

**DEPARTMENT OF TREASURY**  
**Office of the Comptroller of the Currency**  
12 CFR Part 3  
Docket ID OCC-2020-0010  
RIN 1557-AE82

**FEDERAL RESERVE SYSTEM**  
12 CFR Part 217  
Regulation Q; Docket No. R-1708  
RIN 7100-AF82

**FEDERAL DEPOSIT INSURANCE CORPORATION**  
12 CFR Part 324  
RIN 3064-AF42

**Regulatory Capital Rule: Revised Transition of the Current Expected Credit Losses Methodology for Allowances**

**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:** Interim final rule, request for comment.

**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 inviting comment on an interim final rule that delays the estimated impact on regulatory capital stemming from the implementation of Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses, Topic 326, Measurement of Credit Losses on Financial Instruments (CECL). The interim final rule provides banking organizations that implement CECL before the end of 2020 the option to delay for two years an estimate of CECL’s effect on regulatory capital, relative to the incurred loss methodology’s effect on regulatory capital, followed by a three-year transition period. The agencies are providing this relief to allow such banking organizations to better focus on supporting lending to creditworthy

households and businesses in light of recent strains on the U.S. economy as a result of the coronavirus disease 2019 (COVID-19), while also maintaining the quality of regulatory capital.

**DATES:** The interim final rule is effective [INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER]. Comments on the interim final rule must be received no later than [INSERT 45 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

**ADDRESSES:** Interested parties are encouraged to submit written comments jointly to all of the agencies. Commenters are encouraged to use the title “Regulatory Capital Rule: Revised Transition of the Current Expected Credit Losses Methodology for Allowances” to facilitate the organization and distribution of comments among the agencies. Commenters are also encouraged to identify the number of the specific question for comment to which they are responding. Comments should be directed to:

*OCC:* You may submit comments to the OCC by any of the methods set forth below.

Commenters are encouraged to submit comments through the Federal eRulemaking Portal or e-mail, if possible. Please use the title “Regulatory Capital Rule: Revised Transition of the Current Expected Credit Losses Methodology for Allowances” to facilitate the organization and distribution of the comments. You may submit comments by any of the following methods:

***Federal eRulemaking Portal—“Regulations.gov Classic or Regulations.gov Beta”:***

**Regulations.gov Classic:** Go to <https://www.regulations.gov/>. Enter “Docket ID OCC-2020-0010” in the Search Box and click “Search.” Click on “Comment Now” to submit public comments. For help with submitting effective comments please click on “View Commenter’s Checklist.” Click on the “Help” tab on the *Regulations.gov* home page to get information on using *Regulations.gov*, including instructions for submitting public comments.

Regulations.gov Beta: Go to <https://beta.regulations.gov/> or click “Visit New *Regulations.gov Site*” from the *Regulations.gov* Classic homepage. Enter “Docket ID OCC-2020-0010” in the Search Box and click “Search.” Public comments can be submitted via the “Comment” box below the displayed document information or by clicking on the document title and then clicking the “Comment” box on the top-left side of the screen. For help with submitting effective comments please click on “Commenter’s Checklist.” For assistance with the *Regulations.gov* Beta site, please call (877) 378-5457 (toll free) or (703) 454-9859 Monday-Friday, 9am-5pm ET or e-mail [regulations@erulemakinghelpdesk.com](mailto:regulations@erulemakinghelpdesk.com).

- **E-mail:** [regs.comments@occ.treas.gov](mailto:regs.comments@occ.treas.gov).
- **Mail:** Chief Counsel’s Office, Office of the Comptroller of the Currency, 400 7th Street, SW, suite 3E-218, Washington, DC 20219.

*Instructions:* You must include “OCC” as the agency name and “Docket ID OCC-2020-0010” in your comment. In general, the OCC will enter all comments received into the docket and publish the comments on the *Regulations.gov* website without change, including any business or personal information that you provide such as name and address information, e-mail addresses, or phone numbers. Comments received, including attachments and other supporting materials, are part of the public record and subject to public disclosure. Do not include any information in your comment or supporting materials that you consider confidential or inappropriate for public disclosure.

You may review comments and other related materials that pertain to this rulemaking action by any of the following methods:

- **Viewing Comments Electronically – Regulations.gov Classic or Regulations.gov Beta:**

Regulations.gov Classic: Go to <https://www.regulations.gov/>. Enter “Docket ID OCC-2020-0010” in the Search box and click “Search.” Click on “Open Docket Folder” on the right side of the screen. Comments and supporting materials can be viewed and filtered by clicking on “View all documents and comments in this docket” and then using the filtering tools on the left side of the screen. Click on the “Help” tab on the *Regulations.gov* home page to get information on using *Regulations.gov*. The docket may be viewed after the close of the comment period in the same manner as during the comment period.

Regulations.gov Beta: Go to <https://beta.regulations.gov/> or click “Visit New *Regulations.gov Site*” from the *Regulations.gov* Classic homepage. Enter “Docket ID OCC-2020-0010” in the Search Box and click “Search.” Click on the “Comments” tab. Comments can be viewed and filtered by clicking on the “Sort By” drop-down on the right side of the screen or the “Refine Results” options on the left side of the screen. Supporting materials can be viewed by clicking on the “Documents” tab and filtered by clicking on the “Sort By” drop-down on the right side of the screen or the “Refine Results” options on the left side of the screen. For assistance with the *Regulations.gov* Beta site, please call (877) 378-5457 (toll free) or (703) 454-9859 Monday-Friday, 9am-5pm ET or e-mail [regulations@erulemakinghelpdesk.com](mailto:regulations@erulemakinghelpdesk.com).

The docket may be viewed after the close of the comment period in the same manner as during the comment period.

**Board:** You may submit comments, identified by Docket No. R-1708 and RIN 7100-AF82, by any of the following methods:

- **Agency Web Site:** <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <https://www.federalreserve.gov/apps/foia/proposedregs.aspx>.

- **E-mail:** regs.comments@federalreserve.gov. Include docket number and RIN in the subject line of the message.
- **FAX:** (202) 452-3819 or (202) 452-3102.
- **Mail:** Ann E. Misback, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551.

All public comments are available from the Board's Web site at

<http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm> as submitted, unless modified for technical reasons or to remove sensitive personally identifiable information at the commenter's request. Public comments may also be viewed electronically or in paper form in Room 146, 1709 New York Avenue, NW, Washington, DC 20006, between 9:00 a.m. and 5:00 p.m. on weekdays.

**FDIC:** You may submit comments, identified by RIN 3064-AF42, by any of the following methods:

- **Agency Website:** <https://www.fdic.gov/regulations/laws/federal/>. Follow the instructions for submitting comments on the Agency website.
- **Email:** comments@fdic.gov. Include the RIN 3064-AF42 in the subject line of the message.
- **Mail:** Robert E. Feldman, Executive Secretary, Attention: Comments/Legal ESS, Federal Deposit Insurance Corporation, 550 17th Street, NW, Washington, DC 20429.
- **Hand Delivery/Courier:** Comments may be hand-delivered to the guard station at the rear of the 550 17th Street, NW, building (located on F Street) on business days between 7:00 a.m. and 5:00 p.m.

*Instructions:* Comments submitted must include “FDIC” and “RIN 3064-AF42.”

Comments received will be posted without change to <https://www.fdic.gov/regulations/laws/federal/>, including any personal information provided.

**FOR FURTHER INFORMATION CONTACT:**

OCC: Margot Schwadron, Director, or Benjamin Pegg, Risk Expert, Capital and Regulatory Policy, (202) 649–6370; or Kevin Korzeniewski, Counsel, or Marta Stewart-Bates, Senior Attorney, Chief Counsel’s Office, (202) 649–5490, for persons who are deaf or hearing impaired, TTY, (202) 649–5597, Office of the Comptroller of the Currency, 400 7th Street SW, Washington, DC 20219.

Board: Constance M. Horsley, Deputy Associate Director, (202) 452-5239; Juan C. Climent, Manager, (202) 872-7526; Andrew Willis, Lead Financial Institution Policy Analyst, (202) 912-4323; or Michael Ofori-Kuragu, Senior Financial Institution Policy Analyst II, (202) 475-6623, Division of Supervision and Regulation; or Benjamin W. McDonough, Assistant General Counsel, (202) 452-2036; David W. Alexander, Senior Counsel, (202) 452-2877; or Jonah Kind, Senior Attorney, (202) 452-2045, Legal Division, Board of Governors of the Federal Reserve System, 20th and C Streets, NW., Washington, DC 20551. For the hearing impaired only, Telecommunication Device for the Deaf (TDD), (202) 263-4869.

