DEPARTMENT OF TREASURY

Office of the Comptroller of the Currency

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

[Docket ID OCC–2018–0009]

RIN 1557–AE32

FEDERAL RESERVE SYSTEM

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

[Regulation Q; Docket No. R–1605]

RIN 7100–AF04

FEDERAL DEPOSIT INSURANCE CORPORATION

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

RIN 3064–AE74

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

AGENCY: 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).

ACTION: Notice of proposed rulemaking.

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 public comment on a joint proposal to address changes to U.S. generally accepted accounting principles (U.S. GAAP) described in Accounting Standards Update No. 2016–13, Topic 326, Financial Instruments—Credit Losses (ASU 2016–13), including banking organizations' implementation of the current expected credit losses methodology. Specifically, the proposal would revise the agencies' regulatory capital rules to identify which credit loss allowances under the new accounting standard are eligible for inclusion in regulatory capital and to provide banking organizations the option to phase in the day-one adverse effects on regulatory capital that may result from the adoption of the new accounting standard. The proposal also would amend certain regulatory disclosure requirements to reflect applicable changes to U.S. GAAP covered under ASU 2016–13. In addition, the agencies are proposing to make amendments to their stress testing regulations so that covered banking organizations that have adopted ASU 2016–13 would not include the effect of ASU 2016–13 on their provisioning for purposes of stress testing until the 2020 stress test cycle. Finally, the agencies are proposing to make conforming amendments to their other regulations that reference credit loss allowances.

DATES: Comments must be received by July 13, 2018.

ADDRESSES: 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 email, if possible. Please use the title ''Regulatory Capital Rules: Implementation and Transition of the Current Expected Credit Losses Methodology for Allowances and Related Adjustments to the Regulatory Capital Rules and Conforming Amendments to Other Regulations'' to facilitate the organization and distribution of the comments. You may submit comments by any of the following methods:

- *Federal eRulemaking Portal—''Regulations.gov''*: Go to *www.regulations.gov.* Enter ''Docket ID OCC–2018–0009'' in the Search Box and click ''Search.'' Click on ''Comment Now'' to submit public comments.
- Click on the ''Help'' tab on the *Regulations.gov* home page to get information on using *Regulations.gov*, including instructions for submitting public comments.
- *Email: regs.comments@occ.treas.gov.*
- *Mail:* Legislative and Regulatory Activities Division, Office of the Comptroller of the Currency, 400 7th Street SW, suite 3E–218, Washington, DC 20219.
- *Hand Delivery/Courier:* 400 7th Street SW, suite 3E–218, Washington, DC 20219.
- *Fax:* (571) 465–4326.

Instructions: You must include ''OCC'' as the agency name and ''Docket ID OCC–2018–0009'' in your comment. In general, the OCC will enter all comments received into the docket and publish them on the *Regulations.gov* website without change, including any business or personal information that you provide such as name and address information, email 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:* Go to *www.regulations.gov.* Enter ''Docket ID OCC–2018–0009'' 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.

Viewing Comments Personally: You may personally inspect comments at the OCC, 400 7th Street SW, Washington, DC 20219. For security reasons, the OCC requires that visitors make an appointment to inspect comments. You may do so by calling (202) 649–6700 or, for persons who are hearing impaired, TTY, (202) 649–5597. Upon arrival, visitors will be required to present valid government-issued photo identification and submit to security screening in order to inspect comments.

Board: You may submit comments, identified by Docket No. R–1605 and RIN 7100–AF04, by any of the following methods:

- *Agency Website: http://www.federalreserve.gov.* Follow the instructions for submitting comments at *http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm.*
- *Email: regs.comments@federalreserve.gov.* Include docket number 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 website at *http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm* as submitted, unless modified for technical reasons or to remove sensitive PII at the commenter's request. Public comments may also be viewed electronically or in paper form in Room 3515, 1801 K Street NW (between 18th and 19th Streets 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–AE74, by any of the following methods:

• *Agency Website: https://www.fdic.gov/regulations/laws/federal/.* Follow instructions for submitting comments on the Agency website.

• *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 Building (located on F Street) on business days between 7:00 a.m. and 5:00 p.m.

• *Email: comments@FDIC.gov.* Include RIN 3064–AE74 on the subject line of the message.

• *Public Inspection:* All comments received must include the agency name and RIN 3064–AE74 for this rulemaking. All comments received will be posted without change to *http://www.fdic.gov/regulations/laws/federal/,* including any personal information provided. Paper copies of public comments may be ordered from the FDIC Public Information Center, 3501 North Fairfax Drive, Room E–1002, Arlington, VA 22226, or by telephone at (877) 275–3342 or (703) 562–2200.

FOR FURTHER INFORMATION CONTACT:

OCC: Mark Ginsberg, Senior Risk Expert, (202) 649–6983; or Kevin Korzeniewski, Counsel, Legislative and Regulatory Activities Division, (202) 649–5490; or for persons who are hearing impaired, TTY, (202) 649–5597.

Board: Constance M. Horsley, Deputy Associate Director, (202) 452–5239; Juan Climent, Manager, (202) 872–7526; Andrew Willis, Senior Supervisory Financial Analyst, (202) 912–4323; or Noah Cuttler, Senior Financial Analyst, (202) 912–4678, Division of Supervision and Regulation; or Benjamin W. McDonough, Assistant General Counsel, (202) 452–2036; David W. Alexander, Counsel, (202) 452–2877; or Asad Kudiya, Senior Attorney, (202) 475–6358, 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, (202) 263–4869.

FDIC: Benedetto Bosco, Chief, *bbosco@fdic.gov;* David Riley, Senior Policy Analyst, *dariley@fdic.gov;* Richard Smith, Capital Markets Policy Analyst, *rsmith@fdic.gov;* Michael Maloney, Senior Policy Analyst, *mmaloney@fdic.gov;* Capital Markets Branch, Division of Risk Management Supervision, *regulatorycapital@fdic.gov,* (202) 898–6888; or Michael Phillips, Acting Supervisory Counsel, *mphillips@fdic.gov;* Catherine Wood, Counsel, *cawood@fdic.gov;* or Benjamin Klein, Counsel, *bklein@fdic.gov;* Supervision Branch, Legal Division, Federal Deposit Insurance Corporation, 550 17th Street NW, Washington, DC 20429.

SUPPLEMENTARY INFORMATION:

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I. Background

A. Overview of Changes to U.S. Generally Accepted Accounting Principles

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016–13, Topic 326, Financial Instruments—Credit Losses,[1] which revises the accounting for credit losses under U.S. generally accepted accounting principles (U.S. GAAP). ASU No. 2016–13 introduces the current expected credit losses methodology (CECL), which replaces the incurred loss methodology for financial assets measured at amortized cost, and the term, purchased credit-deteriorated (PCD) assets, which replaces the term, purchased credit-impaired (PCI) assets, and modifies the treatment of credit losses on available-for-sale (AFS) debt securities.

The new accounting standard for credit losses will apply to all banking organizations[2] that are subject to the regulatory capital rules[3] (capital rules) of 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), and that file regulatory reports for which the reporting requirements are required to conform to U.S. GAAP.[4]

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

[1] ASU No. 2016–13 introduces ASC Topic 326 which covers measurement of credit losses on financial instruments and includes three subtopics: (i) Subtopic 10 Financial Instruments—Credit Losses—Overall; (ii) Subtopic 20: Financial Instruments—Credit Losses—Measured at Amortized Cost; and (iii) Subtopic 30: Financial Instruments—Credit Losses—Available-for-Sale Debt Securities.

