease</b> AAAL by the following percentages of the AAAL transitional amount			

For example, consider a hypothetical electing banking organization that has a CECL effective date of January 1, 2020, and a 21 percent tax rate. On the closing balance sheet date immediately prior to adopting CECL (i.e., December 31, 2019), the electing banking organization has \$10 million in retained earnings and \$1 million of ALLL. On the opening

balance sheet date immediately after adopting CECL (i.e., January 1, 2020), the electing banking organization has \$1.2 million of AACL. The electing banking organization would recognize the adoption of CECL by recording an increase to AACL (credit) of \$200,000, with an offsetting increase in temporary difference DTAs of \$42,000 (debit), and a reduction in beginning retained earnings of \$158,000 (debit). For each of the quarterly reporting periods in year 1 of the transition period (i.e., 2020), the electing banking organization would increase both retained earnings and average total consolidated assets by \$118,500 (\$158,000 x 75 percent), decrease temporary difference DTAs by \$31,500 (\$42,000 x 75 percent), and decrease AACL by \$150,000 (\$200,000 x 75 percent) for purposes of calculating its regulatory capital ratios. The remainder of the transitional amounts will be transitioned into regulatory capital according to the schedule provided in Table 2.

**Table 2: Example of a CECL Transition Provision Schedule**

In thousands	Transitional Amounts	Transitional Amounts Applicable during Each Year of the Transition Period		
		Column B	Column C	Column D
	Column A	Year 1 at 75%	Year 2 at 50%	Year 3 at 25%
<b>Increase</b> retained earnings and average total consolidated assets by the CECL transitional amount	\$158	\$118.50	\$79	\$39.50
<b>Decrease</b> temporary difference DTAs by the DTA transitional amount	\$42	\$31.50	\$21	\$10.50
<b>Decrease</b> AACL by the ACL transitional amount	\$200	\$150	\$100	\$50

The result of the CECL transition provision for an electing banking organization is to phase in the effect of the adoption of CECL in its regulatory capital ratios in a uniform manner. The phase-in of the CECL transitional amount to retained earnings will mitigate the decrease in

an electing banking organization's CET1 capital resulting from CECL adoption, and would increase the levels at which the capital rule's CET1 capital deduction thresholds would be triggered. The DTA transitional amount phases in the amount of an electing banking organization's temporary difference DTAs subject to the CET1 capital deduction thresholds and the amount of temporary difference DTAs included in risk-weighted assets. The AACL transitional amount phases in the amount of AACL that an electing banking organization may include in its tier 2 capital up to the limit of 1.25 percent of its standardized total risk-weighted assets (excluding its standardized market risk-weighted assets, if applicable). Finally, for purposes of an electing banking organization's tier 1 leverage ratio calculation, the addition of the CECL transitional amount to average total consolidated assets offsets the immediate decrease that would otherwise occur as a result of the adjustments to credit loss allowances and temporary difference DTAs resulting from the adoption of CECL.

Notwithstanding the CECL transition provision, all other aspects of the capital rule will continue to apply. Thus, all regulatory capital adjustments and deductions will continue to apply and an electing banking organization will continue to be limited in the amount of credit loss allowances that it could include in its tier 2 capital.<sup>19</sup>

### *3. Business Combinations*

Under the proposal, during the period in which an electing banking organization is using the CECL transition provision, if the electing banking organization acquired another banking organization through a business combination (as determined under U.S. GAAP), the electing banking organization would have been able to continue to make use of its transitional amounts

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<sup>19</sup> 12 CFR 3.10(c)(3)(ii)(B), 12 CFR 3.20(d)(3) (OCC); 12 CFR 217.10(c)(3)(ii)(B), 12 CFR 217.20(d)(3) (Board); 12 CFR 324.10(c)(3)(ii)(B), 12 CFR 324.20(d)(3) (FDIC).

based on its calculation as of the date of its adoption of CECL. Business combinations would have covered mergers, acquisitions, and transactions in which two existing unrelated entities combine into a newly created third entity.

One commenter requested that the agencies allow transitional amounts of an acquired electing banking organization to flow through to the resulting banking organization. The agencies do not believe that such a treatment is appropriate, as any assets acquired and liabilities assumed will be measured at fair value as of the acquisition date under U.S. GAAP, and therefore the capital relief is no longer relevant for the acquired banking organizations. Thus, under the final rule, any transitional amounts of an acquired electing banking organization will not be eligible for inclusion in the calculation of the regulatory capital ratios of the resulting banking organization.<sup>20</sup>

#### *4. Supervisory Oversight*

For purposes of determining whether an electing banking organization is in compliance with its regulatory capital requirements (including capital buffer and prompt corrective action (PCA) requirements), the agencies will use the electing banking organization's regulatory capital ratios as adjusted by the CECL transition provision. Through the supervisory process, the agencies will continue to examine banking organizations' credit loss estimates and allowance balances regardless of whether the banking organization has elected to use the CECL transition provision. In addition, the agencies may examine whether electing banking organizations will have adequate amounts of capital at the expiration of their CECL transition provision period.

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<sup>20</sup> For combinations of banking organizations under common control the transitional amounts of each banking organization could be combined in the calculation of the regulatory capital ratios of the resulting banking organization.

### **C. Additional Requirements for Advanced Approaches Banking Organizations**

Under the capital rule, an advanced approaches banking organization<sup>21</sup> that has completed the parallel run process must include in its advanced-approaches-adjusted total capital any amount of eligible credit reserves that exceeds its regulatory expected credit losses to the extent that the excess reserve amount does not exceed 0.6 percent of the banking organization's credit risk-weighted assets.<sup>22</sup> Consistent with the proposal, the agencies are revising the definition of eligible credit reserves to align with the definition of ACL in the final rule. Under the final rule, for an advanced approaches banking organization that has completed the parallel run process and that has adopted CECL, eligible credit reserves includes all general allowances that have been established through a charge against earnings or retained earnings to cover expected credit losses associated with on- or off-balance sheet wholesale and retail exposures, including ACL associated with such exposures. Similar to the current definition of eligible credit reserves, the definition of eligible credit reserves applicable to banking organizations that have adopted CECL excludes allocated transfer risk reserves established pursuant to 12 U.S.C. 3904. In addition, the revised eligible credit reserves definition excludes expected credit losses on PCD assets and expected credit losses on AFS debt securities, and other specific reserves created against recognized losses. The definition of eligible credit reserves remains unchanged for an advanced approaches banking organization that has not adopted CECL.

For purposes of the supplementary leverage ratio (SLR), which is applicable to all advanced approaches banking organizations, the final rule maintains the current definition of total leverage exposure. Thus, total leverage exposure continues to include, among other items,

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<sup>21</sup> See footnote 13.

<sup>22</sup> 12 CFR 3.10(c)(3)(ii) (OCC); 12 CFR 217.10(c)(3)(ii) (Board); and 12 CFR 324.10(c)(3)(ii) (FDIC).

the balance sheet carrying value of such a banking organization’s on-balance sheet assets less amounts deducted from tier 1 capital.

**Table 3: CECL Transition Amounts for Advanced Approaches Banking**

**Organizations**

	Year 1	Year 2	Year 3
<b>Increase</b> total leverage exposure for SLR by the following percentages of the CECL transitional amount	75%	50%	25%
<b>Decrease</b> eligible credit reserves by the following percentages of the eligible credit reserves transitional amount			

An advanced approaches banking organization that has completed the parallel run process is required to deduct the amount of expected credit losses that exceeds its eligible credit reserves (ECR shortfall) from its CET1 capital. Due to this requirement, an advanced approaches banking organization’s CET1 capital immediately after CECL adoption may be greater than its CET1 capital immediately before CECL adoption.<sup>23</sup> This is because, for a banking organization with an ECR shortfall, an increase in allowances resulting from CECL adoption can have a dual impact on CET1 capital: (1) a reduction in retained earnings (partially offset by DTAs) that may be less than (2) a concurrent reduction in the ECR shortfall amount because while the CET1 capital reduction is net of DTAs, the reduction in ECR shortfall is not net of DTAs. The agencies were concerned that the use of the CECL transition provision could provide an undue benefit to a banking organization that has an ECR shortfall prior to its adoption of CECL and could undermine an objective of the CECL transition provision to provide relief to banking organizations that experience an immediate adverse impact to regulatory capital as a

<sup>23</sup> See 12 CFR 3.121(d) (OCC); 12 CFR 217.121(d) (Board); and 12 CFR 324.121(d) (FDIC).

result of CECL adoption. The agencies received one comment that supported this aspect of the proposal, for the stated reasons above. The final rule, therefore, limits the CECL transitional amount that such an electing advanced approaches banking organization can include in retained earnings.

Under the final rule and consistent with the proposal, an electing advanced approaches banking organization that (1) has completed the parallel run process, (2) has an ECR shortfall immediately prior to the adoption of CECL, and (3) would have an increase in CET1 capital as of the beginning of the fiscal year in which it adopts CECL after including the first year portion of the CECL transitional amount, is required to decrease its CECL transitional amount by its DTA transitional amount.<sup>24</sup>

#### **D. Disclosures and Regulatory Reporting**

One commenter urged the agencies to consider requiring banking organizations to disclose the full effect of CECL. The agencies recognize that increased disclosures help to provide users of financial reports with additional information, but doing so can increase burden for banking organizations. The agencies have proposed revisions to certain regulatory reporting forms to reflect the changes in U.S. GAAP provided by ASU 2016-13 in a separate proposal.<sup>25</sup> The proposed revisions would specify how electing banking organizations report their

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<sup>24</sup> For example, if a banking organization has completed the parallel run process, has an ECR shortfall immediately prior to the adoption of CECL, would have an increase in CET1 capital as of the beginning of the fiscal year in which it adopts CECL after including the first year portion of the CECL transitional amount, and, upon the adoption of CECL, records an increase in AACL (credit) of \$200,000, with an offsetting increase in temporary difference DTAs of \$42,000 (debit), and a reduction in beginning retained earnings of \$158,000 (debit), then that banking organization would have a CECL transitional amount of \$116,000 (\$158,000 - \$42,000), and would apply \$ 87,000 in year 1, \$58,000 in year 2, \$29,000 in year 3 of the transition period.

<sup>25</sup> 83 FR 49160 (September 28, 2018).

transitional amounts for the affected line items in Schedule RC-R of the Call Report and Schedule HC-R of the FR Y-9C.<sup>26</sup> In addition, the agencies intend to update instructions for certain other reporting forms, including the FFIEC 101, to reflect the three-year CECL transition period.

In addition, under the final rule, banking organizations subject to the disclosure requirements in § 63 of the capital rule (i.e., banking organizations with total consolidated assets of \$50 billion or more) would be required to update their disclosures to reflect the adoption of CECL. Such banking organizations would be required to disclose AACL instead of ALLL after CECL adoption.

For advanced approaches banking organizations, the final rule makes similar revisions to Tables 2, 3, and 5 in section 173<sup>27</sup> of the capital rule to reflect the adoption of CECL. In addition, the final rule revises those tables requiring electing advanced approaches banking organizations to disclose two sets of regulatory capital ratios. One set would reflect the banking organization's capital ratios with the CECL transition provision and the other set would reflect the banking organization's capital ratios on a fully phased-in basis.

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<sup>26</sup> On November 20, 2018, the agencies issued a notice of proposed rulemaking to implement Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. Under the proposal, depository institutions and depository institution holding companies that have less than \$10 billion in total consolidated assets, meet risk-based qualifying criteria, and have a community bank leverage ratio (as defined in the proposal) of greater than 9 percent would be eligible to opt into a community bank leverage ratio (CBLR) framework. Banking organizations that use the CBLR framework would no longer be required to complete the current Schedule RC-R of the Call Report or Schedule HC-R of the FR Y-9C, as applicable. The agencies anticipate issuing for public comment a proposed alternative capital reporting schedule for such banking organizations.

<sup>27</sup> 12 CFR 3.173 (OCC); 12 CFR 217.173 (Board); 12 CFR 324.173 (FDIC).

## **E. Conforming Changes to Other Agency Regulations**

### *1. OCC Regulations*

In addition to the capital rule, seven provisions in other OCC regulations refer to ALLL, as defined in 12 CFR part 3, in calculating various statutory or regulatory limits. Specifically, ALLL is used in calculating limits on holdings of certain investment securities (12 CFR part 1); limits on ownership of bankers' bank stock (12 CFR 5.20); limits on investments in bank premises (12 CFR 5.37); limits on leasing of personal property (12 CFR 23.4); limits on certain community development investments (12 CFR 24.4); lending limits (12 CFR part 32); and, limits on improvements to other real estate owned (12 CFR part 34, Subpart E).

The OCC has revised the calculations used in six of those sections that currently reference ALLL to reference AACL, once a banking organization has adopted the FASB standard. The revisions ensure that banking organizations will not experience a material decrease in any of the affected limits due to the adoption of CECL. With respect to limits on improvements to other real estate owned in 12 CFR part 34, subpart E, the OCC is withdrawing the proposed revision in anticipation of making comprehensive revisions to that subpart in the near future.

The OCC also made conforming edits to the terminology used in the stress testing regulation at 12 CFR part 46 to incorporate the new CECL methodology. Some commenters requested that the OCC mirror the Board and FDIC in adopting detailed CECL-specific provisions and effective dates in part 46. The OCC currently addresses these details through instructions to the stress tests and will continue to do so through amending the instructions instead of through rulemaking.

## *2. Board Regulations*

Certain Board regulations reflect the current practice of banking organizations establishing an ALLL under the incurred loss methodology to cover estimated credit losses on loans, lease financing receivables, or other extensions of credit. As discussed above, banking organizations that adopt CECL will hold AACL to cover expected credit losses on a broader array of financial assets than covered by the ALLL. As a result, the final rule makes conforming changes to those other regulations.

Specifically, the final rule amends the definition of “capital stock and surplus” in the Board’s Regulation H, 12 CFR part 208, to include the balance of a member bank’s AACL. Similarly, the final rule incorporates “allowance for credit losses” in the definition of “capital stock and surplus” in the Board’s Regulation K, 12 CFR part 211; Regulation W, 12 CFR part 223; and Regulation Y, 12 CFR part 225. A related change will be made to the definition of unimpaired capital and unimpaired surplus in the Board’s Regulation O, 12 CFR part 215.

The final rule makes a similar change to the Board’s Regulation K relating to the establishment of allocated transfer risk reserve (ATRR). Specifically, the final rule replaces, for CECL adopters, all references to ALLL, in the section relating to the accounting treatment of ATRR, with AACL.

The final rule incorporates technical amendments to section 225.127 of the Board’s Regulation Y to provide corrected reference citations to sections of Regulation Y that have been revised and renumbered.

Finally, the final rule amends the supervisory stress testing and company-run stress testing rules in the Board’s Regulation YY, 12 CFR part 252, to address the changes made in

U.S. GAAP following the issuance of ASU 2016-13.<sup>28</sup> Several commenters requested that the Board delay incorporation of CECL into the Comprehensive Capital Analysis and Review (CCAR) given CECL's operational and governance challenges. In particular, some commenters requested a delay for incorporating CECL until the 2021 stress testing cycle, while one commenter requested a delay until the year following a banking organization's adoption of CECL and another commenter requested a delay until an industry standard practice regarding incorporating CECL into CCAR emerges. One commenter requested that the Board phase in CECL into CCAR over three years, consistent with the proposed transition provision.