FDIC: Bobby R. Bean, Associate Director, [bbean@fdic.gov](mailto:bbean@fdic.gov); Benedetto Bosco, Chief, Capital Policy Section, [bbosco@fdic.gov](mailto:bbosco@fdic.gov); Noah Cuttler, Senior Policy Analyst, [ncuttler@fdic.gov](mailto:ncuttler@fdic.gov); Andrew Carayiannis, Senior Policy Analyst, [acarayiannis@fdic.gov](mailto:acarayiannis@fdic.gov); [regulatorycapital@fdic.gov](mailto:regulatorycapital@fdic.gov); Capital Markets Branch, Division of Risk Management Supervision, (202) 898-6888; or Michael Phillips, Counsel, [mphillips@fdic.gov](mailto:mphillips@fdic.gov); Catherine Wood, Counsel, [cawood@fdic.gov](mailto:cawood@fdic.gov); Francis Kuo, Counsel, [fkuo@fdic.gov](mailto:fkuo@fdic.gov); Supervision and Legislation Branch,

Legal Division, Federal Deposit Insurance Corporation, 550 17th Street NW, Washington, DC 20429. For the hearing impaired only, Telecommunication Device for the Deaf (TDD), (800) 925-4618.

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### **I. Background**

In 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses, Topic 326, Measurement of Credit Losses*

on *Financial Instruments*.<sup>1</sup> The update resulted in significant changes to credit loss accounting under U.S. generally accepted accounting principles (U.S. GAAP). The revisions to credit loss accounting under U.S. GAAP included the introduction of the current expected credit losses methodology (CECL), which replaces the incurred loss methodology for financial assets measured at amortized cost. For these assets, CECL requires banking organizations<sup>2</sup> to recognize lifetime expected credit losses and to incorporate 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.

On February 14, 2019, 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 final rule that revised certain regulations to account for the aforementioned changes to credit loss accounting under U.S. GAAP, including CECL (the 2019 CECL rule).<sup>3</sup> The 2019 CECL rule revised the agencies' regulatory capital rule (capital rule),<sup>4</sup> stress testing rules, and regulatory disclosure requirements to reflect CECL, and

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<sup>1</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.

<sup>2</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>3</sup> 84 FR 4222 (February 14, 2019).

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



made conforming amendments to other regulations that reference credit loss allowances. The 2019 CECL rule applies to banking organizations that file regulatory reports that are uniform and consistent with U.S. GAAP,<sup>5</sup> including banking organizations that are subject to the capital rule and those that are subject to stress testing requirements.

The 2019 CECL rule also included a transition option that allows banking organizations to phase in over a three-year period the day-one adverse effects of CECL on their regulatory capital ratios. The agencies intended for the transition option to address concerns that despite adequate capital planning, unexpected economic conditions at the time of CECL adoption could result in higher-than-anticipated increases in allowances. This is largely because CECL requires banking organizations to consider current and future expected economic conditions to estimate credit loss allowances.

The spread of coronavirus disease 2019 (COVID-19) has disrupted economic activity in many countries, including the United States. While the U.S. government is taking significant steps to mitigate the magnitude and persistence of the effects of COVID-19, the magnitude and persistence of the overall effects on the economy remain highly uncertain. This uncertainty has presented significant operational challenges to banking organizations at the same time they have been required to direct significant resources to implement CECL. In addition, due to the nature of CECL and the uncertainty of future economic forecasts, banking organizations that have

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<sup>5</sup> See 12 U.S.C. 1831n; See also current versions of the following: Instructions for Preparation of Consolidated Financial Statements for Holding Companies, Reporting Form FR Y-9C; Instructions for Preparation of Consolidated Reports of Condition and Income, Reporting Forms FFIEC 031 and FFIEC 041; 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.

adopted CECL may continue to experience higher-than-anticipated increases in credit loss allowances.

To address these concerns and allow banking organizations to better focus on supporting lending to creditworthy households and businesses, the agencies are providing banking organizations that adopt in the current environment an alternate option to temporarily delay a measure of CECL's effect on regulatory capital, relative to the incurred loss methodology. The transitional relief provided in the interim final rule is intended to be simple to implement without imposing undue operational burden, while reducing the potential for competitive inequities across banking organizations during this time of economic uncertainty and maintaining the quality of regulatory capital.

## **II. The Interim Final Rule**

The interim final rule provides banking organizations that adopt CECL during the 2020 calendar year with the option to delay for two years the estimated impact of CECL on regulatory capital, followed by a three-year transition period to phase out the aggregate amount of the capital benefit provided during the initial two-year delay (i.e., a five-year transition, in total). The interim final rule does not replace the current three-year transition option in the 2019 CECL rule, which remains available to any banking organization at the time that it adopts CECL. Banking organizations that have already adopted CECL have the option to elect the three-year transition option contained in the 2019 CECL rule or the five-year transition contained in the interim final rule, beginning with the March 31, 2020, Call Report or FR Y-9C.

A banking organization is eligible to use the interim final rule's five-year transition if was required to adopt CECL for purposes of U.S. GAAP (as in effect January 1, 2020) for a fiscal year that begins during the 2020 calendar year, and elects to use the transition option in a Call

Report or FR Y-9C (electing banking organization). The interim final rule provides electing banking organizations with a methodology for delaying the effect on regulatory capital of an estimated amount of the increase in the allowance for credit loss (ACL) that can be attributed to the adoption of CECL, relative to the increase in the allowance for loan and lease losses (ALLL) that would occur for banking organizations operating under the incurred loss methodology.

#### **A. Approximating the Impact of CECL**

The agencies considered different ways to determine the portion of credit loss allowances attributable to CECL eligible for the transitional relief provided in this interim final rule. To best capture the effects of CECL on regulatory capital, it would be necessary for a banking organization to charge against retained earnings (and common equity tier 1 capital), on a quarterly basis, provisions for credit losses estimated under the incurred loss methodology, and to exclude additional provisions for credit losses estimated under CECL. This approach, however, would require a banking organization to maintain the equivalent of two separate loss provisioning processes. For many banking organizations that have adopted CECL, it may be burdensome to track credit loss allowances under both CECL and the incurred loss methodology, due to significant CECL-related changes already incorporated in internal systems or third-party vendor systems.

To address this concern regarding burden and to promote a consistent approach across electing banking organizations, the interim final rule provides a uniform approach for estimating the effect of CECL during the five-year transition period. Specifically, the interim final rule introduces a scaling factor that approximates the average after-tax provision for credit losses attributable to CECL, relative to the incurred loss methodology, in a given reporting quarter. The interim final rule uses a 25 percent scaling factor as an approximation of the impact of

differences in credit loss allowances reflected under CECL versus the incurred loss methodology. Various analyses suggest that credit losses under CECL can be expected to be higher than under the incurred loss methodology.<sup>6</sup> The calibration of the scaling factor is also designed to promote competitive equity in the current economic environment between electing banking organizations and those banking organizations that have not yet adopted CECL.

## **B. Mechanics of the Five-Year Transition Provision**

An electing banking organization must calculate transitional amounts for the following items: retained earnings, temporary difference deferred tax assets (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). To calculate the transition for these items, an electing banking organization must first calculate the CECL transitional amount, the adjusted allowances for credit losses (AACL) transitional amount, and the DTA transitional amount, consistent with the 2019 CECL rule. The CECL transitional amount is equal to the difference between an electing banking organization's pre-CECL and post-CECL amounts of retained earnings at adoption. The

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<sup>6</sup> See Loudis, Bert and Ben Ranish. (2019) "CECL and the Credit Cycle." Finance and Economics Discussion Series Working Paper 061. Available at: <https://www.federalreserve.gov/econres/feds/files/2019061pap.pdf> and Covas, Francisco and William Nelson. "Current Expected Credit Loss: Lessons from 2007-2009." (2018) Banking Policy Institute Working Paper. Available at: [https://bpi.com/wpcontent/uploads/2018/07/CECL\\_WP-2.pdf](https://bpi.com/wpcontent/uploads/2018/07/CECL_WP-2.pdf); the agencies reviewed data from public securities filings of various large banking organizations. These organizations reported allowances and provisions under CECL, on a weighted-average basis, approximately 30 percent higher on a pre-tax basis and 25 percent higher on an after-tax basis. The agencies chose a scalar closer to the after-tax median to avoid additional burden involved with making quarterly tax adjustments throughout the transition period.

AACL transitional amount is equal to the difference between an electing banking organization's pre-CECL amount of ALLL and its post-CECL amount of AACL at adoption. The DTA transitional amount is the difference between an electing banking organization's pre-CECL amount and post-CECL amount of DTAs at adoption due to temporary differences.

An electing banking organization must adjust several key inputs to regulatory capital for purposes of the five-year transition. First, an electing banking organization must increase retained earnings by a modified CECL transitional amount. The modified CECL transitional amount is similar to the CECL transitional amount, but is adjusted to reflect changes in retained earnings due to CECL that occur during the first two years of the five-year transition period. The change in retained earnings due to CECL is calculated by taking the change in reported AACL relative to the day CECL was adopted, and applying a scaling multiplier of .25 during the first two years of the transition period.