[2] Banking organizations subject to the capital rules 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.

[3] 12 CFR part 3 (OCC); 12 CFR part 217 (Board); 12 CFR part 324 (FDIC).

[4] *See* 12 U.S.C. 1831n; *see also* Instructions for Preparation of Consolidated Financial Statements for Holding Companies, Reporting Form FR Y–9C (Reissued March 2013); Instructions for Preparation of Consolidated Reports of Condition and Income, Reporting Forms FFIEC 031 and FFIEC 041 (last update September 2017); Instructions for Preparation of Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only and Total Assets Less than $1 Billion, Reporting Form FFIEC 051 (last update September 2017).

methodology, results in earlier recognition of credit losses.

In addition, CECL replaces multiple impairment approaches in existing U.S. GAAP. CECL allowances will cover a broader range of financial assets than allowance for loan and lease losses (ALLL) under the incurred loss methodology. Under the incurred loss methodology, in general, ALLL covers credit losses on loans held for investment and lease financing receivables, with additional allowances for certain other extensions of credit and allowances for credit losses on certain off-balance sheet credit exposures (with the latter allowances presented as a liability).[5] These exposures will be within the scope of CECL. In addition, CECL covers credit losses on held-to-maturity (HTM) debt securities. As mentioned above, ASU No. 2016–13 also introduces PCD assets as a replacement for PCI assets. The PCD asset definition covers a broader range of assets than the PCI asset definition. CECL requires banking organizations to estimate and record credit loss allowances for a PCD asset at the time of purchase. The credit loss allowance is then added to the purchase price to determine the amortized cost basis of the asset for financial reporting purposes. Post-acquisition increases in credit loss allowances on PCD assets will be established through a charge to earnings. This is different from the current treatment of PCI assets, for which banking organizations are not permitted to estimate and recognize credit loss allowances at the time of purchase. Rather, in general, credit loss allowances for PCI assets are estimated subsequent to the purchase only if there is deterioration in the expected cash flows from the assets.

ASU No. 2016–13 also introduces new requirements for AFS debt securities. The new accounting standard requires that a banking organization recognize credit losses on individual AFS debt securities through credit loss allowances, rather than through direct write-downs, as is currently required under U.S. GAAP. AFS debt securities will continue to be measured at fair value, with changes in fair value not related to credit losses recognized in other comprehensive income. Credit loss allowances on an AFS debt security are limited to the amount by which the security's fair value is less than its amortized cost.

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

The effective date of ASU No. 2016–13 varies for different banking organizations. For banking organizations that are U.S. Securities and Exchange Commission (SEC) filers,[6] ASU No. 2016–13 will become effective for the first fiscal year beginning after December 15, 2019, including interim periods within that fiscal year. For banking organizations that are public business entities (PBE)[7] but not SEC filers (as defined in U.S. GAAP), ASU No. 2016–13 will become effective for the first fiscal year beginning after December 15, 2020, including interim periods within that fiscal year. For banking organizations that are not PBEs (as defined in U.S. GAAP), ASU No. 2016–13 will become effective for the first fiscal year beginning after December 15, 2020; however, these banking organizations will not be required to adopt ASU No. 2016–13 for interim period reporting until the first fiscal year that begins after December 15, 2021. A banking organization that chooses to apply ASU No. 2016–13 early may do so in the first fiscal year beginning after December 15, 2018, including interim periods. The following table provides a summary of the effective dates.

CECL EFFECTIVE DATES

	U.S. GAAP effective date	Regulatory report effective date *
PBEs that are SEC Filers	Fiscal years beginning after 12/15/2019, including interim periods within those fiscal years.	3/31/2020.
Other PBEs (Non-SEC Filers)	Fiscal years beginning after 12/15/2020, including interim periods within those fiscal years.	3/31/2021.
Non-PBEs	Fiscal years beginning after 12/15/2020, and interim periods for fiscal years beginning after 12/15/2021.	12/31/2021.
Early Application	Early application permitted for fiscal years beginning after 12/15/2018, including interim periods within those fiscal years.	3/31 of year of effective date of early application of ASU 2016–13.

* For institutions with calendar year-ends.

B. Regulatory Capital

Changes necessitated by CECL to a banking organization's retained earnings, DTAs, and allowances will affect its regulatory capital ratios.[8] Specifically, retained earnings are a key component of a banking organization's common equity tier 1 (CET1) capital. An increase in a banking organization's

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

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

[7] A public business entity (PBE) that is not an SEC filer would include: (1) An entity that has issued securities that are traded, listed, or quoted on an over-the-counter market, or (2) an entity that has issued one or more securities that are not subject to contractual restrictions on transfer and is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available periodically (*e.g.,* pursuant to Section 36 of the Federal Deposit Insurance Act and part 363 of the FDIC's rules). For further information on the definition of a PBE, refer to ASU No. 2013–12, Definition of a Public Business Entity, issued in December 2013.

[8] 12 CFR 3.20 (OCC); 12 CFR 217.20 (Board); 12 CFR 324.20 (FDIC).

allowances, including those estimated under CECL, generally will reduce the banking organization's earnings or retained earnings, and therefore its CET1 capital.[9] DTAs arising from temporary differences (temporary difference DTAs) must be included in a banking organization's risk-weighted assets or deducted from CET1 capital if they exceed certain thresholds. Increases in allowances generally give rise to increases in temporary difference DTAs that will partially offset the reduction in earnings or retained earnings.[10] Under the standardized approach of the capital rules, ALLL is included in a banking organization's tier 2 capital up to 1.25 percent of its standardized total risk-weighted assets (excluding its standardized market risk-weighted assets, if applicable).[11] An advanced approaches banking organization [12] that has completed the parallel run process [13] includes in its advanced-approaches-adjusted total capital any eligible credit reserves that exceed the banking organization's total expected credit losses, as defined in the capital rules, to the extent that the excess reserve amount does not exceed 0.6 percent of the banking organization's credit risk-weighted assets.[14]

II. Description of the Proposed Rule

To address the forthcoming implementation of changes to U.S. GAAP resulting from the FASB's issuance of ASU No. 2016–13 and to improve consistency between the capital rules and U.S. GAAP, the agencies propose to amend their capital rules to identify which credit loss allowances under the new accounting standard are eligible for inclusion in a banking organization's regulatory capital.[15] In particular, the agencies are proposing to add allowance for credit losses (ACL) as a newly defined term in the capital rules. ACL would include credit loss allowances related to financial assets measured at amortized cost, except for allowances for PCD assets. ACL would be eligible for inclusion in a banking organization's tier 2 capital subject to the current limit for including ALLL in tier 2 capital under the capital rules.

Further, the agencies are proposing to revise the capital rules, as applicable to an advanced approaches banking organization that has adopted CECL, and that has completed the parallel run process, to align the definition of eligible credit reserves with the definition of ACL in this proposal. For such a banking organization, the proposal would retain the current limit for including eligible credit reserves in tier 2 capital.

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

In addition, the agencies are proposing to provide banking organizations the option to phase in the day-one adverse regulatory capital effects of CECL adoption over a three-year period (CECL transition provision). The CECL transition provision is intended to address banking organizations' challenges in capital planning for CECL implementation, including the uncertainty of economic conditions at the time a banking organization adopts CECL.

The proposed rule also would revise regulatory disclosure requirements that would apply to certain banking organizations following their adoption of CECL.[16] Revisions to the agencies' regulatory reports will be proposed in a separate notice. Finally, the proposed rule would make conforming amendments to the agencies' other regulations that refer to credit loss allowances to reflect the implementation of ASU No. 2016–13.