The Board notes that the proposal did not address the incorporation of CECL into CCAR and instead addressed the incorporation of CECL into the Board's stress testing rules. As a result, the Board is addressing the comments in the context of incorporation of CECL in its stress testing rules. While CCAR and the capital plan rule are outside of the scope of this rulemaking, the Board is carefully considering the effect of CECL on key aspects of CCAR, including its assessment of a firm's post-stress capital adequacy and its supervision of a firm's internal capital planning practices. The Board will look to provide more information on the intersection of CECL and CCAR.

The Board acknowledges that incorporating CECL on a forward-looking basis in the Board's supervisory stress testing and company-run stress testing rules involves additional challenges apart from those involved in financial reporting. However, in order to address the purpose of the stress testing rules – to assess whether banking organizations have sufficient capital to absorb losses as a result of adverse economic conditions – the Board expects that banking organizations implementing CECL for financial reporting will also reflect CECL in their

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<sup>28</sup> See 12 CFR part 252, subparts B, E, and F.

stress testing processes starting in the same year. Otherwise, stress test projections may not reflect how the banking organizations' balance sheets and regulatory capital ratios would evolve during stressful conditions. The Board also believes an extended phase-in of CECL into the stress test rules would introduce undue complexity in the requirements. Such a transition would require estimating regulatory capital ratios under both the incurred loss method and CECL for three annual stress testing exercises.

For these reasons, the Board is finalizing the initial application of CECL in stress testing as proposed. As such, under the final rule, a banking organization that has adopted CECL will be required to include its provision for credit losses beginning in the 2020 stress test cycle, which would include provisions calculated under ASU 2016-13, instead of its provision for loan and lease losses, in its stress testing methodologies and data and information required to be submitted to the Board and that the disclosure of the results of those stress tests includes estimates of those provisions. To promote comparability of stress test results across firms, for the 2018 and 2019 stress test cycles, a banking organization will continue to use its provision for loan and lease losses, as would be calculated under the incurred loss methodology, even if the firm adopts CECL in 2019. Finally, under the final rule, a banking organization that does not adopt CECL until 2021 will not be required to include its provision for credit losses for these purposes until the 2021 stress test cycle. The following table describes the stress test cycles in which a banking organization will be required to use its provision for credit losses instead of the provision for loan and lease losses, based on the varying dates of adoption of ASU 2016-13.

**Table 4: Summary of Use of Provisions in 2019-2021 Stress Test Cycles**

<b>Year of Adoption of ASU 2016-13</b>	<b>2019 Stress Test Cycle</b>	<b>2020 Stress Test Cycle</b>	<b>2021 Stress Test Cycle</b>
2019	Provision for loan and lease losses	Provision for credit losses	Provision for credit losses
2020	Provision for loan and lease losses	Provision for credit losses	Provision for credit losses
2021	Provision for loan and lease losses	Provision for loan and lease losses	Provision for credit losses

In addition, beginning in the 2020 stress test cycle, a banking organization that has adopted CECL will be required under the final rule to incorporate the effects of the maintenance of AACL when estimating the impact on pro forma regulatory capital levels and pro forma capital ratios.

### *3. FDIC Regulations*

The final rule makes conforming amendments to references to provisions or allowances for loan and lease losses in the FDIC’s regulations. Specifically, the final rule would replace, for CECL adopters, all references to ALLL with AACL (as applicable) in the FDIC’s capital rule codified at 12 CFR part 324, including in the definitions of “identified losses” and “standardized total risk-weighted assets.” The final rule also makes conforming changes to the FDIC regulations in 12 CFR parts 327 and 347 by replacing references to ALLL with allowance for credit losses (as determined in accordance with U.S. GAAP). The final rule also makes conforming changes to 12 CFR part 390 by adding provision for credit losses. Finally, consistent with the changes to the Board’s stress testing rules, the final rule makes similar conforming changes to the FDIC’s stress testing rules codified at 12 CFR part 325.

#### **IV. Long Term Considerations with CECL**

Several commenters recommended that the agencies neutralize the effects of CECL in the capital rule as an alternative to the proposed phase-in approach. Several commenters requested that the agencies study CECL's effect on regulatory capital, including CECL's effects over the economic cycle; review the regulatory capital requirements with respect to allowances; and conduct cost-benefit analysis of CECL's implementation on small and medium-sized banking organizations. One commenter requested that the agencies ask the FASB to delay implementation of CECL until a study is conducted on CECL's effects on the overall stability of the banking sector and on the availability, accessibility, and affordability of credit. One commenter asked the agencies to engage with the FASB to make changes to CECL to minimize its effects on regulatory capital. Another commenter asked the agencies to consider issuing interpretative industry guidelines that will help narrow the range of potential practices. Additional comments were received on the interaction between CECL and stress testing. One commenter asked that any decision the Board makes regarding implementation of CECL to depository institution holding companies that are engaged in significant insurance activities reflect the Building Block Approach to capital.

The agencies recognize commenters' concerns about CECL's effects on regulatory capital. The agencies are committed to closely monitoring the effects of CECL on regulatory capital and bank lending practices. This ongoing monitoring will include the review of data provided by banking organizations, as well as information observed from banking organizations' parallel runs before their adoption of CECL and their implementation of CECL.

## **V. Regulatory Analyses**

### *A. Paperwork Reduction Act*

Certain provisions of the final rule contain “collection of information” requirements within the meaning of the Paperwork Reduction Act of 1995 (44 U.S.C. 3501–3521) (PRA). In accordance with the requirements of the PRA, the agencies may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The agencies reviewed the final rule and determined that the final rule revises certain disclosure and reporting requirements that have been previously cleared by the OMB under various control numbers. The agencies will revise and extend these information collections for three years. The information collections for the disclosure requirements contained in the final rulemaking have been submitted by the OCC and FDIC to OMB for review and approval under section 3507(d) of the PRA (44 U.S.C. 3507(d)) and section 1320.11 of the OMB’s implementing regulations (5 CFR part 1320). The Board reviewed the final rule under the authority delegated to the Board by OMB.

### Disclosure Burden – Advanced Approaches Banking Organizations

#### *Current Actions*

Section 173 of the capital rule requires that advanced approaches banking organizations publicly disclose capital-related information as provided in a series of 13 tables. For advanced approaches banking organizations, the agencies made revisions to Tables 2, 3, and 5 in section 173 of the capital rule to reflect the adoption of CECL. In addition, the agencies made revisions to those tables for electing advanced approaches banking organizations to disclose two sets of regulatory capital ratios. One set reflects such banking organization’s capital ratios with the CECL transition provision and the other set reflects the banking organization’s capital ratios on a

fully phased-in basis. This aspect of the final rule affects the below-listed information collections.

The changes in the disclosure requirements to Tables 2, 3, and 5 in section 173 of the capital rule result in an increase in the average hours per response per agency of 48 hours for the initial setup burden. In addition, the changes in the disclosure requirements to Tables 2, 3, and 5 in section 173 of the capital rule result in an increase in the average hours per response per agency of 6 hours for ongoing (quarterly) burden.<sup>29</sup>

*Revision, With Extension, of the Following Information Collections:*

**OCC:**

*Title of Information Collection:* Risk-Based Capital Standards: Advanced Capital Adequacy Framework.

*Frequency:* Quarterly, annual.

*Affected Public:* Businesses or other for-profit.

*Respondents:* National banks, state member banks, state nonmember banks, and state and federal savings associations.

*OMB control number:* 1557-0318.

*Estimated number of respondents:* 1,365 (of which 18 are advanced approaches institutions).

*Estimated average hours per response:*

***Minimum Capital Ratios***

Recordkeeping (Ongoing) – 16.

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<sup>29</sup> In an effort to provide transparency, the total cumulative burden for each agency is shown. In addition, as stated in the Notice of Proposed Rulemaking, Simplifications to the Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996, 82 FR 49984 (October 27, 2017), in order to be consistent across the agencies, the agencies are also applying a conforming methodology for calculating the burden estimates.

### ***Standardized Approach***

Recordkeeping (Initial setup) – 122.

Recordkeeping (Ongoing) – 20.

Disclosure (Initial setup) – 226.25.

Disclosure (Ongoing quarterly) – 131.25.

### ***Advanced Approach***

Recordkeeping (Initial setup) – 460.

Recordkeeping (Ongoing) – 540.77.

Recordkeeping (Ongoing quarterly) – 20.

Disclosure (Initial setup) – 328.

Disclosure (Ongoing) – 5.78.

Disclosure (Ongoing quarterly) – 41.

*Revisions estimated annual burden:* 432 hours.

*Estimated annual burden hours:* 1,088 hours initial setup, 66,017 hours for ongoing.

### **Board:**

*Title of Information Collection:* Recordkeeping and Disclosure Requirements Associated with Regulation Q.

*Frequency:* Quarterly, annual.

*Affected Public:* Businesses or other for-profit.

*Respondents:* State member banks (SMBs), bank holding companies (BHCs), U.S. intermediate holding companies (IHCs), savings and loan holding companies (SLHCs), and global systemically important bank holding companies (GSIBs).

*Legal authorization and confidentiality:* This information collection is authorized by section 38(o) of the Federal Deposit Insurance Act (12 U.S.C. 1831o(c)), section 908 of the International Lending Supervision Act of 1983 (12 U.S.C. 3907(a)(1)), section 9(6) of the Federal Reserve Act (12 U.S.C. 324), and section 5(c) of the Bank Holding Company Act (12 U.S.C. 1844(c)). The obligation to respond to this information collection is mandatory. If a respondent considers the information to be trade secrets and/or privileged such information could be withheld from the public under the authority of the Freedom of Information Act (5 U.S.C. 552(b)(4)).

Additionally, to the extent that such information may be contained in an examination report such information could also be withheld from the public (5 U.S.C. 552 (b)(8)).

*Agency form number:* FR Q.

*OMB control number:* 7100-0313.

*Estimated number of respondents:* 1,431 (of which 17 are advanced approaches institutions).

*Estimated average hours per response:*

***Minimum Capital Ratios***

Recordkeeping (Ongoing) – 16.

***Standardized Approach***

Recordkeeping (Initial setup) – 122.

Recordkeeping (Ongoing) – 20.

Disclosure (Initial setup) – 226.25.

Disclosure (Ongoing quarterly) – 131.25.

***Advanced Approach***

Recordkeeping (Initial setup) – 460.

Recordkeeping (Ongoing) – 540.77.

Recordkeeping (Ongoing quarterly) – 20.

Disclosure (Initial setup) – 328.

Disclosure (Ongoing) – 5.78.

Disclosure (Ongoing quarterly) – 41.

Disclosure (Table 13 quarterly) – 5.

***Risk-based Capital Surcharge for GSIBs***

Recordkeeping (Ongoing) – 0.5.

*Revisions estimated annual burden:* 456 hours.

*Estimated annual burden hours:* 1,136 hours initial setup, 78,591 hours for ongoing.

**FDIC:**

*Title of Information Collection:* Regulatory Capital Rule.

*Frequency:* Quarterly, annual.

*Affected Public:* Businesses or other for-profit.

*Respondents:* State nonmember banks, state savings associations, and certain subsidiaries of those entities.

*OMB control number:* 3064-0153.

*Estimated number of respondents:* 3,575 (of which 2 are advanced approaches institutions).

*Estimated average hours per response:*

***Minimum Capital Ratios***

Recordkeeping (Ongoing) – 16.

***Standardized Approach***

Recordkeeping (Initial setup) – 122.

Recordkeeping (Ongoing) – 20.

Disclosure (Initial setup) – 226.25.

Disclosure (Ongoing quarterly) – 131.25.

***Advanced Approach***

Recordkeeping (Initial setup) – 460.

Recordkeeping (Ongoing) – 540.77.

Recordkeeping (Ongoing quarterly) – 20.

Disclosure (Initial setup) – 328.

Disclosure (Ongoing) – 5.78.

Disclosure (Ongoing quarterly) – 41.

*Revisions estimated annual burden: 96 hours.*

*Estimated annual burden hours: 1,136 hours initial setup, 130,806 hours for ongoing.*

**Reporting Burden – FFIEC and Board Forms**

***Current Actions***

The agencies also plan to make changes to certain FFIEC and Board reporting forms and/or their related instructions as a result of the issuance of ASU 2016-13. In particular, the forms and/or related instructions for the following FFIEC reports could be affected: Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031, FFIEC 041, and FFIEC 051; OMB No. 1557-0081, 7100-0036, and 3064-0052), Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002; OMB No. 7100-0032), Report of Assets and Liabilities of a Non-U.S. Branch that is Managed or Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank (FFIEC 002S; OMB No. 7100-0032), Foreign Branch Report of Condition (FFIEC 030; OMB No. 1557-0099, 7100-0071, and 3064-0011), Abbreviated Foreign Branch Report of Condition (FFIEC 030S; OMB No. 1557-0099, 7100-0071, and 3064-0011),

and Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework (FFIEC 101; OMB No. 1557-0239, 7100-0319, and 3064-0159). As a result of the proposal, a separate 60-day Federal Register notice<sup>30</sup> addressed these changes to the FFIEC forms and/or instructions. These changes will also be addressed in separate 30-day Federal Register notice.

The forms and/or related instructions for the following Board reports could be affected: Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314; OMB No. 7100-0073), Domestic Finance Company Report of Consolidated Assets and Liabilities (FR 2248; OMB No. 7100-0005), Weekly Report of Selected Assets and Liabilities of Domestically Chartered Commercial Banks and U.S. Branches and Agencies of Foreign Banks (FR 2644; OMB No. 7100-0075), Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b; OMB No. 7100-0086), Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations (FR Y-7N; 7100-0125), Consolidated Financial Statements for Holding Companies (FR Y-9C; OMB No. 7100-0128), Parent Company Only Financial Statements for Large Holding Companies (FR Y-9LP; OMB No. 7100-0128), Parent Company Only Financial Statements for Small Holding Companies (FR Y-9SP; OMB No. 7100-0128), Financial Statements of U.S. Nonbank Subsidiaries of U.S. Holding Companies (FR Y-11; OMB No. 7100-0244), Capital Assessments and Stress Testing (FR Y-14; OMB No. 7100-0341), and Banking Organization Systemic Risk Report (FR Y-15; OMB No. 7100- 0352). These changes to the FFIEC forms and/or instructions as well as the Board forms and/or instructions would be addressed in separate Federal Register notices.

*B. Regulatory Flexibility Act*

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<sup>30</sup> 83 FR 49160 (September 28, 2018).

*OCC:* The Regulatory Flexibility Act, 5 U.S.C. 601 et seq., (RFA), requires an agency, in connection with a final rule, to prepare an initial regulatory flexibility analysis describing the impact of the rule on small entities (defined by the Small Business Administration (SBA) for purposes of the RFA to include commercial banks and savings institutions with total assets of \$550 million or less and trust companies with total revenue of \$38.5 million or less) or to certify that the final rule would not have a significant economic impact on a substantial number of small entities. As of December 31, 2017, the OCC supervised 886 small entities. The final rule would apply to all OCC supervised entities, and thus potentially affects a substantial number of small entities. To determine whether a final rule would have a significant effect on those small entities, the OCC considers whether the economic impact associated with the final rule is greater than or equal to either 5 percent of a small entity's total annual salaries and benefits or 2.5 percent of a small entity's total non-interest expense. The OCC estimates the final rule would not generate any costs for affected small entities. The final rule may generate a benefit for those small entities that elect the transition. The benefit ranges between approximately \$4,800 to \$30,000 per electing small entity, depending on the year the entity adopts the transition and the amount of increase in the entity's loan loss reserves. This estimate is based on the potential savings to small entities from not needing to raise additional capital related to CECL implementation due to the regulatory capital transition. The estimated benefit is not significant in relation to the measures described above. Therefore, the OCC certifies that the final rule would not have a significant economic impact on a substantial number of OCC-supervised small entities.