Second, an electing banking organization must decrease AACL by the modified AACL transitional amount. The modified AACL transitional amount is similar to the AACL transitional amount, but reflects the change in AACL due to CECL that occurs during the first two years of the five-year transition period. The change in AACL due to CECL is calculated with the same method used for the modified CECL transitional amount.

Two additional regulatory capital inputs—temporary difference DTAs, and average total consolidated assets—are also subject to adjustments. Reported average total consolidated assets for purposes of the leverage ratio is increased by the amount of the modified CECL transitional amount, and temporary difference DTAs are decreased by the DTA transitional amount as under the 2019 CECL rule.

The modified CECL and AACL transitional amounts will be calculated on a quarterly basis during the first two years of the transition period. An electing banking organization will reflect the modified transitional amount which includes 100 percent of the day one impact of CECL plus the quarterly changes that result from CECL in transition amounts applied to regulatory capital calculations. After two years, the cumulative amount of quarterly-modified transitional amounts become fixed and are phased out of regulatory capital along with the transitional amounts that were calculated to reflect the day one impact of CECL. The transitional phase out occurs over the subsequent three-year period: 75 percent of transitional amounts are recognized in regulatory capital in year three; 50 percent in year four; and 25 percent in year five. After that point the banking organization would have fully reversed out the temporary regulatory capital benefits of the two-year delay and adjustments.

Finally, an electing banking organization will apply the adjustments calculated above during each quarter of the transition period for purposes of calculating the banking organization's regulatory capital. No adjustments are reflected in balance sheet or income statement amounts. The banking organization reflects the transition adjustment to the extent the banking organization has reflected CECL in the Call Report or FR Y-9C, as applicable, in that quarter. If the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) becomes law and a banking organization chooses to revert to the incurred loss methodology pursuant to the CARES Act in any quarter in 2020, the banking organization would not apply any transition amounts in that quarter but would be allowed to apply the transition in subsequent quarters when the banking organization returns to the use of CECL. However, an institution that has elected the transition, but does not apply it in any quarter, does not receive any extension of the transition period.

**Table 1: CECL Transitional Amounts to Apply to Regulatory Capital Components during the final three years of the five-year transition**

	Year 3	Year 4	Year 5
<b>Increase</b> retained earnings and average total consolidated assets by the following percentages of the modified CECL transitional amount			
<b>Decrease</b> temporary difference DTAs by the following percentages of the DTA transitional amount	75%	50%	25%
<b>Decrease</b> AACL by the following percentages of the modified AACL transitional amount			

### C. Other key revisions

The interim final rule similarly adjusts the transitional amounts related to eligible credit reserves for advanced approaches banking organizations<sup>7</sup> that elect to use the 2020 CECL five-year transition option. The interim final rule also adjusts the transitional amounts related to the supplementary leverage ratio’s total exposure amount. Advanced approaches banking organizations that elect the five-year transition will continue to be required to disclose two sets of regulatory capital ratios in section 173 of the capital rule: one set would reflect the banking

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<sup>7</sup> A banking organization is an advanced approaches banking organization if it (1) is a global systemically important bank holding company, (2) is a Category II banking organization, (3) has elected to be an advanced approached banking organization, (4) is a subsidiary of a company that is an advanced approaches banking organization, or (5) has a subsidiary depository institution that is an advanced approaches banking organization. See 12 CFR 3.100 (OCC); 12 CFR 217.100 (Board); 12 CFR 324.100 (FDIC).

organization's capital ratios with the CECL transition option and the other set would reflect the banking organization's capital ratios on a fully phased-in basis.

The interim final rule provides banking organizations that were required to adopt CECL for purposes of accounting under U.S. GAAP (as in effect January 1, 2020) in 2020, but that do not use CECL for regulatory reporting or regulatory capital purposes, with flexibility to elect the CECL transition when the banking organization is required to begin using CECL for regulatory reporting purposes. A banking organization that chooses to delay use of CECL for regulatory reporting but elects to use CECL during 2020 would also be eligible for a five-year transition period.

The interim final rule maintains other aspects of the CECL transition option, such as the requirements for business combinations.<sup>8</sup> 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 option. In addition, the agencies may assess the capital plans at electing banking organizations for ensuring sufficient capital at the expiration of the CECL transition option period.<sup>9</sup>

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<sup>8</sup> 12 CFR 3.301(c)(4) (OCC); 217.301(c)(4) (Board); 324.301(c)(4) (FDIC).

<sup>9</sup> The Board is extending the due date for the Y-14A collection of supplemental CECL information from April 6<sup>th</sup> until May 11<sup>th</sup> (due date of the March 31 FR Y-9C) and is including changes in the Y-14A instructions to align with the changes outlined in the interim final rule. These changes are effective for the submission associated with the FR Y-14 as of December 31, 2019.

Under the Federal Reserve's December 2018 amendments to its stress test rules, a banking organization that had adopted CECL in 2020 was required to include the impact of CECL into their stressed projections beginning in the 2020 stress testing cycle. As a result of this interim final rule, firms that have already adopted CECL have the option to either include the adjustments from this interim final rule in their 2020 stress projections or delay doing so. As noted in the 2020 CCAR summary instructions, the Federal Reserve will not issue supervisory



Question #1: The agencies seek comment on the feasibility of calculating the modified AACL transitional amount, including whether there are more suitable methods for determining the amount, and rationale in support of such methods. In particular, the agencies seek comment on whether banking organizations would prefer to calculate provisions under both the CECL and incurred loss methodologies and use that difference as the basis for the transition, the operational challenges of doing so, and any concerns associated with using such an approach.

Question #2: The agencies seek comment on the feasibility of calculating the modified CECL transitional amount, including whether there are more suitable methods for determining the amount, and rationale in support of such methods.

Question #3: For banks that do not adopt CECL in 2020, including community banking organizations, the agencies seek comment on whether they should consider any modifications to transitions from the 2019 CECL rule to reduce burden in light of recent disruptions in economic activity caused by COVID-19.

Question #4: The agencies seek comment on whether a banking organization that adopts the five-year transition should be required to also transition the change in temporary difference DTAs related to provision expenses recognized for the first two years after CECL adoption. What are the costs associated with such a requirement? Does ignoring the effect on temporary difference DTAs related to provision expenses recognized during years one and two of the five-year transition period when calculating the modified CECL transition amount, relative to a banking organization that applies the incurred loss methodology raise any competitive equity concerns? Would the temporary difference DTAs related to provision expenses during years one

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findings on banking organizations' stressed estimates of allowances under CECL until the 2022 CCAR cycle, at the earliest.

and two of the five-year transition period be material for banking organizations and should they be reflected in the 2020 transition?

Question #5: The agencies seek comment on the interaction of the interim final rule and the potential deferral of CECL described in the pending CARES Act. Further, the agencies seek comment on whether the interim final rule's requirement that a banking organization adopt CECL by the end of 2020 in order to be eligible for the five-year transitional relief, limit a banking organization's ability to utilize any potential relief from CECL as described in the pending CARES Act.

### **III. Impact Assessment**

CECL is expected to affect the timing and magnitude of banking organizations' loss provisioning, particularly around periods of economic stress. As recently as late last year, economic conditions appeared stable and the introduction of CECL was expected to have only a modest effect on operations. However, the additional uncertainty due to the introduction of a new credit loss accounting standard in a period of stress associated with COVID-19 poses a unique and unanticipated challenge to business operations.

The agencies intend for the interim final rule to mitigate the extent to which CECL implementation complicates capital planning challenges posed by COVID-19 by making the regulatory capital impact of near-term accounting for credit losses under CECL through the crisis roughly comparable to the regulatory capital impact under the incurred loss methodology. To do so, the five-year transition includes the entire day-one impact as well as an estimate of the incremental increase in credit loss allowances attributable to CECL as compared to the incurred loss methodology. With the five-year transition option provided by the interim final rule, banking organizations have time to adapt capital planning under stress to the new standard,

improving their flexibility and enhancing their ability to serve as a source of credit to the U.S. economy.

The uniform 25 percent scaling factor is only an approximation of the impact of differences in provisions reflected under CECL versus incurred loss methodology. Each institution will have a unique impact due to the adoption of CECL, which may be higher or lower than the amount calculated using the scaling factor. Additionally, the transition option does not directly address likely differences in the timing of loss recognition under CECL and the incurred loss methodology. To the extent that allowances related to COVID-19 build sooner under CECL than they would have under the incurred loss methodology, the transition option provided in the interim final rule will not fully offset the capital impact of CECL. However, the agencies believe that there is a significant benefit to operational simplicity from using a single scalar for the quarterly adjustments for all electing banking organizations.