A. Proposed Revisions to the Capital Rules To Reflect the Change in U.S. GAAP

1. Introduction of Allowances for Credit Losses as a Newly Defined Term

The agencies are proposing to revise the capital rules to reflect the revised accounting standard for credit losses under U.S. GAAP as it relates to banking organizations' calculation of regulatory capital ratios. Under the proposal, the new term ACL, rather than ALLL, would apply to a banking organization that has adopted CECL. Consistent with the treatment of ALLL under the capital rules' standardized approach, amounts of ACL would be eligible for inclusion in a banking organization's tier 2 capital up to 1.25 percent of the banking organization's standardized total risk-weighted assets (excluding its standardized market risk-weighted assets, if applicable).

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

Question 1: The agencies request comment on whether use of the term ''allowance for credit losses'' within the capital rules would present operational or other challenges, or generally cause confusion for banking organizations, given other contextual uses for the term,

[9] However, allowances recognized on PCD assets upon adoption of CECL and upon later purchases of PCD assets generally would not reduce the banking organization's earnings, retained earnings, or CET1 capital.

[10] Deferred tax assets are a result of deductible temporary differences and carryforwards which result in a decrease in taxes payable in future years.

[11] Any amount of ALLL greater than the 1.25 percent limit is deducted from standardized total risk-weighted assets.

[12] A banking organization is an advanced approaches banking organization if it has consolidated assets of at least $250 billion or if it has consolidated on-balance sheet foreign exposures of at least $10 billion, or if it is a subsidiary of a depository institution, bank holding company, savings and loan holding company, or intermediate holding company that is an advanced approaches banking organization. *See* 12 CFR 3.100 (OCC); 12 CFR 217.100 (Board); 12 CFR 324.100 (FDIC).

[13] An advanced approaches banking organization is considered to have completed the parallel run process once it has completed the advanced approaches qualification process and received notification from its primary federal regulator pursuant to section 121(d) of subpart E of the capital rules. *See* 12 CFR 3.121(d) (OCC); 12 CFR 217.121(d) (Board); 12 CFR 324.121(d) (FDIC).

[14] 12 CFR 3.10(c)(3)(ii) (OCC); 12 CFR 217.10(c)(3)(ii) (Board); and 12 CFR 324.10(c)(3)(ii) (FDIC).

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

[16] For certain banking organizations, sections 63 and 173 of the capital rules require disclosure of items such as capital structure, capital adequacy, credit risk, and credit risk mitigation.

particularly in U.S. GAAP and accounting guidance.

2. Definition of Carrying Value

The agencies are proposing to revise the regulatory definition of carrying value under the capital rules to provide that, for all assets other than AFS debt securities and PCD assets, the carrying value is not reduced by any associated credit loss allowance.

i. Available-for-Sale Debt Securities

Current accounting standards require a banking organization to make an individual assessment of each of its AFS debt securities and take a direct write-down for credit losses when such a security is other-than-temporarily impaired. The amount of the write-down is against earnings, which reduces CET1 capital and also results in a reduction in the same amount of the carrying value of the AFS debt security. ASU No. 2016–13 revises the accounting for credit impairment of AFS debt securities by requiring banking organizations to determine whether a decline in fair value below an AFS debt security's amortized cost resulted from a credit loss, and to record any such credit impairment through earnings with a corresponding allowance. Similar to the current regulatory treatment of credit-related losses for other-than-temporary impairment, under the proposal all credit losses recognized on AFS debt securities would flow through to CET1 capital and reduce the carrying value of the AFS debt security. Since the carrying value of an AFS debt security is its fair value, which would reflect any credit impairment, credit loss allowances for AFS debt securities required under the new accounting standard would not be eligible for inclusion in a banking organization's tier 2 capital.

ii. Purchased Credit-Deteriorated Assets

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

Including in tier 2 capital allowances that have not been charged against earnings would diminish the quality of regulatory capital. Accordingly, the agencies are proposing to maintain the requirement that valuation allowances be charged against earnings in order to be eligible for inclusion in tier 2 capital. The agencies also are clarifying that valuation allowances that are charged to retained earnings in accordance with U.S. GAAP (*i.e.,* the allowances required at CECL adoption) are eligible for inclusion in tier 2 capital. The agencies considered proposing to allow banking organizations to bifurcate PCD allowances to include only post-acquisition allowances in the definition of ACL. The agencies are concerned, however, that a bifurcated approach could create undue complexity and burden for banking organizations when determining the amount of credit loss allowances for PCD assets eligible for inclusion in tier 2 capital. Therefore, the proposal excludes PCD allowances from being included in tier 2 capital. The proposal also revises the definition of carrying value such that for PCD assets the carrying value is calculated net of allowances. This treatment of PCD assets would, in effect, reduce a banking organization's standardized total risk-weighted assets, similar to the proposed treatment for credit loss allowances for AFS debt securities.

Question 2: The agencies are requesting comment on whether the definition of ACL is appropriate for determining the amount of allowances that may be included in a banking organization's tier 2 capital and whether the approach to AFS debt securities and PCD assets is appropriate. What, if any, alternatives with respect to the treatment of ACL, AFS debt securities, and PCD assets should the agencies consider and what are the associated advantages and disadvantages of such alternatives?

3. Additional Considerations

The agencies are not proposing to change the limit of 1.25 percent of risk-weighted assets governing the amount of ACL eligible for inclusion in tier 2 capital. The agencies intend to monitor the effects of this limit on regulatory capital and bank lending practices. This ongoing monitoring will include the review of data, including data provided by banking organizations, and will assist the agencies in determining whether a further change to the capital rules' treatment of ACL might be warranted. To the extent the agencies determine that further revisions to the capital rules are necessary, the agencies would seek comment through a separate proposal.

B. CECL Transition Provision

As discussed above, upon adopting CECL, a banking organization will record an adjustment to its credit loss allowances equal to the difference between the amount of credit loss allowances required under the incurred loss methodology and the amount of credit loss allowances required under CECL. Some banking organizations have expressed concerns about the difficulty in capital planning due to the uncertainty about the economic environment at the time of CECL adoption. This is largely because CECL requires banking organizations to consider current and future expected economic conditions to estimate allowances and these conditions will not be known until closer to a banking organization's CECL adoption date. Therefore, it is possible that despite adequate planning to prepare for the implementation of CECL, unexpected economic conditions at the time of CECL adoption could result in higher-than-anticipated increases in allowances. To address these concerns, the agencies are proposing to provide a banking organization with the option to phase in over a three-year period the day-one adverse effects of CECL on the banking organization's regulatory capital ratios.

1. Election of the Optional CECL Transition Provision

Under the proposal, a banking organization that experiences a reduction in retained earnings as of the CECL adoption date may elect to phase in the regulatory capital impact of adopting CECL over a three-year transition period (electing banking organization). An electing banking organization would be required to begin applying the CECL transition provision as of the electing banking organization's CECL adoption date. An electing banking organization would indicate in its regulatory report its election to use the CECL transition provision beginning in the quarter that it first reports its credit loss allowances as measured under CECL.[17]

A banking organization that does not elect to use the CECL transition provision in the quarter that it first

[17] An insured depository institution would indicate its election to use the CECL transition provision on its Consolidated Reports of Condition and Income. A holding company would indicate its election to use the CECL transition provision on its FR Y–9C.