*Board:* The Regulatory Flexibility Act (RFA), 5 U.S.C. 601 et seq., generally requires that, in connection with a proposed rulemaking, an agency prepare and make available for public

comment an initial regulatory flexibility analysis (IRFA).<sup>31</sup> The Board solicited public comment on this proposal in a notice of proposed rulemaking<sup>32</sup> and has since considered the potential impact of this proposal on small entities in accordance with section 604 of the RFA. Based on the Board's analysis, and for the reasons stated below, the Board believes the final rule will not have a significant economic impact on a substantial number of small entities.

The RFA requires an agency to prepare a final regulatory flexibility analysis (FRFA) unless the agency certifies that the rule will not, if promulgated, have a significant economic impact on a substantial number of small entities.<sup>33</sup> The FRFA must contain: (1) a statement of the need for, and objectives of, the rule; (2) a statement of the significant issues raised by the public comments in response to the IRFA, a statement of the agency's assessment of such issues, and a statement of any changes made in the proposed rule as a result of such comments; (3) the response of the agency to any comments filed by the Chief Counsel for Advocacy of the Small Business Administration in response to the proposed rule, and a detailed statement of any changes made to the proposed rule in the final rule as a result of the comments; (4) a description of an estimate of the number of small entities to which the rule will apply or an explanation of why no such estimate is available; (5) a description of the projected reporting, recordkeeping and other compliance requirements of the rule, including an estimate of the classes of small entities which will be subject to the requirement and the type of professional skills necessary for

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<sup>31</sup> See 5 U.S.C. 603, 604 and 605.

<sup>32</sup> 83 FR 22312 (May 14, 2018).

<sup>33</sup> Under regulations issued by the Small Business Administration, a small entity includes a depository institution, bank holding company, or savings and loan holding company with total assets of \$550 million or less and trust companies with total assets of \$38.5 million or less. As of December 31, 2017, there were approximately 3,384 small bank holding companies, 230 small savings and loan holding companies, and 559 small state member banks.

preparation of the report or record; and (6) a description of the steps the agency has taken to minimize the significant economic impact on small entities, including a statement for selecting or rejecting the other significant alternatives to the rule considered by the agency.

*Statement of the need for, and objectives of, the final rule.*

As discussed in detail above, the final rule identifies which credit loss allowances under ASU 2016-13 are eligible for inclusion in regulatory capital and provides banking organizations an optional three-year transition period to phase in the immediate effect on regulatory capital that may result from adoption of this accounting standard (ASU 2016-13). The final rule also makes conforming amendments to other regulations.

The Board has authority under the International Lending Supervision Act (ILSA)<sup>34</sup> and the PCA provisions of the Federal Deposit Insurance Act<sup>35</sup> to establish regulatory capital requirements for the institutions it regulates. For example, ILSA directs each Federal banking agency to cause banking institutions to achieve and maintain adequate capital by establishing minimum capital requirements as well as by other means that the agency deems appropriate.<sup>36</sup> The PCA provisions of the Federal Deposit Insurance Act direct each Federal banking agency to specify, for each relevant capital measure, the level at which an insured depository institution is well capitalized, adequately capitalized, undercapitalized, and significantly undercapitalized.<sup>37</sup> In addition, the Board has authority to establish regulatory capital standards for bank holding

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<sup>34</sup> 12 U.S.C. 3901-3911.

<sup>35</sup> 12 U.S.C. 1831*o*.

<sup>36</sup> 12 U.S.C. 3907(a)(1).

<sup>37</sup> 12 U.S.C. 1831*o*(c)(2).

companies under ILSA<sup>38</sup> and the Bank Holding Company Act<sup>39</sup> and for savings and loan holding companies under the Home Owners Loan Act.<sup>40</sup>

All banking organizations will be required to adopt ASU 2016-13, which will likely result in an increase in credit loss allowances. An increase in a banking organization's credit loss allowances will reduce the firm's retained earnings and therefore its CET1 capital. The final rule identifies those credit loss allowances under ASU 2016-13 that are eligible for inclusion in regulatory capital. Further, the final rule introduces a three-year transition period, which allows a banking organization to phase in the immediate impact of adoption of ASU 2016-13. During the transition period, a banking organization that elects to use the phase-in will report higher capital than it otherwise would under the current capital rule.

The final rule also makes conforming amendments to certain of the Board's other regulations. In particular, certain other regulations of the Board include a definition of "capital stock and surplus," which reflect the current practice of banking organizations establishing ALLL to cover estimated credit losses on loans, lease financing receivables, or other extensions of credit. The final rule allows banking organizations that are subject to these regulations to also include in the definition of "capital stock and surplus" those credit loss allowances under ASU 2016-13 that would be eligible for inclusion in regulatory capital.

*A discussion of the significant issues raised by public comments in response to the IRFA, and the Board's response to any comments filed by the Chief Counsel for Advocacy of the Small Business Administration in response to the proposed rule.*

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<sup>38</sup> See 12 U.S.C. 3907.

<sup>39</sup> See 12 U.S.C. 1844.

<sup>40</sup> See 12 U.S.C. 1467a(g)(1).

The Board did not receive any comments on the IRFA that it published in connection with the proposal. In addition, the Chief Counsel for Advocacy of the Small Business Administration did not file any comments in response to the proposal. Accordingly, no changes were made to the proposal as a result of RFA-related comments.

*Description and estimate of the number of small entities to which the rule will apply.*

Most aspects of the final rule apply to all state member banks, as well as generally all bank holding companies and savings and loan holding companies that are subject to the Board's capital rule. As of December 31, 2017, there were approximately 3,384 bank holding companies, 230 savings and loan holding companies, and 559 state member banks that qualified as small entities. The final rule revises the Board's capital rule, which applies to bank holding companies and savings and loan holding companies with greater than \$1 billion in total assets. Therefore, virtually all bank holding companies and savings and loan holding companies that would be subject to the final rule do not qualify as small entities. The final rule will apply to state member banks that qualify as small entities.

*Description of the projected reporting, recordkeeping and other compliance requirements of the rule.*

The final rule will impose some small recordkeeping, reporting, and compliance requirements on Board-regulated institutions. Specifically, the final rule would change certain disclosure requirements for advanced-approaches institutions, which include banking organizations with consolidated assets of at least \$250 billion or consolidated on-balance sheet foreign exposures of at least \$10 billion or if the banking organization. These requirements would not apply to small entities, and there are no other expected compliance requirements associated with the final rule. The agencies are separately updating the relevant reporting forms.

*Description of the steps taken to minimize any significant economic impact on small entities.*

The Board does not believe that the final rule will impose significant costs on small entities. With respect to Board-regulated institutions that do qualify as small entities, the final rule's revisions to the Board's capital rule should allow institutions to include additional credit loss allowances into regulatory capital than they otherwise would be able to under the current capital rule. However, there is uncertainty as to the amount of the benefit that institutions will accrue, given that the impact of CECL will depend on the economic environment at the time a firm adopts CECL. The Board does not believe there are significant alternatives to the final rule that have less economic impact on small entities but the Board is committed to closely monitoring the effects of CECL on regulatory capital and bank lending practices. In addition, the Board does not believe that the final rule duplicates, overlaps, or conflicts with any other Federal Rules.

*FDIC:* The Regulatory Flexibility Act (RFA), 5 U.S.C. 601 et seq., generally requires an agency, in connection with a final rule, to prepare and make available a final regulatory flexibility analysis that describes the impact of a final rule on small entities.<sup>41</sup> However, a regulatory flexibility analysis is not required if the agency certifies that the rule will not have a significant economic impact on a substantial number of small entities. The Small Business Administration (SBA) has defined "small entities" to include banking organizations with total

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<sup>41</sup> 5 U.S.C. 601 et seq.

assets of less than or equal to \$550 million who are independently owned and operated or owned by a holding company with less than \$550 million in total assets.<sup>42</sup>

### *Description of Need and Policy Objectives*

In June 2016, the FASB issued ASU 2016-13, which revises the accounting for credit losses under U.S. GAAP. CECL differs from the incurred loss methodology currently implemented by institutions in several key respects. CECL requires banking organizations to recognize lifetime expected credit losses for financial assets measured at amortized cost, not just those credit losses that are probable of having been incurred as of the reporting date. In addition to maintaining the current requirement for banking organizations to consider past events and current conditions, CECL requires the incorporation of reasonable and supportable forecasts in developing an estimate of lifetime expected credit losses.

Upon adoption of CECL, a banking organization will record a one-time adjustment to its allowance for credit losses as of the beginning of its fiscal year of adoption equal to the difference, if any, between the amount of credit loss allowances required under the incurred loss methodology and the amount of credit loss allowances required under the CECL methodology. Changes to retained earnings, DTAs, and credit loss allowances affect a banking organization's calculation of regulatory capital.<sup>43</sup> To address changes made in U.S. GAAP following the

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<sup>42</sup> The SBA defines a small banking organization as having \$550 million or less in assets, where “a financial institution’s assets are determined by averaging the assets reported on its four quarterly financial statements for the preceding year.” See 13 CFR 121.201 (as amended, effective December 2, 2014). “SBA counts the receipts, employees, or other measure of size of the concern whose size is at issue and all of its domestic and foreign affiliates.” See 13 CFR 121.103. Following these regulations, the FDIC uses a covered entity’s affiliated and acquired assets, averaged over the preceding four quarters, to determine whether the covered entity is “small” for the purposes of RFA.

<sup>43</sup> 12 CFR 3.20 (OCC); 12 CFR 217.20 (Board); 12 CFR 324.20 (FDIC).

FASB's issuance of ASU 2106-13, the FDIC is amending its capital rule<sup>44</sup> to give banking organizations the option to phase in the immediate, potentially adverse effects of CECL adoption over a three-year period.

#### *Description of the Final Rule*

A description of the rule is presented Section III: Final Rule. Please refer to it for further information.

#### *Other Federal Rules*

The FDIC has not identified any likely duplication, overlap, and/or potential conflicts between the final rule and any other federal rule.

#### *Response to Comments Regarding the Regulatory Flexibility Act*

The FDIC did not receive any public comments on the supporting information it presented in the Regulatory Flexibility Act section of the Notice of Proposed Rulemaking. The Agencies did receive public comments on the proposed rulemaking. A summary of those comments, and the Agencies' consideration of them, is presented in Section II.B. The vast majority of public comments on the NPR related to the implementation of CECL rather than the economic impacts of the proposed transition period.

Several commenters requested that the FDIC increase the transition period from the proposed three-year transition in the NPR to five years in order to develop and validate the necessary data and models. One commenter opposed expansion of the transition period, claiming

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<sup>44</sup> Under section 37 of the Federal Deposit Insurance Act, the accounting principles applicable to reports or statements required to be filed with the agencies by all insured depository institutions must be uniform and consistent with U.S. GAAP. *See* 12 U.S.C. 1831n(a)(2)(A).

that the three-year phase in is already generous given the advance notice banks have had of the new accounting standards, and that the new capital requirements reflect the socially optimal level of capital. Upon consideration of the comments, the FDIC has chosen to maintain the proposed three-year transition period. The FDIC believes that the three-year CECL transition provision will adequately address banking organizations' challenges in capital planning for CECL implementation, while reducing the likelihood of a coincidence of rising capital requirements during a future downturn in the business cycle which could reduce the benefits of the rule and have deleterious effects on lending activity . *Economic Impacts on Small Entities*

The final rule applies to all FDIC-supervised small entities. The FDIC supervises 3,575 depository institutions, of which 2,763 are defined as small banking entities by the terms of the RFA.<sup>45</sup> However, the number of small entities that will elect to utilize the three-year transition schedule is difficult to estimate with available information. Utilization will likely depend on an institution's business model, the preferences of senior management or ownership, the assets held by the institution, and reasonable expectations of future macroeconomic conditions, among other things.

As described in the overview section, the adoption of CECL will result in earlier recognition of credit losses when compared to the current incurred loss methodology. Therefore, the rule is intended to provide relief to covered institutions for certain adverse effects associated with the timing difference in provisioning for such losses, should they elect to utilize the option that this rule provides. The final rule will benefit small, FDIC-supervised institutions that adopt the three year transition schedule by allowing them to phase-in any needed increases in capital associated with the implementation of CECL over that time, thereby reducing costs by the time

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<sup>45</sup> Call Report data, June 30 2018.

value of money. It is difficult to accurately estimate the potential benefit for small institutions with available data because it depends on the assets held by small institutions, their provision activity, future economic conditions, and the decisions of senior management. However, institutions will ultimately need to raise the same amount of capital whether they use the phase-in option or not. The rule allows banks to spread the cost of raising additional capital over three years rather than incurring that cost right away, should they choose to do so. The value of that option depends on the discount rate, which is generally assumed to be near the risk-free interest rate, so the benefits of the rule are unlikely to constitute a significant economic impact.

The final rule would pose some small regulatory costs for small, FDIC-supervised institutions that opt to utilize the three-year transition schedule. However, the small regulatory costs associated with implementing the three-year transition schedule will be less than the benefits posed by utilizing the schedule for those institutions that opt to utilize it.

#### *Alternatives Considered*

As an alternative to the final rule, the FDIC considered allowing CECL to go into effect with no accompanying action by the financial regulators. However, this alternative would likely result in higher costs for small entities. The FDIC considered a longer transition period of up to five years, as some commenters requested. While this alternative might reduce the costs of adopting CECL more than the proposed alternative, it also heightens the risk of capital increases coinciding with a potential future downturn in the business cycle. The coincidence of rising capital requirements during a future downturn in the business cycle could reduce the benefits of the proposed rule and have deleterious effects on lending activity.

A few commenters suggested allowing dynamic amortization whereby differences in allowances from an incurred loss estimate after the effective date could be amortized over the remaining transition period in order to address the volatility in the CECL allowance from a downturn in economic forecasts. The FDIC responded that, while there may be difficulties for capital planning due to the uncertainty of the economic environment at the time of CECL adoption, the extended transition period will mitigate any day-one adverse effects. The straight-line approach adopted by the FDIC avoids unnecessary complexity and operational burdens.

#### *Certification*

Based on the information presented above, the FDIC certifies that this rule will not have a significant economic impact on a substantial number of small entities.

#### *C. Plain Language*

Section 722 of the Gramm-Leach-Bliley Act<sup>46</sup> requires the Federal banking agencies to use plain language in all proposed and final rules published after January 1, 2000. The agencies have sought to present the final rule in a simple and straightforward manner and did not receive any comments on the use of plain language.

#### *D. OCC Unfunded Mandates Reform Act of 1995*

The OCC analyzed the final rule under the factors set forth in the Unfunded Mandates Reform Act of 1995 (UMRA) (2 U.S.C. 1532). Under this analysis, the OCC considered whether the final rule includes a Federal mandate that may result in the expenditure by State, local, and Tribal governments, in the aggregate, or by the private sector, of \$100 million or more in any one year (adjusted for inflation). The OCC has determined that this final rule would not result in expenditures by State, local, and Tribal governments, or the private sector, of \$100

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<sup>46</sup> Pub. L. 106-102, section 722, 113 Stat. 1338, 1471 (1999).

million or more in any one year. Accordingly, the OCC has not prepared a written statement to accompany this proposal.