#### **IV. Administrative Law Matters**

##### *A. Administrative Procedure Act*

The agencies are issuing this interim final rule without prior notice and the opportunity for public comment and the 30-day delayed effective date ordinarily prescribed by the Administrative Procedure Act (APA).<sup>10</sup> Pursuant to section 553(b)(B) of the APA, general notice and the opportunity for public comment are not required with respect to a rulemaking when an “agency for good cause finds (and incorporates the finding and a brief statement of

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<sup>10</sup> 5 U.S.C. 553.

reasons therefor in the rules issued) that notice and public procedure thereon are impracticable, unnecessary, or contrary to the public interest.”<sup>11</sup>

The agencies believe that the public interest is best served by implementing the interim final rule as soon as possible. As discussed above, recent events have suddenly and significantly affected global economic activity. In addition, financial markets have experienced significant volatility. The magnitude and persistence of the overall effects on the economy remain highly uncertain.

The CECL transition rule was adopted by the agencies to address concerns 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. Because of recent economic dislocations and disruptions in financial markets, banking organizations may face higher-than-anticipated increases in credit loss allowances. The interim final rule is intended to mitigate some of the uncertainty that comes with the increase in credit loss allowances during a challenging economic environment by temporarily limiting the approximate effects of CECL in regulatory capital. This will allow banking organizations to better focus on supporting lending to creditworthy households and businesses.

The APA also requires a 30-day delayed effective date, except for (1) substantive rules which grant or recognize an exemption or relieve a restriction; (2) interpretative rules and statements of policy; or (3) as otherwise provided by the agency for good cause.<sup>12</sup> Because the rules relieve a restriction, the interim final rule is exempt from the APA’s delayed effective date

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<sup>11</sup> 5 U.S.C. 553(b)(B).

<sup>12</sup> 5 U.S.C. 553(d).

requirement.<sup>13</sup> Additionally, the agencies find good cause to publish the interim final rule with an immediate effective date for the same reasons set forth above under the discussion of section 553(b)(B) of the APA.

While the agencies believe that there is good cause to issue the rule without advance notice and comment and with an immediate effective date, the agencies are interested in the views of the public and requests comment on all aspects of the interim final rule.

#### *B. Congressional Review Act*

For purposes of Congressional Review Act, the OMB makes a determination as to whether a final rule constitutes a “major” rule.<sup>14</sup> If a rule is deemed a “major rule” by the Office of Management and Budget (OMB), the Congressional Review Act generally provides that the rule may not take effect until at least 60 days following its publication.<sup>15</sup>

The Congressional Review Act 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>16</sup>

For the same reasons set forth above, the agencies are adopting the interim final rule without the delayed effective date generally prescribed under the Congressional Review Act.

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<sup>13</sup> 5 U.S.C. 553(d)(1).

<sup>14</sup> 5 U.S.C. 801 *et seq.*

<sup>15</sup> 5 U.S.C. 801(a)(3).

<sup>16</sup> 5 U.S.C. 804(2).

The delayed effective date required by the Congressional Review Act does not apply to any rule for which an agency for good cause finds (and incorporates the finding and a brief statement of reasons therefor in the rule issued) that notice and public procedure thereon are impracticable, unnecessary, or contrary to the public interest.<sup>17</sup> In light of current market uncertainty, the agencies believe that delaying the effective date of the rule would be contrary to the public interest.

As required by the Congressional Review Act, the agencies will submit the final rule and other appropriate reports to Congress and the Government Accountability Office for review.

### *C. Paperwork Reduction Act*

The Paperwork Reduction Act of 1995 (44 U.S.C. 3501–3521) (PRA) states that no agency may conduct or sponsor, nor is the respondent required to respond to, an information collection unless it displays a currently valid OMB control number. The interim final rule affects the agencies' current information collections for the Call Reports (OCC OMB Control No. 1557-0081; Board OMB Control No. 7100-0036; and FDIC OMB Control No. 3064-0052) and the FFIEC 101 (OCC OMB Control No. 1557-0239; Board OMB Control No. 7100-0319; FDIC OMB Control No. 3064-0159). The Board has reviewed this interim final rule pursuant to authority delegated by the OMB.

While this interim final rule contains no information collection requirements, the agencies have determined that there are changes that should be made to the Call Reports and the FFIEC 101 as a result of this rulemaking. Although there may be a substantive change resulting from the temporary delay of recognition of credit loss allowances in regulatory capital for purposes of the Call Reports and the FFIEC 101, the change should be minimal and result in a

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<sup>17</sup> 5 U.S.C. 808.

zero net change in hourly burden under the agencies' information collections. Submissions will, however, be made by the agencies to OMB. The changes to the Call Reports, the FFIEC 101 and their related instructions will be addressed in a separate Federal Register notice.

However, the Board has temporarily revised certain reporting forms to accurately reflect various aspects of this interim final rule. These reporting forms are the Consolidated Financial Statements for Holding Companies (FR Y-9C; OMB No. 7100-0128) and Capital Assessments and Stress Testing Reports (FR Y-14A/Q/M; OMB No. 7100-0341). On June 15, 1984, OMB delegated to the Board authority under the PRA to temporarily approve a revision to a collection of information without providing opportunity for public comment if the Board determines that a change in an existing collection must be instituted quickly and that public participation in the approval process would defeat the purpose of the collection or substantially interfere with the Board's ability to perform its statutory obligation.

The Board's delegated authority requires that the Board, after temporarily approving a collection, solicit public comment to extend the information collections for a period not to exceed three years. Therefore, the Board is inviting comment to extend each of these information collections for three years, with the revisions discussed below.

The Board invites public comment on the following information collections, which are being reviewed under authority delegated by the OMB under the PRA. Comments must be submitted on or before [INSERT DATE 60 DAYS AFTER PUBLICATION IN THE FEDERAL REGISTER]. Comments are invited on the following:

- a. Whether the collections of information are necessary for the proper performance of the Board's functions, including whether the information has practical utility;

- b. The accuracy of the Board's estimate of the burden of the information collections, including the validity of the methodology and assumptions used;
- c. Ways to enhance the quality, utility, and clarity of the information to be collected;
- d. Ways to minimize the burden of information collections on respondents, including through the use of automated collection techniques or other forms of information technology; and
- e. Estimates of capital or startup costs and costs of operation, maintenance, and purchase of services to provide information.

At the end of the comment period, the comments and recommendations received will be analyzed to determine the extent to which the Board should modify the collections.

**Final Approval under OMB Delegated Authority of the Temporary Revision of, and Solicitation of Comment to Extend for Three Years, With Revision, of the Following Information Collections:**

*(1) Report Title:* Financial Statements for Holding Companies.

*Agency form number:* FR Y-9C, FR Y-9LP, FR Y-9SP, FR Y-9ES, and FR Y-9CS.

*OMB control number:* 7100-0128.

*Effective Date:* March 31, 2020

*Frequency:* Quarterly, semiannually, and annually.

*Respondents:* Bank holding companies, savings and loan holding companies,<sup>18</sup> securities holding companies, and U.S. intermediate holding companies (collectively, HCs).

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<sup>18</sup> An SLHC must file one or more of the FR Y-9 series of reports unless it is: (1) a grandfathered unitary SLHC with primarily commercial assets and thrifts that make up less than 5 percent of its consolidated assets; or (2) a SLHC that primarily holds insurance-related assets and does not otherwise submit financial reports with the SEC pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934.



*Estimated number of respondents:* FR Y-9C (non-advanced approaches CBLR HCs with less than \$5 billion in total assets): 7; FR Y-9C (non-advanced approaches CBLR HCs with \$5 billion or more in total assets): 35; FR Y-9C (non-advanced approaches, non CBLR, HCs with less than \$5 billion in total assets): 84; FR Y-9C (non-advanced approaches, non CBLR HCs, with \$5 billion or more in total assets): 154; FR Y-9C (advanced approaches HCs): 19; FR Y-9LP: 434; FR Y-9SP: 3,960; FR Y-9ES: 83; FR Y-9CS: 236.

*Estimated average hours per response:*

***Reporting***

FR Y-9C (non-advanced approaches CBLR HCs with less than \$5 billion in total assets): 29.14 hours; FR Y-9C (non-advanced approaches CBLR HCs with \$5 billion or more in total assets): 35.11; FR Y-9C (non-advanced approaches, non CBLR HCs, with less than \$5 billion in total assets): 40.98; FR Y-9C (non-advanced approaches, non CBLR, HCs with \$5 billion or more in total assets): 46.95 hours; FR Y-9C (advanced approaches HCs): 48.59 hours; FR Y-9LP: 5.27 hours; FR Y-9SP: 5.40 hours; FR Y-9ES: 0.50 hours; FR Y-9CS: 0.50 hours.

