RESCINDED

OCC Bulletin 2019-48| October 17, 2019

Current Expected Credit Losses: Notice and Request for Comment on Proposed Interagency Policy Statement on Allowances for Credit Losses

Replaced by OCC 2020-49

Summary

The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the National Credit Union Administration are seeking public comment on the proposed "Interagency Policy Statement on Allowances for Credit Losses" published on October 17, 2019. Comments must be received by December 16, 2019.

Note for Community Banks

When finalized, the "Interagency Policy Statement on Allowances for Credit Losses" will apply to all OCC-supervised banks,[1] consistent with each bank's current expected credit loss (CECL) methodology effective date.

To

Chief Executive Officers of All National Banks, Federal Savings Associations, and Federal Branches and Agencies; Department and Division Heads; All Examining Personnel; and Other Interested Parties

Highlights

The proposed "Interagency Policy Statement on Allowances for Credit Losses"

- explains the measurement of allowances for credit losses under the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," as well as the updates issued since June 2016 (collectively, FASB ASC Topic 326).
- describes regulatory expectations for
  - designing, documenting, and validating CECL methodologies.
  - maintaining appropriate allowances for credit losses under the new accounting standard.
  - boards of directors and management.
  - examiner reviews of allowances for credit losses.

Background

FASB ASC Topic 326 replaces the incurred loss methodology for financial assets measured at amortized cost and off-balance-sheet credit exposures with the CECL methodology. It also modifies the accounting for impairment of available-for-sale debt securities.

Because of the change in accounting standards, the federal financial regulatory agencies are revising the existing policies for the allowance for loan and lease losses. The proposed “Interagency Policy Statement on Allowances for Credit Losses” will replace the following when FASB ASC Topic 326 becomes effective for each bank:

- OCC Bulletin 2006-47, “Allowance for Loan and Lease Losses (ALLL): Guidance and Frequently Asked Questions (FAQs) on the ALLL.”
- OCC Bulletin 2001-37, “Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions: ALLL Methodologies and Documentation.”

FASB ASC Topic 326 becomes effective for most public entities beginning in 2020. The effective date for all other banks is 2023. Until FASB ASC Topic 326 becomes effective for a bank, it must continue to follow current U.S. generally accepted accounting principles on impairment and the allowance for loan and lease losses. The bank should continue to refer to OCC Bulletin 2006-47 and OCC Bulletin 2001-37 until the applicable effective date of FASB ASC Topic 326.

Further Information

Please contact Amanda Freedle, Senior Accounting Policy Advisor, Office of the Chief Accountant, at (202) 649-6280.

Grovetta N. Gardineer
Senior Deputy Comptroller for Bank Supervision Policy

Related Link

- “Interagency Policy Statement on Allowances for Credit Losses” (PDF)

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[1] The term “banks” refers to national banks and federal savings associations. Federal branches and agencies of foreign banking organizations may choose to, but are not required to, maintain allowances for credit losses on a branch or agency level.