*E. Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA)*

For purposes of SBREFA, the OMB makes a determination as to whether a final rule constitutes a “major” rule. If a rule is deemed a “major rule” by the OMB, SBREFA generally provides that the rule may not take effect until at least 60 days following its publication.<sup>47</sup> Notwithstanding any potential delay related to the OMB’s pending determination, banking organizations subject to this final rule will be permitted to elect to comply with it as of January 1, 2019.

SBREFA defines a “major rule” as any rule that the Administrator of the Office of Information and Regulatory Affairs of the OMB finds has resulted in or is likely to result in – (A) an annual effect on the economy of \$100,000,000 or more; (B) a major increase in costs or prices for consumers, individual industries, Federal, State, or local government agencies or geographic regions, or (C) significant adverse effects on competition, employment, investment, productivity, innovation, or on the ability of United States-based enterprises to compete with foreign-based enterprises in domestic and export markets.<sup>48</sup> As required by SBREFA, the agencies will submit the final rule and other appropriate reports to Congress and the Government Accountability Office for review.

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<sup>47</sup> 5 U.S.C. 801(a)(3).

<sup>48</sup> 5 U.S.C. 804(2).

*F. Administrative Procedure Act and Riegle Community Development and Regulatory Improvement Act of 1994*

The Administrative Procedure Act (APA) requires that a final rule be published in the Federal Register no less than 30 days before its effective date unless, among other exceptions, the final rule relieves a restriction.<sup>49</sup>

Pursuant to section 302(a) of the Riegle Community Development and Regulatory Improvement Act (“RCDRIA”),<sup>50</sup> in determining the effective date and administrative compliance requirements for a new regulation that imposes additional reporting, disclosure, or other requirements on insured depository institutions, each Federal banking agency must consider, consistent with principles of safety and soundness and the public interest, any administrative burdens that such regulations would place on depository institutions, including small depository institutions, and customers of depository institutions, as well as the benefits of such regulations. In addition, section 302(b) of RCDRIA requires new regulations and amendments to regulations that impose additional reporting, disclosure, or other new requirements on insured depository institutions generally to take effect on the first day of a calendar quarter that begins on or after the date on which the regulations are published in final form.<sup>51</sup>

In accordance with these provisions, the agencies considered any administrative burdens, as well as benefits, that the final rule would place on depository institutions and their customers in determining the effective date and administrative compliance requirements of the final rule. The final rule provides regulatory capital transition provisions for banking organizations that

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<sup>49</sup> 5 U.S.C. 553(d)(1).

<sup>50</sup> 12 U.S.C. 4802(a).

<sup>51</sup> 12 U.S.C. 4802.

early adopt CECL beginning after December 15, 2018, and thus relieves those banking organizations from compliance with certain stricter capital requirements that would otherwise have taken effect on January 1, 2019. However, the final rule also imposes new disclosure requirements for institutions that opt to utilize the three-year transition period. Therefore, in accordance with RCDRIA and the APA, the final rule will be effective no earlier than the first day of the calendar quarter following 30 days from the date on which the final rule is published in the Federal Register. Notwithstanding, banking organizations subject to this final rule will be permitted to elect to comply with it as of January 1, 2019.

### **List of Subjects in 12 CFR**

#### **12 CFR Part 1**

Banks, banking, National banks, Reporting and recordkeeping requirements, Securities.

#### **12 CFR Part 3**

Administrative practice and procedure, Capital, National banks, Risk.

#### **12 CFR Part 5**

Administrative practice and procedure, Federal savings associations, National banks, Reporting and recordkeeping requirements, Securities.

#### **12 CFR Part 23**

Banks, banking, National banks, Lease financing transactions, Leasing, Reporting and recordkeeping requirements.

#### **12 CFR Part 24**

Affordable housing, Community development, Credit, Investments, Economic development and job creation, Low- and moderate-income areas, Low and moderate income

housing, National banks, Public welfare investments, Reporting and recordkeeping requirements, Rural areas, Small businesses, Tax credit investments.

**12 CFR Part 32**

National banks, Reporting and recordkeeping requirements.

**12 CFR Part 46**

Banking, Banks, Capital, Disclosures, National banks, Recordkeeping, Risk, Savings associations, Stress test.

**12 CFR Part 208**

Confidential business information, Crime, Currency, Federal Reserve System, Mortgages, reporting and recordkeeping requirements, Securities.

**12 CFR Part 211**

Exports, Federal Reserve System, Foreign banking, Holding companies, Investments, Reporting and recordkeeping requirements.

**12 CFR Part 215**

Credit, Penalties, Reporting and recordkeeping requirements.

**12 CFR Part 217**

Administrative practice and procedure, Banks, Banking, Capital, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Risk, Securities.

**12 CFR Part 223**

Banks, Banking, Federal Reserve System.

**12 CFR Part 225**

Administrative practice and procedure, Banks, banking, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Securities.

## **12 CFR Part 252**

Administrative practice and procedure, Banks, banking, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Securities.

## **12 CFR Part 324**

Administrative practice and procedure, Banks, banking, Reporting and recordkeeping requirements, Savings associations.

## **12 CFR Part 325**

Banks, banking, Reporting and recordkeeping requirements.

## **12 CFR Part 327**

Bank deposit insurance, Banks, banking, Savings associations.

## **12 CFR Part 347**

Authority delegation (Government agencies), Bank deposit insurance, Banks, banking, Credit, Foreign banking, Investments, Reporting and recordkeeping requirements, U.S. Investments abroad.

## **12 CFR Part 390**

Administrative practice and procedure, Advertising, Aged, Civil rights, Conflict of interests, Credit, Crime, Equal employment opportunity, Fair housing, Government employees, Individuals with disabilities, Reporting and recordkeeping requirements, Savings associations.

## **Office of the Comptroller of the Currency**

For the reasons set out in the joint preamble, the OCC proposes to amend 12 CFR chapter I as follows.

### **Part 1—INVESTMENT SECURITIES**

1. The authority citation for part 1 continues to read as follows:

**Authority:** 12 U.S.C. 1 et seq., 12 U.S.C. 24 (Seventh), and 12 U.S.C. 93a.

2. Section 1.2 is amended by revising paragraph (a)(2) to read as follows:

(a) \* \* \*

(1) \* \* \*

(2) The balance of a bank's allowance for loan and lease losses or adjusted allowances for credit losses, as applicable, not included in the bank's Tier 2 capital, for purposes of the calculation of risk-based capital described in paragraph (a)(1) of this section, as reported in the bank's Call Report.

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### **PART 3—CAPITAL ADEQUACY STANDARDS**

3. The authority citation for part 3 continues to read as follows:

**Authority:** 12 U.S.C. 93a, 161, 1462, 1462a, 1463, 1464, 1818, 1828(n), 1828 note, 1831n note, 1835, 3907, 3909, and 5412(b)(2)(B).

4. Section 3.2 is amended by:

a. Revising the definitions of *carrying value* and *eligible credit reserves*, and paragraph (2) of the definition of *standardized total risk-weighted assets*; and

b. Adding the definitions of *adjusted allowances for credit losses (AACL)* and *current expected credit losses (CECL)* in alphabetical order.

The revisions and additions are set forth below.

#### **§ 3.2 Definitions.**

\* \* \* \* \*

*Adjusted allowances for credit losses (AACL)* means, with respect to a national bank or Federal savings association that has adopted CECL, valuation allowances that have been established through a charge against earnings or retained earnings for expected credit losses on

financial assets measured at amortized cost and a lessor's net investment in leases that have been established to reduce the amortized cost basis of the assets to amounts expected to be collected as determined in accordance with GAAP. For purposes of this part, adjusted allowances for credit losses include allowances for expected credit losses on off-balance sheet credit exposures not accounted for as insurance as determined in accordance with GAAP. Adjusted allowances for credit losses exclude "allocated transfer risk reserves" and allowances created that reflect credit losses on purchased credit deteriorated assets and available-for-sale debt securities.

\* \* \* \* \*

*Carrying value* means, with respect to an asset, the value of the asset on the balance sheet of the national bank or Federal savings association as determined in accordance with GAAP. For all assets other than available-for-sale debt securities or purchased credit deteriorated assets, the carrying value is not reduced by any associated credit loss allowance that is determined in accordance with GAAP.

\* \* \* \* \*

*Current Expected Credit Losses (CECL)* means the current expected credit losses methodology under GAAP.

\* \* \* \* \*

*Eligible credit reserves* means:

(1) For a national bank or Federal savings association that has not adopted CECL, all general allowances that have been established through a charge against earnings to cover estimated credit losses associated with on- or off-balance sheet wholesale and retail exposures, including the ALLL associated with such exposures, but excluding allocated transfer risk

reserves established pursuant to 12 U.S.C. 3904 and other specific reserves created against recognized losses; and

(2) For a national bank or Federal savings association that has adopted CECL, all general allowances that have been established through a charge against earnings or retained earnings to cover expected credit losses associated with on- or off-balance sheet wholesale and retail exposures, including ACL associated with such exposures. Eligible credit reserves exclude allocated transfer risk reserves established pursuant to 12 U.S.C. 3904, allowances that reflect credit losses on purchased credit deteriorated assets and available-for-sale debt securities, and other specific reserves created against recognized losses.

\* \* \* \* \*

*Standardized total risk-weighted assets* means:

(1) \* \* \*

(2) Any amount of a national bank's or Federal savings association's allowance for loan and lease losses or adjusted allowance for credit losses, as applicable, that is not included in tier 2 capital and any amount of "allocated transfer risk reserves."

\* \* \* \* \*

### **§ 3.10 [Amended]**

5. Section 3.10(c)(3)(ii)(A) is amended by removing the words "allowance for loan and lease losses" and adding, in their place, the words "allowance for loan and lease losses or adjusted allowance for credit losses, as applicable,".

### **§§ 3.20, 3.22, and 3.124 [Amended]**

6. Sections 3.20, 3.22, and 3.124 are amended by removing the word “ALLL” and adding in its place “ALLL or AACL, as applicable,” except the second occurrence in § 3.20(d)(3) and in § 3.124(a) where “ALLL or AACL, as applicable” is added in its place.

**§ 3.63 [Amended]**

7. Section 3.63 is amended in Table 5 by revising the phrase “allowance for loan and lease losses,” wherever it appears, to read “allowance for loan and lease losses or adjusted allowance for credit losses, as applicable,” and removing the word “ALLL” and adding, in its place, the words “ALLL or AACL, as applicable”.

**§ 3.173 [Amended]**

8. Section 3.173 is amended:

- a. In Table 2 by adding paragraph (e);
- b. In Table 3, by redesignating paragraph (f) as paragraph (g), revising paragraph (e), and adding a new paragraph (f); and
- c. In Table 5 by:
  - a. Removing the phrase “allowance for loan and lease losses,” wherever it appears and by adding in its place the phrase “allowance for loan and lease losses or adjusted allowance for credit losses, as applicable,”; and
  - b. Revising paragraph (g).

The revision reads as set forth below.

**§ 3.173 Disclosures by certain advanced approaches national banks or Federal savings associations.**

\* \* \* \* \*

Table 2 to § 3.173—Capital Structure

	* * * * *
(e)	(1) Whether the national bank or Federal savings association has elected to phase in recognition of the transitional amounts as defined in § 3.301.
	(2) The national bank's or Federal savings association's common equity tier 1 capital, tier 1 capital, and total capital without including the transitional amounts.

Table 3 to § 3.173—Capital Adequacy

		* * * * *
	(e)	(1) Common equity tier 1, tier 1 and total risk-based capital ratios reflecting the transition provisions described in § 3.301: (A) For the top consolidated group; and (2) For each depository institution subsidiary.
	(f)	Common equity tier 1, tier 1 and total risk-based capital ratios reflecting the full adoption of CECL: (1) For the top consolidated group; and (2) For each depository institution subsidiary.
		* * * * *

\* \* \* \* \*

Table 5 to § 3.173—Credit Risk: General Disclosures

	* * * * *
(g)	Reconciliation of changes in ALLL or AACL, as applicable. <sup>6</sup>
	* * * * *

<sup>6</sup> The reconciliation should include the following: a description of the allowance; the opening balance of the allowance; charge-offs taken against the allowance during the period; amounts provided (or reversed) for estimated probable loan losses during the period; any other adjustments (for example, exchange rate differences, business combinations, acquisitions and disposals of subsidiaries), including transfers between allowances; and the closing balance of the

allowance. Charge-offs and recoveries that have been recorded directly to the income statement should be disclosed separately.

\* \* \* \* \*

9. Section 3.301 is added to read as follows:

(a) *CECL transition provision.* (1) *Criteria for use of CECL transition provision.* A national bank or Federal savings association may elect to use a CECL transition provision pursuant to this section only if the national bank or Federal savings association records a reduction in retained earnings due to the adoption of CECL as of the beginning of the fiscal year in which the national bank or Federal savings association adopts CECL.

(2) A national bank or Federal savings association that elects to use the CECL transition provision must use the CECL transition provision in the first Call Report filed by the national bank or Federal savings association after it adopts CECL.

(3) A national bank or Federal savings association that does not elect to use the CECL transition provision as of the first Call Report filed as described in paragraph (a)(2) of this section may not elect to use the CECL transition provision in subsequent reporting periods.

(b) *Definitions.* For purposes of this section, the following definitions apply:

(1) *Transition period* means the three-year period beginning the first day of the fiscal year in which a national bank or Federal savings association adopts CECL.

(2) *CECL transitional amount* means the decrease net of any DTAs, in the amount of a national bank's or Federal savings association's retained earnings as of the beginning of the fiscal year in which the national bank or Federal savings association adopts CECL from the amount of the national bank's or Federal savings association's retained earnings as of the closing

of the fiscal year-end immediately prior to the national bank's or Federal savings association's adoption of CECL.

(3) *DTA transitional amount* means the increase in the amount of a national bank's or Federal savings association's DTAs arising from temporary differences as of the beginning of the fiscal year in which the national bank or Federal savings association adopts CECL from the amount of the national bank's or Federal savings association's DTAs arising from temporary differences as of the closing of the fiscal year-end immediately prior to the national bank's or Federal savings association's adoption of CECL.

(4) *AACL transitional amount* means the difference in the amount of a national bank's or Federal savings association's AACL as of the beginning of the fiscal year in which the national bank or Federal savings association adopts CECL and the amount of the national bank's or Federal savings association's ALLL as of the closing of the fiscal year-end immediately prior to the national bank's or Federal savings association's adoption of CECL.

(5) *Eligible credit reserves transitional amount* means the increase in the amount of a national bank's or Federal savings association's eligible credit reserves as of the beginning of the fiscal year in which the national bank or Federal savings association adopts CECL from the amount of the national bank's or Federal savings association's eligible credit reserves as of the closing of the fiscal year-end immediately prior to the national bank's or Federal savings association's adoption of CECL.