***Recordkeeping***

FR Y-9C (non-advanced approaches HCs with less than \$5 billion in total assets), FR Y-9C (non-advanced approaches HCs with \$5 billion or more in total assets), FR Y-9C (advanced approaches HCs), and FR Y-9LP: 1.00 hour; FR Y-9SP, FR Y-9ES, and FR Y-9CS: 0.50 hours.

*Estimated annual burden hours:*

***Reporting***

FR Y-9C (non-advanced approaches CBLR HCs with less than \$5 billion in total assets): 8,276 hours; FR Y-9C (non-advanced approaches CBLR HCs with \$5 billion or more in total assets): 4,915; FR Y-9C (non-advanced approaches non CBLR HCs with less than \$5 billion in total

assets): 13,769; FR Y-9C (non-advanced approaches non CBLR HCs with \$5 billion or more in total assets): 28,921 hours; FR Y-9C (advanced approaches HCs): 3,693 hours; FR Y-9LP: 9,149 hours; FR Y-9SP: 42,768 hours; FR Y-9ES: 42 hours; FR Y-9CS: 472 hours.

### ***Recordkeeping***

FR Y-9C (non-advanced approaches HCs with less than \$5 billion in total assets): 620 hours; FR Y-9C (non-advanced approaches HCs with \$5 billion or more in total assets): 756 hours; FR Y-9C (advanced approaches HCs): 76 hours; FR Y-9LP: 1,736 hours; FR Y-9SP: 3,960 hours; FR Y-9ES: 42 hours; FR Y-9CS: 472 hours.

### ***General description of report:***

The FR Y-9C consists of standardized financial statements similar to the Call Reports filed by commercial banks.<sup>19</sup> The FR Y-9C collects consolidated data from HCs and is filed quarterly by top-tier HCs with total consolidated assets of \$3 billion or more.<sup>20</sup>

The FR Y-9LP, which collects parent company only financial data, must be submitted by each HC that files the FR Y-9C, as well as by each of its subsidiary HCs.<sup>21</sup> The report consists of standardized financial statements.

The FR Y-9SP is a parent company only financial statement filed semiannually by HCs with total consolidated assets of less than \$3 billion. In a banking organization with total consolidated assets of less than \$3 billion that has tiered HCs, each HC in the organization must

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<sup>19</sup> The Call Reports consist of the Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only and Total Assets Less Than \$5 Billion (FFIEC 051), the Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only (FFIEC 041) and the Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices (FFIEC 031).

<sup>20</sup> Under certain circumstances described in the FR Y-9C's General Instructions, HCs with assets under \$3 billion may be required to file the FR Y-9C.

<sup>21</sup> A top-tier HC may submit a separate FR Y-9LP on behalf of each of its lower-tier HCs.

submit, or have the top-tier HC submit on its behalf, a separate FR Y-9SP. This report is designed to obtain basic balance sheet and income data for the parent company, and data on its intangible assets and intercompany transactions.

The FR Y-9ES is filed annually by each employee stock ownership plan (ESOP) that is also an HC. The report collects financial data on the ESOP's benefit plan activities. The FR Y-9ES consists of four schedules: a Statement of Changes in Net Assets Available for Benefits, a Statement of Net Assets Available for Benefits, Memoranda, and Notes to the Financial Statements.

The FR Y-9CS is a free-form supplemental report that the Board may utilize to collect critical additional data deemed to be needed in an expedited manner from HCs on a voluntary basis. The data are used to assess and monitor emerging issues related to HCs, and the report is intended to supplement the other FR Y-9 reports. The data items included on the FR Y-9CS may change as needed.

*Legal authorization and confidentiality:* The Board has the authority to impose the reporting and recordkeeping requirements associated with the Y-9 family of reports on bank holding companies ("BHCs") pursuant to section 5 of the Bank Holding Company Act ("BHC Act"), (12 U.S.C. 1844); on savings and loan holding companies pursuant to section 10(b)(2) and (3) of the Home Owners' Loan Act, (12 U.S.C. 1467a(b)(2) and (3)); on U.S. intermediate holding companies ("U.S. IHCs") pursuant to section 5 of the BHC Act, (12 U.S.C. 1844), as well as pursuant to sections 102(a)(1) and 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), (12 U.S.C. 511(a)(1) and 5365); and on securities holding companies pursuant to section 618 of the Dodd-Frank Act, (12 U.S.C. 1850a(c)(1)(A)). The

FR Y-9 series of reports, and the recordkeeping requirements set forth in the respective instructions to each report, are mandatory, except for the FR Y-9CS, which is voluntary.

With respect to the FR Y-9C, Schedule HI's memoranda item 7(g), Schedule HC-P's item 7(a), and Schedule HC-P's item 7(b) are considered confidential commercial and financial information under exemption 4 of the Freedom of Information Act ("FOIA"), (5 U.S.C. 552(b)(4)), as is Schedule HC's memorandum item 2.b. for both the FR Y-9C and FR Y-9SP reports.

Aside from the data items described above, the remaining data items on the FR Y-9 reports are generally not accorded confidential treatment. As provided in the Board's Rules Regarding Availability of Information (12 CFR part 261), however, a respondent may request confidential treatment for any data items the respondent believes should be withheld pursuant to a FOIA exemption. The Board will review any such request to determine if confidential treatment is appropriate, and will inform the respondent if the request for confidential treatment has been denied.

To the extent that the instructions, to the FR Y-9C, FR Y-9LP, FR Y-9SP, and FR Y-9ES reports, each respectively direct a financial institution to retain the workpapers and related materials used in preparation of each report, such material would only be obtained by the Board as part of the examination or supervision of the financial institution. Accordingly, such information may be considered confidential pursuant to exemption 8 of the FOIA (5 U.S.C. 552(b)(8)). In addition, the financial institution's workpapers and related materials may also be protected by exemption 4 of the FOIA, to the extent such financial information is treated as confidential by the respondent (5 U.S.C. 552(b)(4)).

*Current Actions:* The Board has temporarily revised the instructions to FR Y-9C report to accurately reflect the CECL transition provision as modified by this interim final rule.

Specifically, the Board has temporarily revised the instructions to the following FR Y-9C, Schedule HC-R, Part I, line items:

- Item 2 (Retained earnings),
- Item 2.a (CECL transition election in effect as of the quarter-end report date?),
- Item 15.a (Less: DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs that exceed the 25 percent of line 12,
- Item 15.b (Less: DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold,
- Item 27 (Average total consolidated assets),
- Item 40 (a) (Allowance for loan and lease losses includable in tier 2 capital), and
- Item 40 (b) (Advanced approaches holding companies that exit parallel run only): Eligible credit reserves includable in tier 2 capital.

as well as FR Y-9C, Schedule HC-R, Part II, Item 8 (All other assets). The Board has determined that the revisions to the FR Y-9C described above must be instituted quickly and that public participation in the approval process would defeat the purpose of the collection of information, as delaying the revisions would result in the collection of inaccurate information, and would interfere with the Board's ability to perform its statutory duties.

The Board also invites comment to extend the FR Y-9 for three years, with the revisions described above.

(2) *Report title:* Capital Assessments and Stress Testing Reports.

*Agency form number:* FR Y-14A/Q/M.

*OMB control number:* 7100-0341.

*Effective date:* December 31, 2019

*Frequency:* Annually, quarterly, and monthly.

*Respondents:* These collections of information are applicable to BHCs, U.S. IHCs, and savings and loan holding companies (SLHCs)<sup>22</sup> (collectively, “holding companies”) with \$100 billion or more in total consolidated assets, as based on: (i) the average of the firm’s total consolidated assets in the four most recent quarters as reported quarterly on the firm’s Consolidated Financial Statements for Holding Companies (FR Y-9C); or (ii) if the firm has not filed an FR Y-9C for each of the most recent four quarters, then the average of the firm’s total consolidated assets in the most recent consecutive quarters as reported quarterly on the firm’s FR Y-9Cs. Reporting is required as of the first day of the quarter immediately following the quarter in which the respondent meets this asset threshold, unless otherwise directed by the Board.

*Estimated number of respondents:* FR Y-14A/Q: 36; FR Y-14M: 34.<sup>23</sup>

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<sup>22</sup> SLHCs with \$100 billion or more in total consolidated assets become members of the FR Y-14Q and FR Y-14M panels effective June 30, 2020, and the FR Y-14A panel effective December 31, 2020. See 84 FR 59032 (November 1, 2019).

<sup>23</sup> The estimated number of respondents for the FR Y-14M is lower than for the FR Y-14Q and FR Y-14A because, in recent years, certain respondents to the FR Y-14A and FR Y-14Q have not met the materiality thresholds to report the FR Y-14M due to their lack of mortgage and credit activities. The Board expects this situation to continue for the foreseeable future.