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

A banking organization that is a non-PBE must adopt CECL no later than for fiscal years beginning after December 15, 2020, and for interim periods for fiscal years beginning after December 15, 2021. As a result, unless it chooses to adopt CECL as of an earlier date, such a banking organization with a calendar fiscal year will initially reflect CECL in its regulatory report filed as of December 31, 2021, even though CECL was effective for that banking organization as of the first day of the fiscal year. Such a banking organization's regulatory capital would not be affected by CECL during the first three reporting periods of 2021 and therefore the banking organization would initially be eligible to elect the CECL transition provision in its December 31, 2021 regulatory report. The second year of the transition period would begin in the banking organization's March 31, 2022 regulatory report.

Under the proposed rule, a depository institution holding company subject to the Board's capital rule and each of its subsidiary insured depository institutions would be eligible to make a CECL transition provision election independent of one another.

2. Mechanics of the CECL Transition Provision

The CECL transition provision is designed to phase in the day-one adverse impact on a banking organization's regulatory capital ratios resulting from its adoption of CECL. To calculate its transitional amounts under the CECL transition provision, an electing banking organization would compare the difference between its 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 the electing banking organization adopts CECL (post-CECL amount) for the following items: Retained earnings, temporary difference DTAs, and credit loss allowances eligible for inclusion in regulatory capital. The differences determined for each of these items would constitute the transitional amounts that an electing banking organization would phase in to its regulatory capital calculations over the proposed transition period, which would be the three-year period (twelve quarters) beginning the first day of the fiscal year in which the electing banking organization adopts CECL.

Specifically, under the proposed rule, an electing banking organization's CECL transitional amount would be determined as the difference between its pre-CECL and post-CECL amounts of retained earnings (CECL transitional amount). An electing banking organization's DTA transitional amount would be determined as the difference between its pre-CECL and post-CECL amounts of temporary difference DTAs (DTA transitional amount). An electing banking organization's ACL transitional amount would be determined as the difference between its pre-CECL amount of ALLL and its post-CECL amount of ACL (ACL transitional amount).

Under the standardized approach, an electing banking organization would phase in over the transition period its CECL transitional amount, DTA transitional amount, and ACL transitional amount. The electing banking organization also would phase in over the transition period the CECL transitional amount to its average total consolidated assets for purposes of calculating the tier 1 leverage ratio. Each transitional amount would be phased in over the transition period on a straight line basis.

Thus, for regulatory capital ratio calculation purposes, an electing banking organization would phase in the CECL transitional amount by increasing its retained earnings by 75 percent of its CECL transitional amount during the first year of the transition period, by 50 percent of its CECL transitional amount during the second year of the transition period, and by 25 percent of its CECL transitional amount during the third year of the transition period. The electing banking organization would phase in the DTA transitional amount by decreasing the amount of its temporary difference DTAs by 75 percent of its DTA transitional amount during the first year of the transition period, by 50 percent of its DTA transitional amount during the second year of the transition period, and by 25 percent of its DTA transitional amount during the third year of the transition period. The banking organization would phase in the ACL transitional amount by decreasing the amount of its ACL by 75 percent of its ACL transitional amount during the first year of the transition period, by 50 percent of its ACL transitional amount during the second year of the transition period, and by 25 percent of its ACL transitional amount during the third year of the transition period. Finally, for regulatory capital ratio calculation purposes, the electing banking organization would increase the amount of its average total consolidated assets by its CECL transitional amount over the transition period on the same straight line basis (*i.e.,* increasing average total consolidated assets by 75 percent of the CECL transitional amount during year 1, by 50 percent during year 2, and by 25 percent during year 3 of the transition period).

For example, consider a hypothetical electing banking organization that has a CECL effective date of January 1, 2020, and a 21 percent tax rate. On the closing balance sheet date immediately prior to adopting CECL (*i.e.,* December 31, 2019), the electing banking organization has $10 million in retained earnings and $1 million of ALLL. On the opening balance sheet date immediately after adopting CECL (*i.e.,* January 1, 2020), the electing banking organization has $1.2 million of ACL. The electing banking organization would recognize the adoption of CECL by recording an increase to ACL (credit) of $200,000, with an offsetting increase in temporary difference DTAs of $42,000 (debit), and a reduction in beginning retained earnings of $158,000 (debit). For each of the quarterly reporting periods in year 1 of the transition period (*i.e.,* 2020), the electing banking organization would increase both retained earnings and average total consolidated assets by $118,500 ($158,000 x 75 percent), decrease temporary difference DTAs by $31,500 ($42,000 × 75 percent), and decrease ACL by $150,000 ($200,000 × 75 percent) for purposes of calculating its regulatory capital ratios. The remainder of the CECL transition provision would be transitioned into regulatory capital according to the schedule provided in Table 1.

TABLE 1—EXAMPLE OF A CECL TRANSITION PROVISION SCHEDULE

In thousands	Transitional amounts	Transitional amounts applicable during each year of the transition period		
	Column A	Column B	Column C	Column D
		Year 1 at 75%	Year 2 at 50%	Year 3 at 25%
Increase retained earnings and average total consolidated assets by the CECL transitional amount	$158	$118.50	$79	$39.50
Decrease temporary difference DTAs by the DTA transitional amount	42	31.50	21	10.50
Decrease ACL by the ACL transitional amount	200	150	100	50

The result of the CECL transition provision for an electing banking organization would be to phase in the effect of the adoption of CECL in its regulatory capital ratios in a uniform manner. The phase in of the CECL transitional amount to retained earnings would mitigate the decrease in an electing banking organization's CET1 capital resulting from CECL adoption, and would increase during the transition period the level at which the capital rule's CET1 capital deduction thresholds would be triggered. The DTA transitional amount would phase in the amount of an electing banking organization's temporary difference DTAs subject to the CET1 capital deduction thresholds and the amount of temporary difference DTAs included in risk-weighted assets. The ACL transitional amount would phase in the amount of ACL that an electing banking organization may include in its tier 2 capital up to the limit of 1.25 percent of its standardized total risk-weighted assets (excluding its standardized market risk-weighted assets, if applicable). Finally, for purposes of an electing banking organization's tier 1 leverage ratio calculation, the addition of the CECL transitional amount to average total consolidated assets would offset the immediate decrease that would otherwise occur as a result of the adjustments to ACL and temporary difference DTAs resulting from the adoption of CECL.

Notwithstanding the CECL transition provision, all other aspects of the capital rules would continue to apply. Thus, all regulatory capital adjustments and deductions would continue to apply and an electing banking organization would continue to be limited in the amount of ACL that it could include in its tier 2 capital.[18]

Question 3: The agencies seek comment on other potential approaches to phasing in the day-one effects of CECL on banking organizations' regulatory capital ratios. What are the pros and cons of such alternative approaches?

3. CECL Transition Provision Time Period

As noted, the agencies are proposing a phase-in period of three years. ASU No. 2016–13 was issued in 2016 and becomes mandatory in 2020 at the earliest, which provides banking organizations with at least four years to plan for CECL implementation. While the agencies recognize that a banking organization will better understand the macroeconomic factors that may affect the size of the banking organization's one-time adjustment to CECL closer to its CECL adoption date, the agencies view a period of four years to plan for CECL, combined with the proposed three-year transition period, as a sufficient amount of time for a banking organization to adjust and adapt to any immediate adverse effects on regulatory capital ratios resulting from CECL adoption.

Question 4: The agencies seek comment on the sufficiency of the proposed three-year transition period. Would a different time period be more appropriate? If so, why?

4. Business Combinations

Under the proposal, an electing banking organization that acquires another banking organization (as determined under U.S. GAAP) during the period in which the electing banking organization is using its CECL transition provision would continue to make use of its transitional amounts based on its calculation as of the date of its adoption of CECL. Business combinations would cover mergers, acquisitions, and transactions in which two existing unrelated entities combine into a newly created third entity. However, any CECL transitional amounts, DTA transitional amounts, and ACL transitional amounts of an acquired electing banking organization would not flow through to the resulting banking organization as the assets of an acquired banking organization are generally measured at fair value at the time of the business combination.