(c) *Calculation of CECL transition provision.* (1) For purposes of the election described in paragraph (a)(1) of this section, a national bank or Federal savings association must make the following adjustments in its calculation of regulatory capital ratios:

(i) Increase retained earnings by seventy-five percent of its CECL transitional amount during the first year of the transition period, increase retained earnings by fifty percent of its CECL transitional amount during the second year of the transition period, and increase retained earnings by twenty-five percent of its CECL transitional amount during the third year of the transition period;

(ii) Decrease amounts of DTAs arising from temporary differences by seventy-five percent of its DTA transitional amount during the first year of the transition period, decrease amounts of DTAs arising from temporary differences by fifty percent of its DTA transitional amount during the second year of the transition period, and decrease amounts of DTAs arising from temporary differences by twenty-five percent of its DTA transitional amount during the third year of the transition period;

(iii) Decrease amounts of AACL by seventy-five percent of its AACL transitional amount during the first year of the transition period, decrease amounts of AACL by fifty percent of its AACL transitional amount during the second year of the transition period, and decrease amounts of AACL by twenty-five percent of its AACL transitional amount during the third year of the transition period;

(iv) Increase average total consolidated assets as reported on the Call Report for purposes of the leverage ratio by seventy-five percent of its CECL transitional amount during the first year of the transition period, increase average total consolidated assets as reported on the Call Report for purposes of the leverage ratio by fifty percent of its CECL transitional amount during the second year of the transition period, and increase average total consolidated assets as reported on the Call Report for purposes of the leverage ratio by twenty-five percent of its CECL transitional amount during the third year of the transition period;

(2) For purposes of the election described in paragraph (a)(1) of this section, an advanced approaches national bank or Federal savings association must make the following additional adjustments to its calculation of regulatory capital ratios:

(i) Increase total leverage exposure for purposes of the supplementary leverage ratio by seventy-five percent of its CECL transitional amount during the first year of the transition period, increase total leverage exposure for purposes of the supplementary leverage ratio by fifty percent of its CECL transitional amount during the second year of the transition period, and increase total leverage exposure for purposes of the supplementary leverage ratio by twenty-five percent of its CECL transitional amount during the third year of the transition period; and

(ii) An advanced approaches national bank or Federal savings association that has completed the parallel run process and that has received notification from the OCC pursuant to § 3.121(d) must decrease amounts of eligible credit reserves by seventy-five percent of its eligible credit reserves transitional amount during the first year of the transition period, decrease amounts of eligible credit reserves by fifty percent of its eligible credit reserves transitional amount during the second year of the transition provision, and decrease amounts of eligible credit reserves by twenty-five percent of its eligible credit reserves transitional amount during the third year of the transition provision.

(3) *Eligible credit reserves shortfall.* An advanced approaches national bank or Federal savings association that has completed the parallel run process and that has received notification from the OCC pursuant to § 3.121(d), and whose amount of expected credit loss exceeded its eligible credit reserves immediately prior to the adoption of CECL, and that this has an increase in common equity tier 1 capital as of the beginning of the fiscal year in which it adopts CECL after including the first year portion of the CECL transitional amount must decrease its CECL

transitional amount used in paragraph (c) of this section by the full amount of its DTA transitional amount.

(4) *Business combinations.* Notwithstanding any other requirement in this section, for purposes of this paragraph, in the event of a business combination involving a national bank or Federal savings association where one or both of the national banks or Federal savings associations have elected the treatment described in this section:

(A) If the acquirer national bank or Federal savings association (as determined under GAAP) elected the treatment described in this section, the acquirer national bank or Federal savings association must continue to use the transitional amounts (unaffected by the business combination) that it calculated as of the date that it adopted CECL through the end of its transition period.

(B) If the acquired insured depository institution (as determined under GAAP) elected the treatment described in this section, any transitional amount of the acquired insured depository institution does not transfer to the resulting national bank or Federal savings association.

## **PART 5 – RULES, POLICIES, AND PROCEDURES FOR CORPORATE ACTIVITIES**

10. The authority citation for part 5 continues to read as follows:

**Authority:** 12 U.S.C. 1 *et seq.*, 24a, 93a, 215a-2, 215a-3, 481, 1462a, 1463, 1464, 2901 *et seq.*, 3907, and 5412(b)(2)(B).

11. Section 5.3 is amended by revising paragraph (e)(2) to read as follows:

### **§ 5.3 Definitions.**

\* \* \* \* \*

(e) \* \* \*

(2) The balance of a national bank's or Federal savings association's allowance for loan and lease losses or adjusted allowance for credit losses, as applicable, not included in the bank's Tier 2 capital, for purposes of the calculation of risk-based capital described in paragraph (e)(1) of this section, as reported in the Call Report.

\* \* \* \* \*

12. Section 5.37 is amended by revising paragraph (c)(3)(ii) to read as follows:

**§ 5.37 Investment in national bank or Federal savings association premises.**

\* \* \* \* \*

(c) \* \* \*

(3) \* \* \*

(ii) The balance of a national bank's or Federal savings association's allowance for loan and lease losses or adjusted allowance for credit losses, as applicable, not included in the bank's Tier 2 capital, for purposes of the calculation of risk-based capital described in paragraph (c)(3)(i) of this section, as reported in the Call Report.

\* \* \* \* \*

**PART 23 – LEASING**

13. The authority citation for part 23 continues to read as follows:

**Authority:** 12 U.S.C. 1 *et seq.*, 24(Seventh), 24(Tenth), and 93a.

14. Section 23.2 is amended by revising paragraph (b)(2) to read as follows:

**§ 23.2 Definitions.**

\* \* \* \* \*

(b) \* \* \*

(2) The balance of a bank's allowance for loan and lease losses or adjusted allowance for credit losses, as applicable, not included in the bank's Tier 2 capital, for purposes of the calculation of risk-based capital described in paragraph (b)(1) of this section, as reported in the bank's Call Report.

\* \* \* \* \*

**PART 24 – COMMUNITY AND ECONOMIC DEVELOPMENT ENTITIES,  
COMMUNITY DEVELOPMENT PROJECTS, AND OTHER PUBLIC WELFARE  
INVESTMENTS**

15. The authority citation for part 24 continues to read as follows:

**Authority:** 12 U.S.C. 24(Eleventh), 93a, 481 and 1818.

16. Section 24.2 is amended by revising paragraph (b)(2) to read as follows:

**§ 24.2 Definitions.**

\* \* \* \* \*

(b) \* \* \*

(2) The balance of a bank's allowance for loan and lease losses or adjusted allowance for credit losses, as applicable, not included in the bank's Tier 2 capital, for purposes of the calculation of risk-based capital described in paragraph (b)(1) of this section, as reported in the bank's Call Report.

\* \* \* \* \*

**PART 32 – LENDING LIMITS**

17. The authority citation for part 32 continues to read as follows:

**Authority:** 12 U.S.C. 1 *et seq.*, 12 U.S.C. 84, 93a, 1462a, 1463, 1464(u), 5412(b)(2)(B), and 15 U.S.C. 1639h.

18. Section 32.2 is amended by revising paragraph (c)(2) to read as follows:

**§ 32.2 Definitions**

\* \* \* \* \*

(c) \* \* \*

(2) The balance of a national bank’s or savings association’s allowance for loan and lease losses or adjusted allowance for credit losses, as applicable, not included in the bank's Tier 2 capital, for purposes of the calculation of risk-based capital described in paragraph (c)(1) of this section, as reported in the bank's Call Report.

\* \* \* \* \*

**PART 46 – ANNUAL STRESS TEST**

21. The authority citation for part 46 continues to read as follows:

**Authority:** 12 U.S.C. 93a; 1463(a)(2); 5365(i)(2); and 5412(b)(2)(B).

**§ 46.8 [Amended]**

22. Section 46.8 is amended by removing the phrase “loan and lease” and adding in its place “credit”, wherever that phrase appears.

\* \* \* \* \*

**Board of Governors of the Federal Reserve System**

**12 CFR CHAPTER II**

**Authority and Issuance**

For the reasons set forth in the preamble, chapter II of title of the Code of Federal Regulations is proposed to be amended as follows:

**PART 208 – MEMBERSHIP OF STATE BANKING INSTITUTIONS IN THE  
FEDERAL RESERVE SYSTEM (REGULATION H)**

23. The authority citation for part 208 continues to read as follows:

Authority: 12 U.S.C. 24, 36, 92a, 93a, 248(a), 248(c), 321-338a, 371d, 461, 481-486, 601, 611, 1814, 1816, 1818, 1820(d)(9), 1833(j), 1828(o), 1831, 1831o, 1831p-1, 1831r-1, 1831w, 1831x, 1835a, 1882, 2901-2907, 3105, 3310, 3331-3351, 3905-3909, and 5371; 15 U.S.C. 78b, 78I(b), 78I(i), 780-4(c)(5), 78q, 78q-1, and 78w, 1681s, 1681w, 6801, and 6805; 31 U.S.C. 5318; 42 U.S.C. 4012a, 4104a, 4104b, 4106 and 4128.

24. § 208.2, paragraph (d) is revised to read as follows:

**§ 208.2 Definitions.**

\* \* \* \* \*

(d) Capital stock and surplus means, unless otherwise provided in this part, or by statute:

(1) Tier 1 and tier 2 capital included in a member bank's risk-based capital (as defined in § 217.2 of Regulation Q); and

(2) The balance of a member bank's allowance for loan and lease losses or adjusted allowance for credit losses, as applicable, not included in its tier 2 capital for calculation of risk-based capital, based on the bank's most recent Report of Condition and Income filed under 12 U.S.C. 324.

\* \* \* \* \*

**PART 211—INTERNATIONAL BANKING OPERATIONS (REGULATION K)**

25. The authority citation for part 211 continues to read as follows:

Authority: 12 U.S.C. 221 et seq., 1818, 1835a, 1841 et seq., 3101 et seq., 3901 et seq., and 5101 et seq.; 15 U.S.C. 1681s, 1681w, 6801 and 6805.

Subpart A—International Operations of U.S. Banking Organizations

26. In § 211.2, revise paragraph (c)(1) to read as follows:

**§ 211.2 Definitions.**

\* \* \* \* \*

(c) Capital and surplus means, unless otherwise provided in this part:

(1) For organizations subject to Regulation Q:

(i) Tier 1 and tier 2 capital included in an organization’s risk-based capital (under Regulation Q); and

(ii) The balance of allowance for loan and lease losses or adjusted allowance for credit losses, as applicable, not included in an organization’s tier 2 capital for calculation of risk-based capital, based on the organization’s most recent consolidated Report of Condition and Income.

\* \* \* \* \*

Subpart D—International Lending Supervision

27. In § 211.43, revise paragraph (c)(4) to read as follows:

**§ 211.43 Allocated transfer risk reserve.**

\* \* \* \* \*

(c) \* \* \*

(4) Alternative accounting treatment. A banking institution is not required to establish an ATRR if it writes down in the period in which the ATRR is required, or has written down in prior periods, the value of the specified international assets in the requisite amount for each such asset. For purposes of this paragraph, international assets may be written down by a charge to the Allowance for Loan and Lease Losses or the allowance for credit losses, as applicable, to the extent permitted under U.S. generally accepted accounting principles, or a reduction in the principal amount of the asset by application of interest payments or other collections on the asset.

However, the Allowance for Loan and Lease Losses or allowance for credit losses, as applicable, must be replenished in such amount necessary to restore it to a level which adequately provides for the estimated losses inherent in the banking institution's loan portfolio.

\* \* \* \* \*

PART 215 – LOANS TO EXECUTIVE OFFICERS, DIRECTORS, AND PRINCIPAL SHAREHOLDERS OF MEMBER BANKS (REGULATION O)

28. The authority citation for part 215 continues to read as follows:

Authority: 12 U.S.C. 248(a), 375a(10), 375b(9) and (10), 1468, 1817(k), 5412; and Pub. L. 102-242, 105 Stat. 2236 (1991).

29. In § 215.2, revise paragraph (i)(2) to read as follows:

**§ 215.2 Definitions.**

\* \* \* \* \*

(i) Lending limit. The lending limit for a member bank is an amount equal to the limit of loans to a single borrower established by section 5200 of the Revised Statutes, 52 12 U.S.C. 84. This amount is 15 percent of the bank's unimpaired capital and unimpaired surplus in the case of loans that are not fully secured, and an additional 10 percent of the bank's unimpaired capital and unimpaired surplus in the case of loans that are fully secured by readily marketable collateral having a market value, as determined by reliable and continuously available price quotations, at least equal to the amount of the loan. The lending limit also includes any higher amounts that are permitted by section 5200 of the Revised Statutes for the types of obligations listed therein as exceptions to the limit. A member bank's unimpaired capital and unimpaired surplus equals:

---

<sup>52</sup> Where State law establishes a lending limit for a State member bank that is lower than the amount permitted in section 5200 of the Revised Statutes, the lending limit established by applicable State laws shall be the lending limit for the State member bank.

(1) The bank's tier 1 and tier 2 capital included in the bank's risk-based capital under the capital rule of the appropriate Federal banking agency, based on the bank's most recent consolidated report of condition filed under 12 U.S.C. 1817(a)(3); and

(2) The balance of the bank's allowance for loan and lease losses or adjusted allowance for credit losses, as applicable, not included in the bank's tier 2 capital for purposes of the calculation of risk-based capital under the capital rule of the appropriate Federal banking agency, based on the bank's most recent consolidated reports of condition filed under 12 U.S.C. 1817(a)(3).

\* \* \* \* \*

PART 217 – CAPITAL ADEQUACY OF BANK HOLDING COMPANIES, SAVINGS AND LOAN HOLDING COMPANIES, AND STATE MEMBER BANKS (REGULATION Q)

30. The authority citation for part 217 continues to read as follows:

Authority: 12 U.S.C. 248(a), 321–338a, 481-486, 1462a, 1467a, 1818, 1828, 1831n, 1831o, 1831p–l, 1831w, 1835, 1844(b), 1851, 3904, 3906-3909, 4808, 5365, 5368, 5371.

31. In § 217.2, (a) Add the definition of *Adjusted allowances for credit losses (AACL)* and *current expected credit losses (CECL)* in alphabetical order; and (b) Revise the definitions of *carrying value*, *eligible credit reserves*, and *standardized total risk-weighted assets*. The additions and revisions read as follows:

**§ 217.2 Definitions.**

\* \* \* \* \*

*Adjusted allowances for credit losses (AACL)* means, with respect to a Board-regulated institution that has adopted CECL, valuation allowances that have been established through a charge against earnings or retained earnings for expected credit losses on financial assets

measured at amortized cost and a lessor's net investment in leases that have been established to reduce the amortized cost basis of the assets to amounts expected to be collected as determined in accordance with GAAP. For purposes of this part, adjusted allowances for credit losses include allowances for expected credit losses on off-balance sheet credit exposures not accounted for as insurance as determined in accordance with GAAP. Adjusted allowances for credit losses exclude "allocated transfer risk reserves" and allowances created that reflect credit losses on purchased credit deteriorated assets and available-for-sale debt securities.

\* \* \* \* \*

*Carrying value* means, with respect to an asset, the value of the asset on the balance sheet of a Board-regulated institution as determined in accordance with GAAP. For all assets other than available-for-sale debt securities or purchased credit deteriorated assets, the carrying value is not reduced by any associated credit loss allowance that is determined in accordance with GAAP.

\* \* \* \* \*

*Current Expected Credit Losses (CECL)* means the current expected credit losses methodology under GAAP.

\* \* \* \* \*

*Eligible credit reserves* means:

(1) For a Board-regulated institution that has not adopted CECL, all general allowances that have been established through a charge against earnings to cover estimated credit losses associated with on- or off-balance sheet wholesale and retail exposures, including the ALLL associated with such exposures, but excluding allocated transfer risk reserves established pursuant to 12 U.S.C. 3904 and other specific reserves created against recognized losses; and

(2) For a Board-regulated institution that has adopted CECL, all general allowances that have been established through a charge against earnings or retained earnings to cover expected credit losses associated with on- or off-balance sheet wholesale and retail exposures, including AACL associated with such exposures. Eligible credit reserves exclude allocated transfer risk reserves established pursuant to 12 U.S.C. 3904, allowances that reflect credit losses on purchased credit deteriorated assets and available-for-sale debt securities, and other specific reserves created against recognized losses.