*Estimated average hours per response:* FR Y-14A: 1,085 hours; FR Y-14Q: 1,920 hours; FR Y-14M: 1,072 hours; FR Y-14 On-going Automation Revisions: 480 hours; FR Y-14 Attestation On-going Attestation: 2,560 hours.

*Estimated annual burden hours:* FR Y-14A: 39,060 hours; FR Y-14Q: 276,480 hours; FR Y-14M: 437,376 hours; FR Y-14 On-going Automation Revisions: 17,280 hours; FR Y-14 Attestation On-going Attestation: 33,280 hours.

*General description of report:* This family of information collections is composed of the following three reports:

The annual<sup>24</sup> FR Y-14A collects quantitative projections of balance sheet, income, losses, and capital across a range of macroeconomic scenarios and qualitative information on methodologies used to develop internal projections of capital across scenarios.<sup>25</sup>

The quarterly FR Y-14Q collects granular data on various asset classes, including loans, securities, trading assets, and PPNR for the reporting period.

The monthly FR Y-14M is comprised of three retail portfolio- and loan-level schedules, and one detailed address-matching schedule to supplement two of the portfolio and loan-level schedules.

The data collected through the FR Y-14A/Q/M reports provide the Board with the information needed to help ensure that large firms have strong, firm-wide risk measurement and

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<sup>24</sup> In certain circumstances, a BHC or IHC may be required to re-submit its capital plan. See 12 CFR 225.8(e)(4). Firms that must re-submit their capital plan generally also must provide a revised FR Y-14A in connection with their resubmission.

<sup>25</sup> On October 10, 2019, the Board issued a final rule that eliminated the requirement for firms subject to Category IV standards to conduct and publicly disclose the results of a company-run stress test. See 84 FR 59032 (Nov. 1, 2019). That final rule maintained the existing FR Y-14 substantive reporting requirements for these firms in order to provide the Board with the data it needs to conduct supervisory stress testing and inform the Board's ongoing monitoring and supervision of its supervised firms. However, as noted in the final rule, the Board intends to provide greater flexibility to banking organizations subject to Category IV standards in developing their annual capital plans and consider further change to the FR Y-14 forms as part of a separate proposal. See 84 FR 59032, 59063.

management processes supporting their internal assessments of capital adequacy and that their capital resources are sufficient given their business focus, activities, and resulting risk exposures. The reports are used to support the Board's annual Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Act Stress Test (DFAST) exercises, which complement other Board supervisory efforts aimed at enhancing the continued viability of large firms, including continuous monitoring of firms' planning and management of liquidity and funding resources, as well as regular assessments of credit, market and operational risks, and associated risk management practices. Information gathered in this data collection is also used in the supervision and regulation of respondent financial institutions. Compliance with the information collection is mandatory.

*Current actions:* The Board has temporarily revised the instructions to FR Y-14A report to accurately reflect the CECL transition provision as modified by this interim final rule.

Specifically, the Board has temporarily revised the FR Y-14A general instructions, as well as the instructions to the following FR Y-14A schedules or line items:

- Schedule A.1.d (Capital);
- Schedule A.1.d, Line item 20 (Retained earnings);
- Schedule A.1.d, Line item 39 (DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs, that exceed the 10 percent common equity tier 1 capital deduction threshold);
- Schedule A.1.d, Line item 54 (Allowance for loan and lease losses includable in tier 2 capital);
- Schedule A.1.d, Line item 77 (DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of DTLs); and



- Collection of Supplemental CECL Information, Line Item 2 (Institutions applying the CECL transition provision),

In addition, the Board has delayed the due date for the December 31, 2019, FR Y-14A, Collection of Supplemental CECL Information from April 6, 2020, to May 11, 2020, to correspond with the submission date for the March 31, 2020, FR Y-9C report. The Board has determined that the revisions to the FR Y-14A/Q/M reports described above must be instituted quickly and that public participation in the approval process would defeat the purpose of the collection of information, as delaying the revisions would result in the collection of inaccurate information, and would interfere with the Board's ability to perform its statutory duties.

The Board also invites comment to extend the FR Y-14A/Q/M for three years, with the revisions described above.

*Legal authorization and confidentiality:* The Board has the authority to require BHCs to file the FR Y-14 reports pursuant to section 5(c) of the BHC Act, 12 U.S.C. 1844(c), and pursuant to section 165(i) of the Dodd-Frank Act, 12 U.S.C. § 5365(i). The Board has authority to require SLHCs to file the FR Y-14 reports pursuant to section 10(b) of the Home Owners' Loan Act (12 U.S.C. § 1467a(b)). Lastly, the Board has authority to require U.S. IHCs of FBOs to file the FR Y-14 reports pursuant to section 5 of the BHC Act, as well as pursuant to sections 102(a)(1) and 165 of the Dodd-Frank Act, 12 U.S.C. 5311(a)(1) and 5365. In addition, section 401(g) of EGRRCPA, 12 U.S.C. 5365 note, provides that the Board has the authority to establish enhanced prudential standards for foreign banking organizations with total consolidated assets of \$100 billion or more, and clarifies that nothing in section 401 "shall be construed to affect the legal effect of the final rule of the Board... entitled 'Enhanced Prudential Standard for [BHCs] and Foreign Banking Organizations' (79 Fed. Reg. 17240 (March 27, 2014)), as applied to foreign

banking organizations with total consolidated assets equal to or greater than \$100 million.”<sup>26</sup>

The FR Y-14 reports are mandatory. The information collected in the FR Y-14 reports is collected as part of the Board’s supervisory process, and therefore, such information is afforded confidential treatment pursuant to exemption 8 of the Freedom of Information Act (FOIA), 5 U.S.C. 552(b)(8). In addition, confidential commercial or financial information, which a submitter actually and customarily treats as private, and which has been provided pursuant to an express assurance of confidentiality by the Board, is considered exempt from disclosure under exemption 4 of the FOIA, 5 U.S.C. 552(b)(4).

#### *D. Regulatory Flexibility Act*

The Regulatory Flexibility Act (RFA)<sup>27</sup> requires an agency to consider whether the rules it proposes will have a significant economic impact on a substantial number of small entities.<sup>28</sup>

The RFA applies only to rules for which an agency publishes a general notice of proposed rulemaking pursuant to 5 U.S.C. 553(b). As discussed previously, consistent with section 553(b)(B) of the APA, the agencies have determined for good cause that general notice and opportunity for public comment is impracticable and contrary to the public's interest, and therefore the agencies are not issuing a notice of proposed rulemaking. Accordingly, the agencies have concluded that the RFA's requirements relating to initial and final regulatory

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<sup>26</sup> The Board’s Final Rule referenced in section 401(g) of EGRRCPA specifically stated that the Board would require IHCs to file the FR Y-14 reports. See 79 Fed. Reg. 17240, 17304 (March 27, 2014).

<sup>27</sup> 5 U.S.C. 601 *et seq.*

<sup>28</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 \$600 million or less and trust companies with total assets of \$41.5 million or less. See 13 CFR 121.201.

flexibility analysis do not apply. Nevertheless, the agencies seek comment on whether, and the extent to which, the interim final rule would affect a significant number of small entities.

*E. Riegle Community Development and Regulatory Improvement Act of 1994*

Pursuant to section 302(a) of the Riegle Community Development and Regulatory Improvement Act (RCDRIA),<sup>29</sup> in determining the effective date and administrative compliance requirements for new regulations that impose additional reporting, disclosure, or other requirements on IDIs, each Federal banking agency must consider, consistent with the principle 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, disclosures, or other new requirements on IDIs 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, with certain exceptions, including for good cause.<sup>30</sup> For the reasons described above, the agencies find good cause exists under section 302 of RCDRIA to publish this interim final rule with an immediate effective date.

As such, the final rule will be effective on immediately. Nevertheless, the agencies seek comment on RCDRIA.

*F. Plain Language*

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<sup>29</sup> 12 U.S.C. 4802(a).

<sup>30</sup> 12 U.S.C. 4802.

Section 722 of the Gramm-Leach-Bliley Act<sup>31</sup> requires the Federal banking agencies to use “plain language” in all proposed and final rules published after January 1, 2000. In light of this requirement, the agencies have sought to present the interim final rule in a simple and straightforward manner. The agencies invite comments on whether there are additional steps it could take to make the rule easier to understand. For example:

- Have we organized the material to suit your needs? If not, how could this material be better organized?
- Are the requirements in the regulation clearly stated? If not, how could the regulation be more clearly stated?
- Does the regulation contain language or jargon that is not clear? If so, which language requires clarification?
- Would a different format (grouping and order of sections, use of headings, paragraphing) make the regulation easier to understand? If so, what changes to the format would make the regulation easier to understand?
- What else could we do to make the regulation easier to understand?

