RESCINDED

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Outdated

Regulatory Capital: Joint Statement on the Interaction of the Revised Transition of the CECL Methodology for Allowances With Section 4014 of the CARES Act

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

Summary

On March 27, 2020, the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) issued 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" (commonly referred to as CECL[1]) for a transition period of up to five years. Also on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. The CARES Act provides banking organizations with optional, temporary relief from complying with CECL. Today's joint statement clarifies the interaction between the CECL interim final rule and the CARES Act for purposes of regulatory capital requirements.

Note for Community Banks

The joint statement applies to all OCC-supervised banks that are required to adopt CECL in 2020 under U.S. generally accepted accounting principles[2]. Most community banks are not required to adopt CECL until 2023.

Highlights

- The CARES Act provides banking organizations that are required to adopt CECL in 2020 in accordance with Topic 326 with optional, temporary relief from complying with CECL (statutory relief) during the statutory relief period, which ends on the earlier of
    - the termination date of the current national emergency, declared by the President on March 13, 2020, under the National Emergencies Act concerning the COVID-19 outbreak, or
    - December 31, 2020.
- Banks that elect to use the optional, temporary statutory relief may delay compliance with CECL until the statutory relief period expires and then elect the remaining period of regulatory capital relief provided under the CECL interim final rule.

- Alternately, banking organizations may continue adopting CECL in 2020 and use the regulatory capital relief provided under the CECL interim final rule starting at the time of adoption.
- The CECL interim final rule does not replace the current three-year transition option in the 2019 final rule announced in OCC Bulletin 2019-10, "Implementation of the Current Expected Credit Losses Standard: Final Rule." The option 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 CECL interim final rule.

Further Information

Please contact the following individuals with Capital Policy at (202) 649-6370: Mark Ginsberg, Senior Risk Expert; Benjamin Pegg, Senior Risk Expert; Jung Sup Kim, Risk Specialist. Also contact John P. Shelly, Professional Accounting Fellow, Office of the Chief Accountant, at (202) 649-6550, or Kevin Korzeniewski, Counsel, Chief Counsel's Office, at (202) 649-5490.

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Related Links

- "Joint Statement on the Interaction of Regulatory Capital Rule: Revised Transition of the CECL Methodology for Allowances with Section 4014 of the Coronavirus Aid, Relief, and Economic Security Act" (PDF)

- OCC Bulletin 2020-27, "Current Expected Credit Losses: Interim Final Rule"
- OCC Bulletin 2019-10, "Implementation of the Current Expected Credit Losses Standard: Final Rule"

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[1] CECL stands for current expected credit losses.

[2] The term "banks" refers collectively to national banks, federal savings associations, and federal branches and agencies of foreign banking organizations.

Topic(s): ACCOUNTING ▪ CURRENT EXPECTED CREDIT LOSSES (CECL) METHODOLOGY