\* \* \* \* \*

*Standardized total risk-weighted assets* means:

(1) \* \* \*

(2) Any amount of the Board-regulated institution’s allowance for loan and lease losses or adjusted allowance for credit losses, as applicable, that is not included in tier 2 capital and any amount of “allocated transfer risk reserves.”

\* \* \* \* \*

§ 217.10 [Amended]

32. In § 217.10(c)(3)(ii)(A), remove the words “*allowance for loan and lease losses*” and add, in their place, the words “*allowance for loan and lease losses or adjusted allowance for credit losses, as applicable*.”

**§§ 217.20(d)(3), 217.22, and 217.124 [Amended]**

33. In §§ 217.20, 217.22, and 217.124, remove the word “ALLL” and add, in its place, the words “ALLL or AACL, as applicable,” except the second occurrence in § 217.20(d)(3) and in § 217.124(a), where “ALLL or AACL, as applicable” is added in its place.

**§ 217.63 [Amended]**

34. In Table 5 to § 217.63, remove the words “allowance for loan and lease losses” and add, in their place, the words “allowance for loan and lease losses or adjusted allowance for credit losses, as applicable,” and remove the word “ALLL” and add, in its place, the words “ALLL or AACL, as applicable”.

35. Amend § 217.173 as follows:

- a. In Table 2, add paragraph (e);
- b. In Table 3, revise paragraph (e), redesignate paragraph (f) as paragraph (g), and add a new paragraph (f); and
- c. In Table 5, revise paragraphs (a), (e), and (g).

The additions and revisions read as follows.

**§ 217.173 Disclosures by certain advanced approaches Board-regulated institutions.**

\* \* \* \* \*

Table 2 to § 217.173—Capital Structure					
	*	*	*	*	*
(e)	(1) Whether the Board-regulated institution has elected to phase in recognition of the transitional amounts as defined in § 217.300(f).				
	(2) The Board-regulated institution’s common equity tier 1 capital, tier 1 capital, and total capital without including the transitional amounts as defined in § 217.300(f).				

**Table 3 to § 217.173—Capital Adequacy**

		* * * * *
	(e)	(1) Common equity tier 1, tier 1 and total risk-based capital ratios reflecting the transition provisions described in § 217.300(f): (A) For the top consolidated group; and (2) For each depository institution subsidiary.
	(f)	Common equity tier 1, tier 1 and total risk-based capital ratios reflecting the full adoption of CECL: (1) For the top consolidated group; and (2) For each depository institution subsidiary.
	(g)	Total risk-weighted assets.

\* \* \* \* \*

**TABLE 5<sup>1</sup> TO § 217.173—CREDIT RISK: GENERAL DISCLOSURES**

Qualitative disclosures	(a)	The general qualitative disclosure requirement with respect to credit risk (excluding counterparty credit risk disclosed in accordance with Table 7 to §217.173), including: (1) Policy for determining past due or delinquency status; (2) Policy for placing loans on nonaccrual; (3) Policy for returning loans to accrual status; (4) Definition of and policy for identifying impaired loans (for financial accounting purposes). (5) Description of the methodology that the entity uses to estimate its allowance for loan and lease losses or adjusted allowance for credit losses, as applicable, including statistical methods used where applicable; (6) Policy for charging-off uncollectible amounts; and (7) Discussion of the Board-regulated institution’s credit risk management policy
		* * * * *
	(e)	By major industry or counterparty type: (1) Amount of impaired loans for which there was a related allowance under GAAP; (2) Amount of impaired loans for which there was no related allowance under GAAP; (3) Amount of loans past due 90 days and on nonaccrual; (4) Amount of loans past due 90 days and still accruing; <sup>4</sup> (5) The balance in the allowance for loan and lease losses or adjusted allowance for credit losses, as applicable, at the end of each period, disaggregated on the basis of the entity’s impairment method. To disaggregate the information required on the basis of impairment methodology, an entity

		shall separately disclose the amounts based on the requirements in GAAP; and (6) Charge-offs during the period.
		* * * * *
	(g)	Reconciliation of changes in ALLL or AACL, as applicable. <sup>6</sup>
		* * * * *

<sup>1</sup>Table 5 to § 217.173 does not cover equity exposures, which should be reported in Table 9.

<sup>2</sup>See, for example, ASC Topic 815–10 and 210–20, as they may be amended from time to time.

<sup>3</sup>Geographical areas may comprise individual countries, groups of countries, or regions within countries. A Board-regulated institution might choose to define the geographical areas based on the way the company’s portfolio is geographically managed. The criteria used to allocate the loans to geographical areas must be specified.

<sup>4</sup>A Board-regulated institution is encouraged also to provide an analysis of the aging of past-due loans.

<sup>5</sup>The portion of the general allowance that is not allocated to a geographical area should be disclosed separately.

<sup>6</sup>The reconciliation should include the following: a description of the allowance; the opening balance of the allowance; charge-offs taken against the allowance during the period; amounts provided (or reversed) for estimated probable loan losses during the period; any other adjustments (for example, exchange rate differences, business combinations, acquisitions and disposals of subsidiaries), including transfers between allowances; and the closing balance of the allowance. Charge-offs and recoveries that have been recorded directly to the income statement should be disclosed separately.

\* \* \* \* \*

36. Add §217.301 to read as follows:

**Subpart G—Transition Provisions**

**§ 217.301 Current expected credit losses (CECL) transition.**

(a) *CECL transition provision.* (1) *Criteria for use of CECL transition provision.* A

Board-regulated institution may elect to use a CECL transition provision pursuant to this section only if the Board-regulated institution records a reduction in retained earnings due to the

adoption of CECL as of the beginning of the fiscal year in which the Board-regulated institution adopts CECL.

(2) A Board-regulated institution that elects to use the CECL transition provision must use the CECL transition provision in the first Call Report or FR Y-9C that includes CECL filed by the Board-regulated institution after it adopts CECL.

(3) A Board-regulated institution that does not elect to use the CECL transition provision as of the first Call Report or FR Y-9C that includes CECL filed as described in paragraph (a)(2) of this section may not elect to use the CECL transition provision in subsequent reporting periods.

(b) *Definitions.* For purposes of this section, the following definitions apply:

(1) *Transition period* means the three-year period beginning the first day of the fiscal year in which a Board-regulated institution adopts CECL.

(2) *CECL transitional amount* means the decrease net of any DTAs in the amount of a Board-regulated institution's retained earnings as of the beginning of the fiscal year in which the Board-regulated institution adopts CECL from the amount of the Board-regulated institution's retained earnings as of the closing of the fiscal year-end immediately prior to the Board-regulated institution's adoption of CECL.

(3) *DTA transitional amount* means the increase in the amount of a Board-regulated institution's DTAs arising from temporary differences as of the beginning of the fiscal year in which the Board-regulated institution adopts CECL from the amount of the Board-regulated institution's DTAs arising from temporary differences as of the closing of the fiscal year-end immediately prior to the Board-regulated institution's adoption of CECL.

(4) *AACL transitional amount* means the difference in the amount of a Board-regulated institution's AACL as of the beginning of the fiscal year in which the Board-regulated institution adopts CECL and the amount of the Board-regulated institution's ALLL as of the closing of the fiscal year-end immediately prior to the Board-regulated institution's adoption of CECL.

(5) *Eligible credit reserves transitional amount* means the increase in the amount of a Board-regulated institution's eligible credit reserves as of the beginning of the fiscal year in which the Board-regulated institution adopts CECL from the amount of the Board-regulated institution's eligible credit reserves as of the closing of the fiscal year-end immediately prior to the Board-regulated institution's adoption of CECL.

(c) *Calculation of CECL transition provision.* (1) For purposes of the election described in paragraph (a)(1) of this section, a Board-regulated institution must make the following adjustments in its calculation of regulatory capital ratios:

(i) Increase retained earnings by seventy-five percent of its CECL transitional amount during the first year of the transition period, increase retained earnings by fifty percent of its CECL transitional amount during the second year of the transition period, and increase retained earnings by twenty-five percent of its CECL transitional amount during the third year of the transition period;

(ii) Decrease amounts of DTAs arising from temporary differences by seventy-five percent of its DTA transitional amount during the first year of the transition period, decrease amounts of DTAs arising from temporary differences by fifty percent of its DTA transitional amount during the second year of the transition period, and decrease amounts of DTAs arising from temporary differences by twenty-five percent of its DTA transitional amount during the third year of the transition period;

(iii) Decrease amounts of AACL by seventy-five percent of its AACL transitional amount during the first year of the transition period, decrease amounts of AACL by fifty percent of its AACL transitional amount during the second year of the transition period, and decrease amounts of AACL by twenty-five percent of its AACL transitional amount during the third year of the transition period;

(iv) Increase average total consolidated assets as reported on the Call Report or FR Y-9C for purposes of the leverage ratio by seventy-five percent of its CECL transitional amount during the first year of the transition period, increase average total consolidated assets as reported on the Call Report or FR Y-9C for purposes of the leverage ratio by fifty percent of its CECL transitional amount during the second year of the transition period, and increase average total consolidated assets as reported on the Call Report or FR Y-9C for purposes of the leverage ratio by twenty-five percent of its CECL transitional amount during the third year of the transition period;

(2) For purposes of the election described in paragraph (a)(1) of this section, an advanced approaches Board-regulated institution must make the following additional adjustments to its calculation of regulatory capital ratios:

(i) Increase total leverage exposure for purposes of the supplementary leverage ratio by seventy-five percent of its CECL transitional amount during the first year of the transition period, increase total leverage exposure for purposes of the supplementary leverage ratio by fifty percent of its CECL transitional amount during the second year of the transition period, and increase total leverage exposure for purposes of the supplementary leverage ratio by twenty-five percent of its CECL transitional amount during the third year of the transition period; and

(ii) An advanced approaches Board-regulated institution that has completed the parallel run process and has received notification from the Board pursuant to §217.121(d) must decrease amounts of eligible credit reserves by seventy-five percent of its eligible credit reserves transitional amount during the first year of the transition period, decrease amounts of eligible credit reserves by fifty percent of its eligible credit reserves transitional amount during the second year of the transition provision, and decrease amounts of eligible credit reserves by twenty-five percent of its eligible credit reserves transitional amount during the third year of the transition period.

(3) *Eligible credit reserves shortfall.* An advanced approaches Board-regulated institution that has completed the parallel run process and has received notification from the Board pursuant to §217.121(d), whose amount of expected credit loss exceeded its eligible credit reserves immediately prior to the adoption of CECL, and that has an increase in common equity tier 1 capital as of the beginning of the fiscal year in which it adopts CECL after including the first year portion of the CECL transitional amount must decrease its CECL transitional amount used in paragraph (c) of this section by the full amount of its DTA transitional amount.

(4) *Business combinations.* Notwithstanding any other requirement in this section, for purposes of this paragraph, in the event of a business combination involving a Board-regulated institution where one or both Board-regulated institutions have elected the treatment described in this section:

(A) If the acquirer Board-regulated institution (as determined under GAAP) elected the treatment described in this section, the acquirer Board-regulated institution must continue to use the transitional amounts (unaffected by the business combination) that it calculated as of the date that it adopted CECL through the end of its transition period.

(B) If the acquired company (as determined under GAAP) elected the treatment described in this section, any transitional amount of the acquired company does not transfer to the resulting Board-regulated institution.

\* \* \* \* \*

**PART 223 – TRANSACTIONS BETWEEN MEMBER BANKS AND THEIR AFFILIATES (REGULATION W)**

37. The authority citation for part 223 continues to read as follows:

Authority: 12 U.S.C. 371c(b)(1)(E), (b)(2)(A), and (f), 371c-1(e), 1828(j), 1468(a), and section 312(b)(2)(A) of the Dodd Frank Wall Street Reform and Consumer Protection Act (12 U.S.C. 5412).

**Subpart A—Introduction and Definitions**

38. In § 223.3, revise paragraph (d) to read as follows:

**§ 223.3 What are the meanings of the other terms used in sections 23A and 23B and this part?**

\* \* \* \* \*

(d) “Capital stock and surplus” means the sum of:

(1) A member bank’s tier 1 and tier 2 capital under the capital rule of the appropriate Federal banking agency, based on the member bank’s most recent consolidated Report of Condition and Income filed under 12 U.S.C. 1817(a)(3);

(2) The balance of a member bank’s allowance for loan and lease losses or adjusted allowance for credit losses, as applicable, not included in its tier 2 capital under the capital rule of the appropriate Federal banking agency, based on the member bank’s most recent consolidated Report of Condition and Income filed under 12 U.S.C. 1817(a)(3); and

(3) The amount of any investment by a member bank in a financial subsidiary that counts as a covered transaction and is required to be deducted from the member bank’s capital for regulatory capital purposes.

\* \* \* \* \*

**PART 225 – BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL (REGULATION Y).**

39. The authority citation for part 225 continues to read as follows:

Authority: 12 U.S.C. 1817(j)(13), 1818, 1828(o), 1831i, 1831p-1831i, 1843(c)(8), 1844(b), 1972(1), 3106, 3108, 3310, 3331-3351, 3906, 3907 and 3909; 15 U.S.C. 1681s, 1681w, 6801 and 6805.

INTERPRETATIONS

40. In § 225.127,

a. Remove “§ 225.25(b)(6)” wherever it appears and add, in its place, “§ 225.28(b)(12)” and remove “§ 225.23” wherever it appears and add, in its place, “§ 225.23 or § 225.24”.

b. In § 225.127, revise paragraph (h).

The revision reads as follows:

**§ 225.127 Investments in corporations or projects designed primarily to promote community welfare.**

\* \* \* \* \*

(h) For purposes of paragraph (f) of this section, five percent of the total consolidated capital stock and surplus of a bank holding company includes its total investment in projects described in paragraph (f) of this section, when aggregated with similar types of investments made by depository institutions controlled by the bank holding company. The term total consolidated capital stock and surplus of the bank holding company means total equity capital

and the allowance for loan and lease losses or adjusted allowance for credit losses, as applicable, based on the bank holding company's most recent FR Y-9C (Consolidated Financial Statements for Holding Companies) or FR Y-9SP (Parent Company Only Financial Statements for Small Holding Companies).

\* \* \* \* \*

## **PART 252 – ENHANCED PRUDENTIAL STANDARDS (REGULATION YY)**

41. The authority citation for part 252 continues to read as follows:

Authority: 12 U.S.C. 321-338a, 481-486, 1467a, 1818, 1828, 1831n, 1831o, 1831p-l, 1831w, 1835, 1844(b), 1844(c), 3101 et seq., 3101 note, 3904, 3906-3909, 4808, 5361, 5362, 5365, 5366, 5367, 5368, 5371.