#### *G. Unfunded Mandates*

As a general matter, the Unfunded Mandates Act of 1995 (UMRA), 2 U.S.C. 1531 et seq., requires the preparation of a budgetary impact statement before promulgating a rule that 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. However, the UMRA does not apply to final rules for which a general notice of proposed

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<sup>31</sup> Pub. L. 106-102, section 722, 113 Stat. 1338, 1471 (1999).

rulemaking was not published. See 2 U.S.C. 1532(a). Therefore, because the OCC has found good cause to dispense with notice and comment for this interim final rule, the OCC has not prepared an economic analysis of the rule under the UMRA.

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

### **12 CFR Part 3**

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

### **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 324**

Administrative practice and procedure, Banks, banking, Reporting and recordkeeping requirements, Savings associations, State non-member banks.

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

### **12 CFR CHAPTER I**

#### **Authority and Issuance**

For the reasons set forth in the preamble, the OCC amends chapter I of Title 12 of the Code of Federal Regulations as follows:

#### **PART 3 – CAPITAL ADEQUACY STANDARDS**

1. 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).

#### **Subpart G – Transition Provisions**

2. Amend § 3.301 by :

- a. Redesignating paragraph (c)(3) as paragraph (e) and paragraph (c)(4) as paragraph (f);
- b. Revising paragraphs (a)(1); (a)(2); (b)(1); and (c)(1); and
- c. Adding new paragraph (d).

The revisions and additions read as follows.

### **§ 3.301 Current Expected Credit Losses (CECL) Transition**

(a) \* \* \*

(1) *Criteria for use of CECL transition provision.* Except as provided in §3.301(d), a national bank or Federal savings organization 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 is required to use CECL for regulatory reporting purposes that intends to use the CECL transition provision must elect to use the CECL transition provision in the first Call Report that includes CECL filed by the national bank or Federal savings association after it is required to use CECL for regulatory reporting purposes.

\* \* \*

(b) \* \* \*

(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 and reflects CECL in its first Call Report; or, for the 2020 transition under §3.301(d), the five-year period beginning on the earlier of the date a national bank or Federal savings association was required to adopt

CECL for accounting purposes under U.S. GAAP (as in effect January 1, 2020), or the first day of the quarter in which the national bank or Federal savings association files regulatory reports that include CECL.

\* \* \*

(c) \* \* \*

(1) For purposes of the election described in paragraph (a)(1) of this section and except as provided in paragraph (d), a national bank or Federal savings association must make the following adjustments in its calculation of regulatory capital ratios:

\* \* \*

(d) *2020 CECL Transition Provision.* A national bank or Federal savings association that was required to adopt CECL for accounting purposes under U.S. GAAP (as in effect on January 1, 2020) as of the first day of a fiscal year that begins during the 2020 calendar year, and that makes the election described in paragraph (a)(1) of this section, may use the transitional amounts and adjusted transitional amounts in §3.301(d)(1) with the 2020 CECL transition calculation in §3.301(d)(2) to adjust its calculation of regulatory capital ratios during each quarter of the transition period in which a national bank or Federal savings association uses CECL for purposes of its Call Report. A national bank or Federal savings association that did not make the election described in paragraph (a)(1) of this section because it did not record 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 adopted CECL may use the transition provision in this paragraph (d) if it has a positive modified CECL transitional amount during any quarter ending in 2020 and makes the election in the Call Report or FR Y-9C filed for the same quarter.

(1) *Definitions.* For purposes of the 2020 CECL transition calculation in §3.301(d)(2), the following definitions apply:

(i) *Modified CECL transitional amount* means:

(A) During the first two years of the transition period, the difference between AACL as reported in the most recent Call Report and the AACL as of the beginning of the fiscal year in which the national bank or Federal savings association adopts CECL, multiplied by 0.25, plus the CECL transitional amount; and

(B) During the last three years of the transition period, the difference between AACL as reported in the Call Report at the end of the second year of the transition period and the AACL as of the beginning of the fiscal year in which the national bank or Federal savings association adopts CECL, multiplied by 0.25, plus the CECL transitional amount.

(ii) *Modified AACL transitional amount* means:

(A) During the first two years of the transition period, the difference between AACL as reported in the most recent Call Report and the AACL as of the beginning of the fiscal year in which the national bank or Federal savings association adopts CECL, multiplied by 0.25, plus the AACL transitional amount; and

(B) During the last three years of the transition period, the difference between AACL as reported in the Call Report at the end of the second year of the transition period and the AACL as of the beginning of the fiscal year in which the national bank or Federal savings association adopts CECL, multiplied by 0.25, plus the AACL transitional amount.

(2) *Calculation of 2020 CECL transition provision.* (i) A national bank or Federal savings association that has made the election described in paragraph (a)(1) of this section in its



first Call Report filed during the 2020 calendar year that reflects CECL adoption may make the following adjustments in its calculation of regulatory capital ratios:

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

(B) Decrease amounts of DTAs arising from temporary differences by one-hundred percent of its DTA transitional amount during the first year of the transition period, decrease amounts of DTAs arising from temporary differences by one hundred percent of its DTA transitional amount during the second year of the transition period, decrease amounts of DTAs arising from temporary differences by seventy-five percent of its DTA transitional amount during the third year of the transition period, decrease amounts of DTAs arising from temporary differences by fifty percent of its DTA transitional amount during the fourth 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 fifth year of the transition period;

(C) Decrease amounts of AACL by one-hundred percent of its modified AACL transitional amount during the first year of the transition period, decrease amounts of AACL by one hundred percent of its modified AACL transitional amount during the second year of the transition period, decrease amounts of AACL by seventy-five percent of its modified AACL

transitional amount during the third year of the transition period, decrease amounts of AACL by fifty percent of its modified AACL transitional amount during the fourth year of the transition period, and decrease amounts of AACL by twenty-five percent of its modified AACL transitional amount during the fifth year of the transition period; and

(D) Increase average total consolidated assets as reported on the Call Report for purposes of the leverage ratio by one-hundred percent of its modified 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 one hundred percent of its modified CECL transitional amount during the second year of the transition period, increase average total consolidated assets as reported on the Call Report for purposes of the leverage ratio by seventy-five percent of its modified CECL transitional amount during the third 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 modified CECL transitional amount during the fourth 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 modified CECL transitional amount during the fifth year of the transition period.

(ii) An advanced approaches national bank or Federal savings association that has made the election described in paragraph (a)(1) of this section in its first Call Report filed during 2020 may make the following additional adjustments to its calculation of regulatory capital ratios:

(A) Increase total leverage exposure for purposes of the supplementary leverage ratio by one-hundred percent of its modified CECL transitional amount during the first year of the transition period, increase total leverage exposure for purposes of the supplementary leverage ratio by one hundred percent of its modified CECL transitional amount during the second year of

the transition period, increase total leverage exposure for purposes of the supplementary leverage ratio by seventy-five percent of its modified CECL transitional amount during the third year of the transition period, increase total leverage exposure for purposes of the supplementary leverage ratio by fifty percent of its modified CECL transitional amount during the fourth year of the transition period, and increase total leverage exposure for purposes of the supplementary leverage ratio by twenty-five percent of its modified CECL transitional amount during the fifth year of the transition period; and

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

\* \* \* \* \*

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

### **12 CFR CHAPTER II**

#### **Authority and Issuance**

For the reasons set forth in the preamble, the Board amends chapter II of Title 12 of the Code of Federal Regulations i as follows:

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

1. 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.

2. Revise §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.

Except as provided in §217 .301(d), 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 is required to use CECL when filing its Call Report or FR Y-9C that intends to use the CECL transition provision must elect to 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 is required to use CECL for regulatory reporting purposes.

(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 and reflects CECL in its first Call Report or FR Y-9C; or, for the 2020 transition under §217.301(d), the five-year period beginning on the earlier of the date a Board-regulated institution was required to adopt CECL for accounting purposes under U.S. GAAP (as in effect on January 1, 2020), or the first day of the quarter in which the Board-regulated institution files regulatory reports that include 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 the three-year CECL transition provision. (1) For purposes of the election described in paragraph (a)(1) of this section and except as provided in paragraph (d), 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.

(d) Calculation of the five-year CECL transition provision. A Board-regulated institution that was required to adopt CECL for accounting purposes under U.S. GAAP (as in effect January 1, 2020) as of the first day of a fiscal year that begins during the 2020 calendar year, and that makes the election described in paragraph (a)(1) of this section, may use the transitional amounts and modified transitional amounts in §217.301(d)(1) with the 2020 CECL transition calculation in §217.301(d)(2) to adjust its calculation of regulatory capital ratios during each quarter of the transition period in which a Board-regulated institution uses CECL for purposes of its Call Report or FR Y-9C. A Board-regulated institution that did not make the election described in paragraph (a)(1) of this section because it did not record 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 adopted CECL may use the transition provision in this paragraph (d) if it has a positive modified CECL transitional amount during any quarter ending in 2020, and makes the election in the Call Report of FR Y-9C filed for the same quarter.