Question 5: The agencies seek comment on the proposed treatment of business combinations and other potential approaches to treating business combinations within the context of the CECL transition provision. What are the pros and cons of such alternative approaches?

5. Supervisory Oversight

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

C. Additional Requirements for Advanced Approaches Banking Organizations

Under the capital rules, an advanced approaches banking organization that has completed the parallel run process includes in its advanced-approaches-adjusted total capital any amount of eligible credit reserves that exceeds its regulatory expected credit losses to the extent that the excess reserve amount does not exceed 0.6 percent of the banking organization's credit risk-weighted assets.[19] The agencies propose to revise the definition of eligible credit reserves to align with the definition of

[18] 12 CFR 3.10(c)(3)(ii)(B), 12 CFR 3.20(d)(3) (OCC); 12 CFR 217.10(c)(3)(ii)(B), 12 CFR 217.20(d)(3) (Board); 12 CFR 324.10(c)(3)(ii)(B), 12 CFR 324.20(d)(3) (FDIC).

[19] 12 CFR 3.10(c)(3)(ii) (OCC); 12 CFR 217.10(c)(3)(ii) (Board); and 12 CFR 324.10(c)(3)(ii) (FDIC).

ACL in this proposal. Under the proposal, for an advanced approaches banking organization that has adopted CECL, eligible credit reserves would mean all general allowances that have been established through a charge against earnings or retained earnings to cover expected credit losses associated with on- or off-balance sheet wholesale and retail exposures, including ACL associated with such exposures. Similar to the current definition of eligible credit reserves, the definition of eligible credit reserves applicable to banking organizations that have adopted CECL would exclude allocated transfer risk reserves established pursuant to 12 U.S.C. 3904. In addition, the revised eligible credit reserves definition would exclude allowances that reflect credit losses on PCD assets and AFS debt securities, and other specific reserves created against recognized losses. The definition of eligible credit reserves would remain unchanged for an advanced approaches banking organization that has not adopted CECL.

For purposes of the supplementary leverage ratio, which is applicable to all advanced approaches banking organizations, the proposal would maintain the current definition of total leverage exposure. Thus, total leverage exposure would continue to include, among other items, the balance sheet carrying value of an advanced approaches banking organization's on-balance sheet assets less amounts deducted from tier 1 capital.

An advanced approaches banking organization that elects to use the CECL transition provision (electing advanced approaches banking organization) would increase its total leverage exposure for purposes of the supplementary leverage ratio by 75 percent of its CECL transitional amount during the first year of the transition period, increase its total leverage exposure for purposes of the supplementary leverage ratio by 50 percent of its CECL transitional amount during the second year of the transition period, and increase its total leverage exposure for purposes of the supplementary leverage ratio by 25 percent of its CECL transitional amount during the third year of the transition period.

In addition, an electing advanced approaches banking organization that has completed the parallel run process would calculate an additional transitional amount to be phased into its eligible credit reserves (eligible credit reserves transitional amount). The eligible credit reserves transitional amount would mean the increase in the amount of an advanced approaches banking organization's eligible credit reserves as of the beginning of the fiscal year in which the banking organization adopts CECL from the amount of that banking organization's eligible credit reserves as of the closing of the fiscal year-end immediately prior to the banking organization's adoption of CECL. An electing advanced approaches banking organization would decrease the amount of its eligible credit reserves by its eligible credit reserves transitional amount over the transition period on a straight line basis (*i.e.,* decreasing eligible credit reserves by 75 percent during year 1, by 50 percent during year 2, and by 25 percent during year 3).

An advanced approaches banking organization that has completed the parallel run process is required to deduct from CET1 capital the amount of expected credit loss that exceeds its eligible credit reserves (ECR shortfall). Due to this requirement, an advanced approaches banking organization's CET1 capital immediately after CECL adoption may be greater than its CET1 capital immediately before CECL adoption.[20] This is because, for such banking organizations, CECL allowances can have a dual impact on CET1 capital: A reduction in retained earnings (partially offset by DTAs) and a concurrent reduction in the CET1 ECR shortfall deduction. The agencies are concerned that the use of the CECL transition provision could provide an undue benefit to a banking organization that had an ECR shortfall prior to its adoption of CECL and could undermine an objective of the CECL transition provision to provide relief to banking organizations that experience an immediate adverse impact to regulatory capital as a result of CECL adoption. Therefore, the agencies are proposing to limit the CECL transitional amount that such an electing advanced approaches banking organization can include in retained earnings. As part of this proposal, an electing advanced approaches banking organization that (1) has completed the parallel run process, (2) has an ECR shortfall immediately prior to the adoption of CECL, and (3) would have an increase in CET1 capital as of the beginning of the fiscal year in which it adopts CECL after including the first year portion of the CECL transitional amount, must decrease its CECL transitional amount by its DTA transitional amount.[21] The agencies believe requiring such an advanced approaches banking organization to reduce its CECL transitional amount by its DTA transitional amount would be simple to implement and thus would not be operationally burdensome. As an alternative approach, the agencies also would consider requiring an electing advanced approaches banking organization with an ECR shortfall immediately prior to the adoption of CECL to reduce its CECL transitional amount by the amount necessary to cause its CET1 capital upon adoption of CECL to not exceed CET1 capital immediately prior to adoption of CECL.

Question 6: The agencies are requesting comment on whether the definition of eligible credit reserves is appropriate for determining the amount of allowances that may be included in an advanced approaches banking organization's total capital. What, if any, alternatives with respect to the treatment of eligible credit reserves should the agencies consider and what are the associated advantages and disadvantages of such alternatives?

Question 7: The agencies are requesting comment on the proposed CECL transitional amount limitation for certain advanced approaches banking organizations that have an ECR shortfall. What, if any, are the associated advantages and disadvantages of the alternatives provided by the agencies?

D. Disclosures and Regulatory Reporting

Under the proposed rule, banking organizations subject to the disclosure requirements in section 63 of the capital rules would be required to update their disclosures to reflect the adoption of CECL. For example, such banking organizations would be required to disclose ACL instead of ALLL after CECL adoption.

For advanced approaches banking organizations, the agencies propose similar revisions to Tables 2, 3, and 5 in section 173 of the capital rules to reflect the adoption of CECL. In addition, the agencies are proposing revisions to those tables for electing advanced approaches banking organizations to disclose two sets of regulatory capital ratios. One set would

[20] *See* 12 CFR 3.121(d) (OCC); 12 CFR 217.121(d) (Board); and 12 CFR 324.121(d) (FDIC).

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

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

In addition, to reflect changes in U.S. GAAP, the agencies anticipate proposing revisions to the regulatory reporting forms in a separate proposal. These proposed revisions would specify how electing banking organizations would report their transitional amounts for the affected line items in Schedule RC–R of the Call Report and Schedule HC–R of the FR Y–9C. In addition, the agencies intend to update instructions for certain other reporting forms, including the FFIEC 101, to account for the CECL transition provision.

E. Conforming Changes to Other Agency Regulations

1. OCC Regulations

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

The OCC proposes to revise the calculations used in those sections that currently reference ALLL to also reference ACL, once a banking organization has adopted the FASB standard. This proposed conforming revision will ensure that banking organizations will not experience a material decrease in any of the affected limits due to the adoption of CECL.