### **Subpart B—Company-Run Stress Test Requirements for Certain U.S. Banking Organizations With Total Consolidated Assets Over \$10 Billion and Less Than \$50 Billion**

42. In § 252.12, revise paragraph (m) to read as follows:

#### **§ 252.12 Definitions.**

\* \* \* \* \*

(m) *Provision for credit losses means:*

(1) Until December 31, 2019:

(i) With respect to a bank holding company, savings and loan holding company, or state member bank that has not adopted the current expected credit losses methodology under U.S. generally accepted accounting principles (GAAP), the provision for loan and lease losses as reported on the FR Y-9C (and as would be reported on the FR Y-9C or Call Report, as appropriate, in the current stress test cycle); and,

(ii) With respect to a bank holding company, savings and loan holding company, or state member bank that has adopted the current expected credit losses methodology under GAAP, the provision for loan and lease losses, as would be calculated and reported on the FR Y-9C or Call Report, as appropriate, by a bank holding company, savings and loan holding company, or state member bank that has not adopted the current expected credit losses methodology under GAAP; and

(2) Beginning January 1, 2020:

(i) With respect to a covered company that has adopted the current expected credit losses methodology under GAAP, the provision for credit losses, as would be reported by the bank holding company, savings and loan holding company, or state member bank on the FR Y-9C or Call Report, as appropriate, in the current stress test cycle; and

(ii) With respect to a bank holding company, savings and loan holding company, or state member bank that has not adopted the current expected credit losses methodology under GAAP, the provision for loan and lease losses as would be reported by the bank holding company, savings and loan holding company, or state member bank on the FR Y-9C or Call Report, as appropriate, in the current stress test cycle.

\* \* \* \* \*

43. In § 252.15, revise paragraph (a)(1) and (2) to read as follows:

**§ 252.15 Methodologies and practices.**

(a) \* \* \*

(1) Losses, pre-provision net revenue, provision for credit losses, and net income; and

(2) The potential impact on the regulatory capital levels and ratios applicable to the covered bank, and any other capital ratios specified by the Board, incorporating the effects of

any capital action over the planning horizon and maintenance of an allowance for loan losses or adjusted allowance for credit losses, as appropriate, for credit exposures throughout the planning horizon.

\* \* \* \* \*

44. In § 252.16, revise paragraph (b)(3) to read as follows:

**§ 252.16 Reports of stress test results.**

\* \* \* \* \*

(b) \* \* \*

(3) For each quarter of the planning horizon, estimates of aggregate losses, pre-provision net revenue, provision for credit losses, net income, and regulatory capital ratios;

\* \* \* \* \*

45. In § 252.17, revise paragraphs (b)(1)(iii)(C), (b)(3)(iii) and (c)(1) to read as follows:

**§ 252.17 Disclosure of stress test results.**

\* \* \* \* \*

(b) \* \* \*

(1) \* \* \*

(iii) \* \* \*

(C) Provision for credit losses;

\* \* \* \* \*

(3) \* \* \*

(iii) \* \* \*

(C) Provision for credit losses;

\* \* \* \* \*

(c) \* \* \*

(1) The disclosure of aggregate losses, pre-provision net revenue, provision for credit losses, and net income that is required under paragraph (b) of this section must be on a cumulative basis over the planning horizon.

\* \* \* \* \*

**Subpart E—Supervisory Stress Test Requirements for U.S. Bank Holding Companies with \$50 Billion or More in Total Consolidated Assets and Nonbank Financial Companies Supervised by the Board**

46. In § 252.42, revise paragraph (l) to read as follows:

**§ 252.42 Definitions.**

\* \* \* \* \*

(l) *Provision for credit losses means:*

(1) Until December 31, 2019:

(i) With respect to a covered company that has not adopted the current expected credit losses methodology under U.S. generally accepted accounting principles (GAAP), the provision for loan and lease losses as reported on the FR Y-9C (and as would be reported on the FR Y-9C in the current stress test cycle); and

(ii) With respect to a covered company that has adopted the current expected credit losses methodology under GAAP, the provision for loan and lease losses, as would be calculated and reported on the FR Y-9C by a covered company that has not adopted the current expected credit losses methodology under GAAP; and

(2) Beginning January 1, 2020:

(i) With respect to a covered company that has adopted the current expected credit losses methodology under GAAP, the provision for credit losses, as would be reported by the covered company on the FR Y-9C in the current stress test cycle; and,

(ii) With respect to a covered company that has not adopted the current expected credit losses methodology under GAAP, the provision for loan and lease losses as would be reported by the covered company on the FR Y-9C in the current stress test cycle.

\* \* \* \* \*

47. In § 252.45, revise paragraph (b)(2) to read as follows:

**§ 252.45 Data and information required to be submitted in support of the Board’s analyses.**

\* \* \* \* \*

(b) \* \* \*

(2) Project a company’s pre-provision net revenue, losses, provision for credit losses, and net income; and pro forma capital levels, regulatory capital ratios, and any other capital ratio specified by the Board under the scenarios described in § 252.44(b).

\* \* \* \* \*

**Subpart F—Company-Run Stress Test Requirements for U.S. Bank Holding Companies with \$50 Billion or More in Total Consolidated Assets and Nonbank Financial Companies Supervised by the Board**

48. In § 252.52, revise paragraph (m) to read as follows:

**§ 252.52 Definitions.**

\* \* \* \* \*

(m) *Provision for credit losses means:*

(1) Until December 31, 2019:

(i) With respect to a covered company that has not adopted the current expected credit losses methodology under GAAP, the provision for loan and lease losses as reported on the FR Y-9C (and as would be reported on the FR Y-9C in the current stress test cycle); and

(ii) With respect to a covered company that has adopted the current expected credit losses methodology under GAAP, the provision for loan and lease losses, as would be calculated and reported on the FR Y-9C by a covered company that has not adopted the current expected credit losses methodology under GAAP; and

(2) Beginning January 1, 2020:

(i) With respect to a covered company that has adopted the current expected credit losses methodology under GAAP, the provision for credit losses, as would be reported by the covered company on the FR Y-9C in the current stress test cycle; and

(ii) With respect to a covered company that has not adopted the current expected credit losses methodology under GAAP, the provision for loan and lease losses as would be reported by the covered company on the FR Y-9C in the current stress test cycle.

\* \* \* \* \*

49. In § 252.56, revise paragraph (a)(1) and (2) to read as follows:

**§ 252.56 Methodologies and practices.**

(a) \* \* \*

(1) Losses, pre-provision net revenue, provision for credit losses, and net income; and

(2) The potential impact on the regulatory capital levels and ratios applicable to the covered bank, and any other capital ratios specified by the Board, incorporating the effects of any capital action over the planning horizon and maintenance of an allowance for loan losses or

adjusted allowance for credit losses, as appropriate, for credit exposures throughout the planning horizon.

\* \* \* \* \*

50. In § 252.58, revise paragraphs (b)(2), (b)(3)(ii), and (c)(1)(ii) to read as follows:

**§ 252.58 Disclosure of stress test results.**

\* \* \* \* \*

(b) \* \* \*

(2) A general description of the methodologies used in the stress test, including those employed to estimate losses, revenues, provision for credit losses, and changes in capital positions over the planning horizon.

(3) \* \* \*

(ii) Provision for credit losses, realized losses or gains on available-for-sale and held-to-maturity securities, trading and counterparty losses or gains;

\* \* \* \* \*

(c) \* \* \*

(1) \* \* \*

(i) \* \* \*

(ii) Provision for credit losses, realized losses/gains on available-for-sale and held-to-maturity securities, trading and counterparty losses, and other losses or gain;

\* \* \* \* \*

**Federal Deposit Insurance Corporation**

**12 CFR Chapter III**

## Authority and Issuance

For the reasons stated in the preamble, the Federal Deposit Insurance Corporation proposes to amend chapter III of Title 12, Code of Federal Regulations as follows:

### **PART 324—CAPITAL ADEQUACY OF FDIC-SUPERVISED INSTITUTIONS**

51. The authority citation for part 324 continues to read as follows:

**Authority:** 12 U.S.C. 1815(a), 1815(b), 1816, 1818(a), 1818(b), 1818(c), 1818(t), 1819(Tenth), 1828(c), 1828(d), 1828(i), 1828(n), 1828(o), 1831o, 1835, 3907, 3909, 4808; 5371; 5412; Pub.L. 102–233, 105 Stat. 1761, 1789, 1790 (12 U.S.C. 1831n note); Pub.L. 102–242, 105 Stat. 2236, 2355, as amended by Pub.L. 103–325, 108 Stat. 2160, 2233 (12 U.S.C. 1828 note); Pub.L. 102–242, 105 Stat. 2236, 2386, as amended by Pub.L. 102–550, 106 Stat. 3672, 4089 (12 U.S.C. 1828 note); Pub.L. 111–203, 124 Stat. 1376, 1887 (15 U.S.C. 78o–7 note).

52. Section 324.2 is amended by revising the definitions of *carrying value*, *eligible credit reserves*, *identified losses*, and *standardized total risk-weighted assets*, and adding the definitions of *adjusted allowances for credit losses (AACL)* and *current expected credit losses (CECL)* in alphabetical order to read as follows:

\* \* \* \* \*

*Adjusted allowances for credit losses (AACL)* means, with respect to an FDIC-supervised institution that has adopted CECL, valuation allowances that have been established through a charge against earnings or retained earnings for expected credit losses on financial assets measured at amortized cost and a lessor's net investment in leases that have been established to reduce the amortized cost basis of the assets to amounts expected to be collected as determined in accordance with GAAP. For purposes of this part, adjusted allowances for credit losses include allowances for expected credit losses on off-balance sheet credit exposures not

accounted for as insurance as determined in accordance with GAAP. Adjusted allowances for credit losses exclude “allocated transfer risk reserves” and allowances created that reflect credit losses on purchased credit deteriorated assets and available-for-sale debt securities.

\* \* \* \* \*

*Carrying value* means, with respect to an asset, the value of the asset on the balance sheet of the FDIC-supervised institution as determined in accordance with GAAP. For all assets other than available-for-sale debt securities or purchased credit deteriorated assets, the carrying value is not reduced by any associated credit loss allowance that is determined in accordance with GAAP.

\* \* \* \* \*

*Current Expected Credit Losses (CECL)* means the current expected credit losses methodology under GAAP.

\* \* \* \* \*

*Eligible credit reserves* means:

(1) For an FDIC-supervised institution that has not adopted CECL, all general allowances that have been established through a charge against earnings to cover estimated credit losses associated with on- or off-balance sheet wholesale and retail exposures, including the ALLL associated with such exposures, but excluding allocated transfer risk reserves established pursuant to 12 U.S.C. 3904 and other specific reserves created against recognized losses; and

(2) For an FDIC-supervised institution that has adopted CECL, all general allowances that have been established through a charge against earnings or retained earnings to cover expected credit losses associated with on- or off-balance sheet wholesale and retail exposures, including AACL associated with such exposures. Eligible credit reserves exclude allocated

transfer risk reserves established pursuant to 12 U.S.C. 3904, allowances that reflect credit losses on purchased credit deteriorated assets and available-for-sale debt securities, and other specific reserves created against recognized losses.

\* \* \* \* \*

*Identified losses* means:

(1) When measured as of the date of examination of an FDIC-supervised institution, those items that have been determined by an evaluation made by a state or Federal examiner as of that date to be chargeable against income, capital and/or general valuation allowances such as the allowances for loan and lease losses (examples of identified losses would be assets classified loss, off-balance sheet items classified loss, any provision expenses that are necessary for the FDIC-supervised institution to record in order to replenish its general valuation allowances to an adequate level, liabilities not shown on the FDIC-supervised institution's books, estimated losses in contingent liabilities, and differences in accounts which represent shortages) or the adjusted allowances for credit losses; and

(2) When measured as of any other date, those items:

(i) That have been determined—

(A) By an evaluation made by a state or Federal examiner at the most recent examination of an FDIC-supervised institution to be chargeable against income, capital and/or general valuation allowances; or

(B) By evaluations made by the FDIC-supervised institution since its most recent examination to be chargeable against income, capital and/or general valuation allowances; and

(ii) For which the appropriate accounting entries to recognize the loss have not yet been made on the FDIC-supervised institution's books nor has the item been collected or otherwise settled.

\* \* \* \* \*

*Standardized total risk-weighted assets* means:

(1) \* \* \*

(2) Any amount of the FDIC-supervised institution's allowance for loan and lease losses or adjusted allowance for credit losses, as applicable, that is not included in tier 2 capital and any amount of "allocated transfer risk reserves."

\* \* \* \* \*

53. Section 324.10(c)(3)(ii)(A) is amended by removing the words "allowance for loan and lease losses" and adding, in their place, the words "allowance for loan and lease losses or adjusted allowance for credit losses, as applicable,".

54. Sections 324.20, 324.22, and 324.124 are amended by removing "ALLL" everywhere it appears and adding in its place "ALLL or AACL, as applicable," except the second occurrence in § 324.20(d)(3) and in § 324.124(a) where "ALLL or AACL, as applicable" is added in its place.

55. Table 5 to Section 324.63 is amended by removing all references to "allowance for loan and lease losses," and "allowance for loan and lease losses" and adding in their place "allowance for loan and lease losses or adjusted allowance for credit losses, as applicable," and removing "ALLL" and adding, in its place "ALLL or AACL, as applicable".

56. Section 324.173 is amended:

a. In Table 2, by adding paragraph (e);

- b. In Table 3, by re-designating paragraph (f) as paragraph (g), revising paragraph (e), and adding a new paragraph (f); and
- c. In Table 5, by revising all references to “allowance for loan and lease losses” and “allowance for loan and lease losses,” to read “allowance for loan and lease losses or adjusted allowance for credit losses, as applicable,” and removing the word “ALLL” and adding, in its place, the words “ALLL or AACL, as applicable”.
- d. The additions and revisions read as set forth below.

**§ 324.173 Disclosures by certain advanced approaches FDIC-supervised**

**institutions.**

\* \* \* \* \*

Table 2 to § 324.173—Capital Structure	
	* * * * *
(e)	(1) Whether the FDIC-supervised institution has elected to phase in recognition of the transitional amounts as defined in § 324.300(f).
	(2) The FDIC-supervised institution’s common equity tier 1 capital, tier 1 capital, and total capital without including the transitional amounts as defined in § 324.300(f).

**Table 3 to § 324.173—Capital Adequacy**

		* * * * *
	(e)	(1) Common equity tier 1, tier 1 and total risk-based capital ratios reflecting the transition provisions described in § 324.300(f): (A) For the top consolidated group; and (2) For each depository institution subsidiary.
	(f)	Common equity tier 1, tier 1 and total risk-based capital ratios reflecting the full adoption of CECL: (1) For the top consolidated group; and (2) For each depository institution subsidiary.
	(g)	Total risk-weighted assets.

\* \* \* \* \*

**TABLE 5<sup>1</sup> TO § 324.173—CREDIT RISK: GENERAL DISCLOSURES**

Qualitative disclosures	<p>(a) The general qualitative disclosure requirement with respect to credit risk (excluding counterparty credit risk disclosed in accordance with Table 7 to §324.173), including:</p> <p>(1) Policy for determining past due or delinquency status;</p> <p>(2) Policy for placing loans on nonaccrual;</p> <p>(3) Policy for returning loans to accrual status;</p> <p>(4) Definition of and policy for identifying impaired loans (for financial accounting purposes).</p> <p>(5) Description of the methodology that the entity uses to estimate its allowance for loan and lease losses or adjusted allowance for credit losses, as applicable, including statistical methods used where applicable;</p> <p>(6) Policy for charging-off uncollectible amounts; and</p> <p>(7) Discussion of the FDIC-supervised institution's credit risk management policy</p>
	* * * * *
	<p>(e) By major industry or counterparty type:</p> <p>(1) Amount of impaired loans for which there was a related allowance under GAAP;</p> <p>(2) Amount of impaired loans for which there was no related allowance under GAAP;</p> <p>(3) Amount of loans past due 90 days and on nonaccrual;</p> <p>(4) Amount of loans past due 90 days and still accruing;<sup>4</sup></p> <p>(5) The balance in the allowance for loan and lease losses or adjusted allowance for credit losses, as applicable, at the end of each period, disaggregated on the basis of the entity's impairment method. To disaggregate the information required on the basis of impairment methodology, an entity shall separately disclose the amounts based on the requirements in GAAP; and</p> <p>(6) Charge-offs during the period.</p>
	* * * * *
	(g) Reconciliation of changes in ALLL or AACL, as applicable. <sup>6</sup>
	* * * * *

<sup>1</sup>Table 5 to § 324.173 does not cover equity exposures, which should be reported in Table 9 to § 324.173.