(1) Definitions. For purposes of the 2020 CECL transition calculation in §217.301(d)(2), the following definitions apply:

(i) *Modified CECL transitional amount* means:

(A) During the first two years of the transition period, the difference between AACL as reported in the most recent Call Report or FR Y-9C, and the AACL as of the beginning of the



fiscal year in which the Board-regulated institution adopts CECL, multiplied by .25, plus the CECL transitional amount; and

(B) During the last three years of the transition period, the difference between AACL as reported in the Call Report or Y-9C at the end of the second year of the transition period and the AACL as of the beginning of the fiscal year in which the Board-regulated institution adopts CECL, multiplied by 0.25, plus the CECL transitional amount.

(ii) *Modified AACL transitional amount* means:

(A) During the first two years of the transition period, the difference between AACL as reported in the most recent Call Report or FR Y-9C, and the AACL as of the beginning of the fiscal year in which the Board-regulated institution adopts CECL, multiplied by .25, plus the AACL transitional amount; and

(B) During the last three years of the transition period, the difference between AACL as reported in the Call Report or FR Y-9C at the end of the second year of the transition period and the AACL as of the beginning of the fiscal year in which the Board-regulated institution adopts CECL, multiplied by 0.25, plus the AACL transitional amount.

(2) Calculation of 2020 CECL transition provision. (1) A Board-regulated institution that has made the election described in paragraph (a)(1) of this section in a first Call Report or FR Y-9C filed during the 2020 calendar year may make the following adjustments in its calculation of regulatory capital ratios:

(i) Increase retained earnings by one-hundred percent of its modified CECL transitional amount during the first year of the transition period, increase retained earnings by one hundred percent of its modified CECL transitional amount during the second year of the transition period, increase retained earnings by seventy-five percent of its modified CECL transitional amount

during the third year of the transition period, increase retained earnings by fifty percent of its modified CECL transitional amount during the fourth year of the transition period, and increase retained earnings by twenty-five percent of its modified CECL transitional amount during the fifth year of the transition period;

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

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

(2) An advanced approaches Board-regulated institution that has made the election described in paragraph (a)(1) of this section in its first Call Report or FR Y-9C filed during 2020 may 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 one-hundred percent of its modified CECL transitional amount during the first year of the transition period, increase total leverage exposure for purposes of the supplementary leverage ratio by one hundred percent of its modified CECL transitional amount during the second year of the transition period, increase total leverage exposure for purposes of the supplementary leverage ratio by seventy-five percent of its modified CECL transitional amount during the third 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 fourth 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 fifth 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 one-hundred percent of its eligible credit reserves transitional amount during the first year of the transition period, decrease amounts of eligible credit reserves by one hundred percent of its eligible credit reserves transitional amount during the second year of the transition period, decrease amounts of eligible credit reserves by seventy-five percent of its eligible credit reserves transitional amount during the third year of the transition period, decrease amounts of eligible credit reserves by fifty percent of its eligible credit reserves transitional amount during the fourth 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 fifth year of the transition period.

(e) 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 (or modified CECL transitional amount) must decrease its CECL transitional amount used in paragraph (c) (or modified CECL transitional amount used in paragraph (d)) of this section by the full amount of its DTA transitional amount (or modified DTA transitional amount).

(f) 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.

\* \* \* \* \*

## **Federal Deposit Insurance Corporation**

### **12 CFR Chapter III**

#### **Authority and Issuance**

For the reasons set forth in the joint preamble, chapter III of title 12 of the Code of Federal Regulations is amended as follows:

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

1. 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).

2. Revise §324.301 to revised to read as follows:

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

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

Except as provided in §324.301(d), 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 is required to use CECL for regulatory reporting purposes that intends to use the CECL transition provision must elect to use the CECL transition provision in the first Call Report that includes CECL filed by the FDIC-supervised institution after it is required to use CECL for regulatory reporting purposes.

(3) An FDIC-supervised institution that does not elect to use the CECL transition provision as of the first Call Report 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, s beginning the first day of the fiscal year in which an FDIC-supervised institution adopts CECL and reflects CECL in its first Call Report filed after that date; or, for the 2020 transition under §\_\_.301(d), the five-year period beginning on the earlier of the date an FDIC-supervised institution was required to adopt CECL for accounting purposes under U.S. GAAP (as in effect January 1, 2020) , or the first day of the quarter in which the FDIC-supervised institution files regulatory reports that include 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'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 an 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 the three-year CECL transition provision.* (1) For purposes of the election described in paragraph (a)(1) of this section and except as provided in paragraph (d), 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.

(d) *Calculation of the five-year CECL transition provision.* An FDIC-supervised institution that was required to adopt CECL for accounting purposes under U.S. GAAP (as in effect January 1, 2020) as of the first day of a fiscal year that begins during the 2020 calendar year, and that makes the election described in paragraph (a)(1) of this section, may use the

transitional amounts and modified transitional amounts in §324.301(d)(1) with the 2020 CECL transition calculation in §324.301(d)(2) to adjust its calculation of regulatory capital ratios during each quarter of the transition period in which an FDIC-supervised institution uses CECL for purposes of its Call Report. A FDIC supervised-institution that did not make the election described in paragraph (a)(1) of this section because it did not record 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 adopted CECL may use the transition provision in this paragraph (d) if it has a positive adjusted CECL transitional amount during any quarter ending in 2020 and makes the election in the Call Report or FR Y-9C filed for the same quarter.

(1) *Definitions.* For purposes of the 2020 CECL transition calculation in §324.301(d)(2), the following definitions apply:

(i) *Modified CECL transitional amount* means:

(A) During the first two years of the transition period, the difference between AACL as reported in the most recent Call Report and the AACL as of the beginning of the fiscal year in which the FDIC-supervised institution adopts CECL, multiplied by .25, plus the CECL transitional amount; and

(B) During the last three years of the transition period, the difference between AACL as reported in the Call Report at the end of the second year of the transition period and the AACL as of the beginning of the fiscal year in which the FDIC-supervised institution adopts CECL, multiplied by 0.25, plus the CECL transitional amount.

(ii) *Modified AACL transitional amount* means:

(A) During the first two years of the transition period, the difference between AACL as reported in the most recent Call Report, and the AACL as of the beginning of the fiscal year in

which the FDIC-supervised institution adopts CECL, multiplied by .25, plus the AACL transitional amount; and

(B) During the last three years of the transition period, the difference between AACL as reported in the Call Report at the end of the second year of the transition period and the AACL as of the beginning of the fiscal year in which the FDIC-supervised institution adopts CECL, multiplied by 0.25, plus the AACL transitional amount.

(2) *Calculation of 2020 CECL transition provision.* (1) An FDIC-supervised institution that has made the election described in paragraph (a)(1) of this section in its a Call Report filed during the 2020 calendar year may make the following adjustments in its calculation of regulatory capital ratios:

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

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

during the third year of the transition period, decrease amounts of DTAs arising from temporary differences by fifty percent of its DTA transitional amount during the fourth 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 fifth year of the transition period;

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

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

(2) An advanced approaches FDIC-supervised institution that has made the election described in paragraph (a)(1) of this section in its first Call Report filed for the fiscal year that begins during the 2020 calendar year may 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 one-hundred percent of its modified CECL transitional amount during the first year of the transition period, increase total leverage exposure for purposes of the supplementary leverage ratio by one hundred percent of its modified CECL transitional amount during the second year of the transition period, increase total leverage exposure for purposes of the supplementary leverage ratio by seventy-five percent of its modified CECL transitional amount during the third 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 fourth 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 fifth 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 one-hundred percent of its eligible credit reserves transitional amount during the first year of the transition period, decrease amounts of eligible credit reserves by one hundred percent of its eligible credit reserves transitional amount during the second year of the transition period, decrease amounts of eligible credit reserves by seventy-

five percent of its eligible credit reserves transitional amount during the third year of the transition period, decrease amounts of eligible credit reserves by fifty percent of its eligible credit reserves transitional amount during the fourth 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 fifth year of the transition period.

(e) *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 (or modified CECL transitional amount) must decrease its CECL transitional amount used in paragraph (c) (or modified CECL transitional amount used in paragraph (d)) of this section by the full amount of its DTA transitional amount (or modified DTA transitional amount).

(f) *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.

**[THIS SIGNATURE PAGE RELATES TO THE DOCUMENT TITLED:  
“Regulatory Capital Rule: Revised Transition of the Current Expected Credit Losses  
Methodology for Allowances”]**

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Morris R. Morgan,  
*First Deputy Comptroller,  
Comptroller of the Currency*

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

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

Federal Deposit Insurance Corporation.  
By order of the Board of Directors.  
Dated at Washington, DC, on or about March 26, 2020.

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**Robert E. Feldman,**  
*Executive Secretary.*