In addition, the OCC proposes to make conforming edits to the terminology used in the OCC's stress testing regulation at 12 CFR part 46 to incorporate the new CECL methodology.

2. Board Regulations

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

Specifically, the proposal would amend the definition of ''capital stock and surplus'' in the Board's Regulation H, 12 CFR part 208, to include the balance of a member bank's allowance for credit losses. Similarly, the proposal would incorporate ''allowance for credit losses'' in the definition of ''capital stock and surplus'' in the Board's Regulation K, 12 CFR part 211; Regulation W, 12 CFR part 223; and Regulation Y, 12 CFR part 225. A related change would be made to the definition of unimpaired capital and unimpaired surplus in the Board's Regulation O, 12 CFR part 215.

The proposal would make a similar change to the Board's Regulation K relating to the establishment of an allocated transfer risk reserve (ATRR). Specifically, the proposal would replace, for CECL adopters, all references to ALLL, in the section relating to the accounting treatment of ATRR, with ACL.

The proposal incorporates technical amendments to § 225.127 of the Board's Regulation Y to provide corrected reference citations to sections of Regulation Y that have been revised and renumbered.

Finally, the Board is proposing to amend its stress testing rules in the Board's Regulation YY, 12 CFR part 252, to address the changes made in U.S. GAAP following the issuance of ASU No. 2016–13. Specifically, the Board is proposing to require a banking organization that has adopted CECL to include its provision for credit losses beginning in the 2020 stress test cycle, which would include provisions calculated under ASU No. 2016–13, instead of its provision for loan and lease losses, in its stress testing methodologies and data and information required to be submitted to the Board and that the disclosure of the results of those stress tests includes estimates of those provisions. To promote comparability of stress test results across firms, the proposal would provide that, for the 2018 and 2019 stress test cycles, a banking organization would continue to use its provision for loan and lease losses, as would be calculated under the incurred loss methodology, even if the firm adopted CECL in 2019. Finally, under the proposal, a banking organization that does not adopt CECL until 2021 would not be required to include its provision for credit losses for these purposes until the 2021 stress test cycle. The following table describes the stress test cycles in which a banking organization would be required to use its provision for credit losses instead of the provision for loan and lease losses, based on varying dates of adoption of ASU No. 2016–13.

TABLE 2—SUMMARY OF USE OF PROVISIONS IN 2019–2021 STRESS TEST CYCLES

Year of adoption of ASU No. 2016–13	2019 Stress test cycle	2020 Stress test cycle	2021 Stress test cycle
2019	Provision for loan and lease losses	Provision for credit losses	Provision for credit losses.
2020	Provision for loan and lease losses	Provision for credit losses	Provision for credit losses.
2021	Provision for loan and lease losses	Provision for loan and lease losses	Provision for credit losses.

The proposal would make a similar change to the Board's company-run stress test requirements to require a banking organization that has adopted CECL, beginning in the 2020 stress test cycle, to incorporate the effects of the maintenance of ACL when estimating the impact on pro forma regulatory capital levels and pro forma capital ratios.

Question 8: The Board seeks comment on whether requiring a banking organization that adopts CECL in 2019 not to include provisions for credit losses in the 2019 stress test cycle would create additional burden or complexity.

Question 9: The Board seeks comment on whether, apart from the approach described, additional changes should be made to its stress testing rules to address the accounting change.

3. FDIC Regulations

The proposal would also make conforming amendments to references to provisions or ALLL in the FDIC's regulations. Specifically, the proposal would replace, for CECL adopters, all references to ALLL with ACL (as applicable) in the FDIC's capital rules codified at 12 CFR part 324, including in the definitions of ''identified losses'' and ''standardized total risk-weighted assets.'' The proposal would also make the same conforming changes to the following FDIC regulations by replacing all references to ALLL with ACL as applicable: 12 CFR parts 327, 347 and 390. Finally, consistent with the proposed changes to the Board's stress testing rules, the proposal would make similar conforming changes to the FDIC's stress testing rules codified at 12 CFR part 325.

F. Additional Requests for Comment

The agencies seek comment on all aspects of the proposal. Comments are requested about the potential advantages of the proposal in ensuring the individual safety and soundness of these banking organizations as well as on the stability of the financial system.

III. Regulatory Analyses

A. Paperwork Reduction Act

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

Comments are invited on:

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

b. The accuracy or the 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 the 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.

Disclosure Burden—Advanced Approaches Banking Organizations

Current Actions

Section 173 of the capital rules requires that advanced approaches banking organizations publicly disclose capital-related information as provided in a series of 13 tables. For advanced approaches banking organizations, the agencies propose revisions to Tables 2, 3, and 5 in section 173 of the capital rules to reflect the adoption of CECL. In addition, the agencies are proposing revisions to those tables for electing advanced approaches banking organizations to disclose two sets of regulatory capital ratios. One set would reflect such banking organization's capital ratios with the CECL transition provision and the other set would reflect the banking organization's capital ratios on a fully phased-in basis. This aspect of the proposed rule affects the below-listed information collections.

The changes in the disclosure requirements to Tables 2, 3, and 5 in section 173 of the capital rules would result in an increase in the average hours per response per agency of 48 hours for the initial setup burden. In addition, the changes in the disclosure requirements to Tables 2, 3, and 5 in section 173 of the capital rules would result in an increase in the average hours per response per agency of 6 hours for ongoing (quarterly) burden.[22]

Proposed Revision, With Extension, of the Following Information Collections

OCC

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

Frequency: Quarterly, annual.

Affected Public: Businesses or other for-profit.

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

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

OMB control number: 1557–0318.

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

Estimated average hours per response:

Minimum Capital Ratios

Recordkeeping (Ongoing)—16.

Standardized Approach

Recordkeeping (Initial setup)—122.
Recordkeeping (Ongoing)—20.
Disclosure (Initial setup)—226.25.
Disclosure (Ongoing quarterly)—131.25.

Advanced Approaches

Recordkeeping (Initial setup)—460.
Recordkeeping (Ongoing)—540.77.
Recordkeeping (Ongoing quarterly)—20.
Disclosure (Initial setup)—328.
Disclosure (Ongoing)—5.78.
Disclosure (Ongoing quarterly)—41.

Proposed revisions estimated annual burden: 432 hours.

Estimated annual burden hours: 1,136 hours initial setup, 64,945 hours for ongoing.

Board

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

Frequency: Quarterly, annual.

Affected Public: Businesses or other for-profit.

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

Legal authorization and confidentiality: This information collection is authorized by section 38(o) of the Federal Deposit Insurance Act (12 U.S.C. 1831o(c)), section 908 of the International Lending Supervision Act of 1983 (12 U.S.C. 3907(a)(1)), section 9(6) of the Federal Reserve Act (12 U.S.C. 324), and section 5(c) of the Bank Holding Company Act (12 U.S.C. 1844(c)). The obligation to respond to this information collection is mandatory. If a respondent considers the information to be trade secrets and/or privileged such information could be withheld from the public under the authority of the Freedom of Information Act (5 U.S.C. 552(b)(4)). Additionally, to the extent that such information may be contained in an examination report such information could also be withheld from the public (5 U.S.C. 552 (b)(8)).

Agency form number: FR Q.

OMB control number: 7100–0313.

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

Estimated average hours per response:

Minimum Capital Ratios

Recordkeeping (Ongoing)—16.

Standardized Approach

Recordkeeping (Initial setup)—122.
Recordkeeping (Ongoing)—20.
Disclosure (Initial setup)—226.25.
Disclosure (Ongoing quarterly)—131.25.