<sup>2</sup>See, for example, ASC Topic 815–10 and 210–20, as they may be amended from time to time.

<sup>3</sup>Geographical areas may comprise individual countries, groups of countries, or regions within countries. An FDIC-supervised institution might choose to define the geographical areas based on the way the company's portfolio is geographically managed. The criteria used to allocate the loans to geographical areas must be specified.

<sup>4</sup>An FDIC-supervised institution is encouraged also to provide an analysis of the aging of past-due loans.

<sup>5</sup>The portion of the general allowance that is not allocated to a geographical area should be disclosed separately.

<sup>6</sup>The reconciliation should include the following: a description of the allowance; the opening balance of the allowance; charge-offs taken against the allowance during the period; amounts provided (or reversed) for estimated probable loan losses during the period; any other adjustments (for example, exchange rate differences, business combinations, acquisitions and disposals of subsidiaries), including transfers between allowances; and the closing balance of the allowance. Charge-offs and recoveries that have been recorded directly to the income statement should be disclosed separately.

\* \* \* \* \*

58. Amend part 324 subpart G by adding section 301 to read as follows:

**Subpart G—Transition Provisions**

\* \* \* \* \*

**§ 324.301 Current expected credit losses (CECL) transition.**

(a) *CECL transition provision.* (1) *Criteria for use of CECL transition provision.* An FDIC-supervised institution may elect to use a CECL transition provision pursuant to this section only if the FDIC-supervised institution records a reduction in retained earnings due to the

adoption of CECL as of the beginning of the fiscal year in which the FDIC-supervised institution adopts CECL.

(2) An FDIC-supervised institution that elects to use the CECL transition provision must use the CECL transition provision in the first Call Report filed by the FDIC-supervised institution after it adopts CECL.

(3) An FDIC-supervised institution that does not elect to use the CECL transition provision as of the first Call Report filed as described in paragraph (a)(2) of this section may not elect to use the CECL transition provision in subsequent reporting periods.

(b) *Definitions.* For purposes of this section, the following definitions apply:

(1) *Transition period* means the three-year period beginning the first day of the fiscal year in which an FDIC-supervised institution adopts CECL.

(2) *CECL transitional amount* means the decrease net of any DTAs in the amount of an FDIC-supervised institution's retained earnings as of the beginning of the fiscal year in which the FDIC-supervised institution adopts CECL from the amount of the FDIC-supervised institution's retained earnings as of the closing of the fiscal year-end immediately prior to the FDIC-supervised institution's adoption of CECL.

(3) *DTA transitional amount* means the increase in the amount of an FDIC-supervised institution's DTAs arising from temporary differences as of the beginning of the fiscal year in which the FDIC-supervised institution adopts CECL from the amount of the FDIC-supervised institution's DTAs arising from temporary differences as of the closing of the fiscal year-end immediately prior to the FDIC-supervised institution's adoption of CECL.

(4) *AACL transitional amount* means the difference in the amount of an FDIC-supervised institution's AACL as of the beginning of the fiscal year in which the FDIC-

supervised institution adopts CECL and the amount of the FDIC-supervised institution's ALLL as of the closing of the fiscal year-end immediately prior to the FDIC-supervised institution's adoption of CECL.

(5) *Eligible credit reserves transitional amount* means the increase in the amount of a FDIC-supervised institution's eligible credit reserves as of the beginning of the fiscal year in which the FDIC-supervised institution adopts CECL from the amount of the FDIC-supervised institution's eligible credit reserves as of the closing of the fiscal year-end immediately prior to the FDIC-supervised institution's adoption of CECL.

(c) *Calculation of CECL transition provision.* (1) For purposes of the election described in paragraph (a)(1) of this section, an FDIC-supervised institution must make the following adjustments in its calculation of regulatory capital ratios:

(i) Increase retained earnings by seventy-five percent of its CECL transitional amount during the first year of the transition period, increase retained earnings by fifty percent of its CECL transitional amount during the second year of the transition period, and increase retained earnings by twenty-five percent of its CECL transitional amount during the third year of the transition period;

(ii) Decrease amounts of DTAs arising from temporary differences by seventy-five percent of its DTA transitional amount during the first year of the transition period, decrease amounts of DTAs arising from temporary differences by fifty percent of its DTA transitional amount during the second year of the transition period, and decrease amounts of DTAs arising from temporary differences by twenty-five percent of its DTA transitional amount during the third year of the transition period;

(iii) Decrease amounts of AACL by seventy-five percent of its AACL transitional amount during the first year of the transition period, decrease amounts of AACL by fifty percent of its AACL transitional amount during the second year of the transition period, and decrease amounts of AACL by twenty-five percent of its AACL transitional amount during the third year of the transition period;

(iv) Increase average total consolidated assets as reported on the Call Report for purposes of the leverage ratio by seventy-five percent of its CECL transitional amount during the first year of the transition period, increase average total consolidated assets as reported on the Call Report for purposes of the leverage ratio by fifty percent of its CECL transitional amount during the second year of the transition period, and increase average total consolidated assets as reported on the Call Report for purposes of the leverage ratio by twenty-five percent of its CECL transitional amount during the third year of the transition period;

(2) For purposes of the election described in paragraph (a)(1) of this section, an advanced approaches FDIC-supervised institution must make the following additional adjustments to its calculation of regulatory capital ratios:

(i) Increase total leverage exposure for purposes of the supplementary leverage ratio by seventy-five percent of its CECL transitional amount during the first year of the transition period, increase total leverage exposure for purposes of the supplementary leverage ratio by fifty percent of its CECL transitional amount during the second year of the transition period, and increase total leverage exposure for purposes of the supplementary leverage ratio by twenty-five percent of its CECL transitional amount during the third year of the transition period; and

(ii) An advanced approaches FDIC-supervised institution that has completed the parallel run process and has received notification from the FDIC pursuant to § 324.121(d) must decrease

amounts of eligible credit reserves by seventy-five percent of its eligible credit reserves transitional amount during the first year of the transition period, decrease amounts of eligible credit reserves by fifty percent of its eligible credit reserves transitional amount during the second year of the transition provision, and decrease amounts of eligible credit reserves by twenty-five percent of its eligible credit reserves transitional amount during the third year of the transition period.

(3) *Eligible credit reserves shortfall.* An advanced approaches FDIC-supervised institution that has completed the parallel run process and has received notification from the FDIC pursuant to § 324.121(d), whose amount of expected credit loss exceeded its eligible credit reserves immediately prior to the adoption of CECL, and that has an increase in common equity tier 1 capital as of the beginning of the fiscal year in which it adopts CECL after including the first year portion of the CECL transitional amount must decrease its CECL transitional amount used in paragraph (c) of this section by the full amount of its DTA transitional amount.

(4) *Business combinations.* Notwithstanding any other requirement in this section, for purposes of this paragraph, in the event of a business combination involving an FDIC-supervised institution where one or both FDIC-supervised institutions have elected the treatment described in this section:

(A) If the acquirer FDIC-supervised institution (as determined under GAAP) elected the treatment described in this section, the acquirer FDIC-supervised institution must continue to use the transitional amounts (unaffected by the business combination) that it calculated as of the date that it adopted CECL through the end of its transition period.

(B) If the acquired insured depository institution (as determined under GAAP) elected the treatment described in this section, any transitional amount of the acquired insured depository institution does not transfer to the resulting FDIC-supervised institution.

**PART 325—CAPITAL MAINTENANCE**

59. The authority citation for part 325 continues to read as follows:

**Authority:** 12 U.S.C. 5365(i)(2); 12 U.S.C. 5412(b)(2)(C); 12 U.S.C. 1818, 12 U.S.C. 1819(a)(Tenth), 12 U.S.C. 1831o, and 12 U.S.C. 1831p–1.

**Subpart C – Annual Stress Test**

60. Section 325.2(g) is revised to read as follows:

**§ 325.2 Definitions.**

\* \* \* \* \*

(g) Provision for credit losses means:

(1) Until December 31, 2019:

(i) With respect to a state nonmember bank or state savings association that has not adopted the current expected credit losses methodology under U.S. generally accepted accounting principles (GAAP), the provision for loan and lease losses as reported on the Call Report in the current stress test cycle; and,

(ii) With respect to a state nonmember bank or state savings association that has adopted the current expected credit losses methodology under GAAP, the provision for loan and lease losses, as would be calculated and reported on the Call Report by a state nonmember bank or state savings association that has not adopted the current expected credit losses methodology under GAAP; and

(2) Beginning January 1, 2020:

(i) With respect to a state nonmember bank or state savings association that has adopted the current expected credit losses methodology under GAAP, the provision for credit losses, as reported in the Call Report in the current stress test cycle; and

(ii) With respect to a state nonmember bank or state savings association that has not adopted the current expected credit losses methodology under GAAP, the provision for loan and lease losses as would be reported in the Call Report in the current stress test cycle.

\* \* \* \* \*

61. Section 325.5(a) is revised to read as follows:

**§ 325.5 Methodologies and practices.**

(a) \* \* \*

(1) Pre-provision net revenues, losses, provision for credit losses, and net income; and

(2) The potential impact on the regulatory capital levels and ratios applicable to the covered bank, and any other capital ratios specified by the Corporation, incorporating the effects of any capital action over the planning horizon and maintenance of an allowance for loan losses or adjusted allowance for credit losses, as appropriate, for credit exposures throughout the planning horizon.

\* \* \* \* \*

62. Section 325.6(b)(1) is revised to read as follows:

**§ 325.6 Required reports of stress test results to the FDIC and the Board of**

**Governors of the Federal Reserve System.**

\* \* \* \* \*

(b) \* \* \*

(1) The reports required under paragraph (a) of this section must include under the baseline scenario, adverse scenario, severely adverse scenario and any other scenario required by the FDIC under this subpart, a description of the types of risks being included in the stress test, a summary description of the methodologies used in the stress test, and, for each quarter of the planning horizon, estimates of aggregate losses, pre-provision net revenue, provision for credit losses, net income, and pro forma capital ratios (including regulatory and any other capital ratios specified by the FDIC). In addition, the report must include an explanation of the most significant causes for the changes in regulatory capital ratios and any other information required by the FDIC.

\* \* \* \* \*

63. Sections 325.7 is amended by revising paragraphs (c)(3) and (d)(1) to read as follows:

**§ 325.7 Publication of stress test results.**

\* \* \* \* \*

(c) \* \* \*

(3) Estimates of aggregate losses, pre-provision net revenue, provision for credit losses, net income, and pro forma capital ratios (including regulatory and any other capital ratios specified by the FDIC); and

\* \* \* \* \*

(d) \* \* \*

(1) The disclosure of aggregate losses, pre-provision net revenue, provisions for credit losses, and net income under this section must be on a cumulative basis over the planning horizon.

\* \* \* \* \*

## **PART 327—ASSESSMENTS**

64. The authority citation for part 327 continues to read as follows:

Authority: 12 U.S.C. 1441, 1813, 1815, 1817–19, 1821.

### **Subpart A—in General**

65. Section 327.16 is amended by removing the words “allowance for loan and lease financing receivable losses (ALLL)” and adding, in their place, the words “allowance for loan and lease financing receivable losses (ALLL) or allowance for credit losses, as applicable”.

## **PART 347—INTERNATIONAL BANKING**

66. The authority citation for Part 347 continues to read as follows:

Authority: 12 U.S.C. 1813, 1815, 1817, 1819, 1820, 1828, 3103, 3104, 3105, 3108, 3109; Pub L. No. 111–203, section 939A, 124 Stat. 1376, 1887 (July 21, 2010) (codified 15 U.S.C. 78o–7 note).

### **Subpart C—International Lending**

67. Section 347.303 is amended by revising paragraphs (c)(2) and (c)(4) to read as follows:

#### **§ 347.303 Allocated transfer risk reserve.**

\* \* \* \* \*

(c) \* \* \*

(2) Separate accounting. A banking institution shall account for an ATRR separately from the Allowance for Loan and Lease Losses or allowance for credit losses, as applicable, and shall deduct the ATRR from “gross loans and leases” to arrive at “net loans and lease.” The

ATRR must be established for each asset subject to the ATRR in the percentage amount specified.

\* \* \* \* \*

(4) Alternative accounting treatment. A banking institution need not establish an ATRR if it writes down in the period in which the ATRR is required, or has written down in prior periods, the value of the specified international assets in the requisite amount for each such asset. For purposes of this paragraph (c)(4), international assets may be written down by a charge to the Allowance for Loan and Lease Losses or allowance for credit losses, as applicable, or a reduction in the principal amount of the asset by application of interest payments or other collections on the asset; provided, that only those international assets that may be charged to the Allowance for Loan and Lease Losses or allowance for credit losses, as applicable, pursuant to U.S. generally accepted accounting principles may be written down by a charge to the Allowance for Loan and Lease Losses or allowance for credit losses, as applicable. However, the Allowance for Loan and Lease Losses or allowance for credit losses, as applicable, must be replenished in such amount necessary to restore it to a level which adequately provides for the estimated losses inherent in the banking institution's loan and lease portfolio.

\* \* \* \* \*

**PART 390—REGULATIONS TRANSFERRED FROM THE OFFICE OF THRIFT  
SUPERVISION**

68. The authority citation for part 390 continues to read as follows:

Authority: 12 U.S.C. 1819.

### **Subpart T—Accounting Requirements**

69. In Appendix to Section 390.384, revise all references to “provision for loan losses” to read “provision for loan losses or provision for credit losses, as applicable”.

**[THIS SIGNATURE PAGE RELATES TO THE DOCUMENT TITLED:  
“Regulatory Capital Rule: Implementation and Transition of the Current Expected Credit  
Losses Standard for Allowances and Related Adjustments to the Regulatory Capital Rule  
and Conforming Adjustments to Other Regulations”]**

Dated: 12/18/2018

/signed/

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William A. Rowe,  
*Chief Risk Officer.*

**[THIS SIGNATURE PAGE RELATES TO THE DOCUMENT TITLED: “Regulatory Capital Rule: Implementation and Transition of the Current Expected Credit Losses Standard for Allowances and Related Adjustments to the Regulatory Capital Rule and Conforming Adjustments to Other Regulations”]**

By order of the Board of Governors of the Federal Reserve System.

/signed/

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**Ann E. Misback,**  
*Secretary of the Board.*

**[THIS SIGNATURE PAGE RELATES TO THE DOCUMENT TITLED:  
“Regulatory Capital Rule: Implementation and Transition of the Current Expected Credit  
Losses Standard for Allowances and Related Adjustments to the Regulatory Capital Rule  
and Conforming Adjustments to Other Regulations”]**

Dated at Washington, DC, on December 18, 2018.

By order of the Board of Directors.

Federal Deposit Insurance Corporation.

/signed/

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**Valerie J. Best,**

*Assistant Executive Secretary.*