Advanced Approaches

Recordkeeping (Initial setup)—460.
Recordkeeping (Ongoing)—540.77.
Recordkeeping (Ongoing quarterly)—20.
Disclosure (Initial setup)—328.
Disclosure (Ongoing)—5.78.
Disclosure (Ongoing quarterly)—41.
Disclosure (Table 13 quarterly)—5.

Risk-based Capital Surcharge for GSIBs

Recordkeeping (Ongoing)—0.5.

Proposed revisions estimated annual burden: 456 hours.

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

FDIC

Title of Information Collection: Regulatory Capital Rules.

Frequency: Quarterly, annual.

Affected Public: Businesses or other for-profit.

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

OMB control number: 3064–0153.

Estimated number of respondents: 3,637 (of which 2 are advanced approaches institutions).

Estimated average hours per response:

Minimum Capital Ratios

Recordkeeping (Ongoing)—16.

Standardized Approach

Recordkeeping (Initial setup)—122.
Recordkeeping (Ongoing)—20.
Disclosure (Initial setup)—226.25.
Disclosure (Ongoing quarterly)—131.25.

Advanced Approaches

Recordkeeping (Initial setup)—460.
Recordkeeping (Ongoing)—540.77.
Recordkeeping (Ongoing quarterly)—20.
Disclosure (Initial setup)—328.
Disclosure (Ongoing)—5.78.
Disclosure (Ongoing quarterly)—41.

Proposed revisions estimated annual burden: 96 hours.

Estimated annual burden hours: 1,136 hours initial setup, 133,038 hours for ongoing.

Reporting Burden—FFIEC and Board Forms

Current Actions

The agencies also plan to make changes to certain FFIEC and Board reporting forms and/or their related instructions as a result of the issuance of ASU 2016–13. In particular, the forms and/or related instructions for the following FFIEC reports could be affected: Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031, FFIEC 041, and FFIEC 051; OMB No. 1557–0081, 7100–0036, and 3064–0052), Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002; OMB No. 7100–0032), Report of Assets and Liabilities of a Non-U.S. Branch that is Managed or Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank (FFIEC 002S; OMB No. 7100–0032), Annual Dodd-Frank Act Company-Run Stress Test Report for Depository Institutions and Holding Companies with $10–$50 Billion in Total Consolidated Assets (FFIEC 016; OMB No. 1557–0311, 7100–0356, and 3064–0187), Foreign Branch Report of Condition (FFIEC 030; OMB No. 1557–0099, 7100–0071, and 3064–0011), Abbreviated Foreign Branch Report of Condition (FFIEC 030S; OMB No. 1557–0099, 7100–0071, and 3064–0011), and Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework (FFIEC 101; OMB No. 1557–0239, 7100–0319, and 3064–0159). The forms and/or related instructions for the following Board reports could be affected: Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314; OMB No. 7100–0073), Domestic Finance Company Report of Consolidated Assets and Liabilities (FR 2248; OMB No. 7100–0005), Weekly Report of Selected Assets and Liabilities of Domestically Chartered Commercial Banks and U.S. Branches and Agencies of Foreign Banks (FR 2644; OMB No. 7100–0075), Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b; OMB No. 7100–0086), Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations (FR Y–7N; 7100–0125), Consolidated Financial Statements for Holding Companies (FR Y–9C; OMB No. 7100–0128), Parent Company Only Financial Statements for Large Holding Companies (FR Y–9LP; OMB No. 7100–0128), Parent Company Only Financial Statements for Small Holding Companies (FR Y–9SP; OMB No. 7100–0128), Financial Statements of U.S. Nonbank Subsidiaries of U.S. Holding Companies (FR Y–11; OMB No. 7100–0244), Capital Assessments and Stress Testing (FR Y–14; OMB No. 7100–0341), and Banking Organization Systemic Risk Report (FR Y–15; OMB No. 7100–0352). These changes to the FFIEC forms and/or instructions as well as the Board forms and/or instructions would be addressed in separate **Federal Register** notices.

B. Regulatory Flexibility Act

OCC: The Regulatory Flexibility Act, 5 U.S.C. 601 *et seq.,* (RFA), requires an agency, in connection with a proposed rule, to prepare an Initial Regulatory Flexibility Analysis describing the impact of the rule on small entities (defined by the Small Business Administration (SBA) for purposes of the RFA to include commercial banks and savings institutions with total assets of $550 million or less and trust companies with total revenue of $38.5 million or less) or to certify that the proposed rule would not have a significant economic impact on a substantial number of small entities. As of December 31, 2016, the OCC supervised 956 small entities. The rule would apply to all OCC-supervised entities that are not subject to the advanced approaches risk-based capital rules, and thus potentially affects a substantial number of small entities. To determine whether a proposed rule would have a significant effect on those small entities, the OCC considers whether the economic impact associated with the proposed rule is greater than or equal to either 5 percent of a small entity's total annual salaries and benefits or 2.5 percent of a small entity's total non-interest expense. The OCC estimates the proposed rule would not generate any costs for affected small entities. The proposed rule may generate a benefit for those small entities that elect the transition of approximately $13,000 per electing small entity supervised by the OCC. This estimate is based on the potential savings to small entities from not needing to raise additional capital related to CECL implementation due to the proposed regulatory capital transition. The estimated benefit is not significant in relation to the measures described above. Therefore, the OCC certifies that the proposed rule would not have a significant economic impact on a substantial number of OCC-supervised small entities.

Board: The RFA requires an agency to consider whether the rules it proposes will have a significant economic impact on a substantial number of small entities.[23] In connection with a proposed rule, the RFA requires an agency to prepare an initial regulatory flexibility analysis describing the impact of the rule on small entities or to certify that the proposed rule would not have a significant economic impact on a substantial number of small entities. An initial regulatory flexibility analysis must contain (1) a description of the reasons why action by the agency is being considered; (2) a succinct statement of the objectives of, and legal basis for, the proposed rule; (3) a description of, and, where feasible, an estimate of the number of small entities to which the proposed rule will apply; (4) a description of the projected reporting, recordkeeping, and other compliance requirements of the proposed rule, including an estimate of the classes of small entities that will be subject to the requirement and the type of professional skills necessary for preparation of the report or record; (5) an identification, to the extent practicable, of all relevant Federal rules which may duplicate, overlap with, or conflict with the proposed rule; and (6) a description of any significant alternatives to the proposed rule which accomplish its stated objectives.

The Board has considered the potential impact of the proposed rule on small entities in accordance with the RFA. Based on its analysis and for the reasons stated below, the Board believes that this proposed rule will not have a significant economic impact on a substantial number of small entities. Nevertheless, the Board is publishing and inviting comment on this initial regulatory flexibility analysis. A final regulatory flexibility analysis will be conducted after comments received during the public comment period have been considered.

As discussed in detail above, the agencies are proposing to identify which credit loss allowances under GAAP (ASU No. 2016–13) are eligible for inclusion in regulatory capital and to provide banking organization the option to phase in, over a three-year period, the effect on regulatory capital that may result from adoption of this accounting standard (ASU No. 2016–13). The proposal also would make conforming amendments to other regulations.

The Board has authority under the International Lending Supervision Act (ILSA)[24] and the PCA provisions of the Federal Deposit Insurance Act[25] to establish regulatory capital requirements for the institutions it regulates. For example, ILSA directs each Federal banking agency to cause banking institutions to achieve and maintain adequate capital by establishing minimum capital requirements as well as by other means that the agency deems appropriate.[26] The PCA provisions of the Federal Deposit Insurance Act direct each Federal banking agency to specify, for each relevant capital measure, the level at which an insured depository institution is well capitalized, adequately capitalized, undercapitalized, and significantly undercapitalized.[27] In addition, the Board has authority to establish regulatory capital standards for bank holding companies under ILSA[28] and the Bank Holding Company Act[29] and for savings and loan holding companies under the Home Owners Loan Act.[30]

All banking organizations will be required to adopt ASU No. 2016–13, which will likely result in an increase in credit loss allowances. An increase in a banking organization's credit loss allowances will reduce the firm's retained earnings and therefore its CET1 capital. The proposed rule would identify those credit loss allowances under ASU No. 2016–13 that would be eligible for inclusion in regulatory capital. Further, the proposed rule would introduce a three-year transition period, which would allow a banking organization to phase in the immediate impact of adoption of ASU No. 2016–13. During the transition period, a banking organization that elects to use the phase-in would report higher capital than it otherwise would under the current capital rules.

The proposed rule also would make conforming amendments to certain of the Board's other regulations. In particular, certain other regulations of the Board include a definition of ''capital stock and surplus,'' which reflect the current practice of banking organizations establishing ALLL to cover estimated credit losses on loans, lease financing receivables, or other extensions of credit. The proposed rule would allow banking organizations that are subject to these regulations to also include in the definition of ''capital stock and surplus'' those credit loss allowances under ASU No. 2016–13 that would be eligible for inclusion in regulatory capital. Most aspects of the proposed rule would apply to all state member banks, as well as generally all bank holding companies and savings and loan holding companies that are subject to the Board's capital rule. However, in virtually all cases, the Board's capital rule only applies to bank holding companies and savings and loan holding companies with greater than $1 billion in total assets. Thus, virtually all bank holding companies that would be subject to the proposed rule do not qualify as small banking organizations. With respect to state member banks that do qualify as small banking organizations, the proposed revision to the Board's capital rule would should have an economic benefit as they will be able to include additional credit loss allowances into regulatory capital than they otherwise would under the current capital rules. Therefore, the Board estimates the proposed rule would not generate any costs for affected small entities.

The proposed rule would not impact the recordkeeping and reporting requirements to which affected small banking organizations are currently subject. The agencies anticipate updating the relevant reporting forms at a later date.

The Board does not believe that the proposed rule duplicates, overlaps, or conflicts with any other Federal rules. In light of the foregoing, the Board does not believe that the proposed rule, if adopted in final form, would have a significant economic impact on a substantial number of small entities and therefore believes that there are no significant alternatives to the proposed rule that would reduce the economic impact on small banking organizations supervised by the Board. Nonetheless, the Board seeks comment on whether the proposed rule would impose undue burdens on, or have unintended consequences for, small organizations, and whether there are ways such potential burdens or consequences could be minimized in a manner consistent with the purpose of the proposed rule. A final regulatory flexibility analysis will be conducted after consideration of comments received during the public comment period.

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

[24] 12 U.S.C. 3901–3911.

[25] 12 U.S.C. 1831*o*.

[26] 12 U.S.C. 3907(a)(1).

[27] 12 U.S.C. 1831*o*(c)(2).

[28] *See* 12 U.S.C. 3907.

[29] *See* 12 U.S.C. 1844.

[30] *See* 12 U.S.C. 1467a(g)(1).

FDIC: Statement of the Regulatory Flexibility Act Requirements

The RFA generally requires that, in connection with a notice of proposed rulemaking, an agency prepare and make available for public comment an initial regulatory flexibility analysis describing the impact of the proposed rule on small entities.[31] A regulatory flexibility analysis is not required, however, if the agency certifies that the rule will not have a significant economic effect on a substantial number of small entities. The SBA has defined ''small entities'' to include banking organizations with total assets less than or equal to $550 million.[32]

Description of Need and Policy Objectives

In June 2016, the FASB issued ASU No. 2016–13, which revises the accounting for credit losses under U.S. GAAP. CECL differs from the incurred loss methodology currently implemented by institutions in several key respects. CECL requires banking organizations to recognize lifetime expected credit losses for financial assets measured at amortized cost, not just those credit losses that are probable of having been incurred as of the reporting date. In addition to maintaining the current requirement for banking organizations to consider past events and current conditions, CECL requires the incorporation of reasonable and supportable forecasts in developing an estimate of lifetime expected credit losses.

Upon adoption of CECL, a banking organization will record a one-time adjustment to its allowance for credit losses as of the beginning of its fiscal year of adoption equal to the difference, if any, between the amount of credit loss allowances required under the incurred loss methodology and the amount of credit loss allowances required under the CECL methodology. Changes to retained earnings, DTAs, and ALLL affect a banking organization's calculation of regulatory capital.[33] To address changes made in U.S. GAAP following the FASB's issuance of ASU No. 2106–13, the FDIC is proposing to amend its capital rule [34] to give banking organizations the option to phase in the immediate, potentially adverse effects of CECL adoption over a three-year period.

Description of the Proposal

A description of the proposal is presented Section II: Description of the Proposed Rule. Please refer to it for further information.

Other Federal Rules

The FDIC has not identified any likely duplication, overlap, and/or potential conflict between the proposed rule and any federal rule.

Economic Impacts on Small Entities

The proposed rule could affect all FDIC-supervised small entities. The FDIC supervises 3,637 depository institutions, of which 2,924 are defined as small banking entities by the terms of the RFA.[35] However, the number of small entities that elect to utilize the proposed three-year transition schedule is difficult to estimate. Utilization will depend on an institution's business model, the preferences of senior management or ownership, the assets held by the institution and reasonable expectation of future macroeconomic conditions, among other things.

The proposal, if implemented, would benefit small institutions who adopt the proposed three-year transition schedule by allowing them to phase-in any increases in capital associated with the implementation of CECL over that time. The three year transition schedule would reduce the costs associated with potential increases in capital relative to the immediate impact of CECL adoption by allowing institutions to raise capital levels gradually, over-time. It is difficult to accurately estimate the potential benefit for small institutions with available data because it depends on the assets held by small institutions, their provision activity, future economic conditions, and the decisions of senior management, among other things.

The proposal would pose some small regulatory costs for institutions that opt to utilize the three-year transition schedule. Changes in disclosure requirements for capital rules would result in an estimated increase of 48 hours on average hours per response per agency for the initial setup burden, as well as an estimated increase of 6 hours per response per agency for ongoing (quarterly) burden. Additionally, small entities that are subsidiaries of large complex institutions may have additional regulatory costs associated with changes in disclosure requirements. However, those costs are also likely to be small. Further, the small regulatory costs associated with implementing proposed three-year transition schedule will be demonstrably less than the benefits posed by utilizing the schedule for those institutions that opt to utilize it.

Therefore, the FDIC does not believe that the proposed rule would have a significant economic impact on a substantial number of small entities.

Alternatives Considered

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

Solicitation of Comments

The FDIC invites comments on all aspects of the supporting information provided in this RFA section. Particularly, the FDIC invites comments on the effects the proposed rule will have on capital for institutions and the magnitude of those effects.

C. Plain Language

Section 722 of the Gramm-Leach-Bliley Act requires the federal banking agencies to use plain language in all proposed and final rules published after January 1, 2000. The agencies have sought to present the proposed rule in a simple and straightforward manner, and invite comment on the use of plain language. For example:

- Have the agencies organized the material to suit your needs? If not, how could they present the proposed rule more clearly?
- Are the requirements in the proposed rule clearly stated? If not, how could the proposed rule be more clearly stated?
- Do the regulations contain technical 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 would achieve that?

[31] 5 U.S.C. 601 *et seq.*

[32] 13 CFR 121.201 (as amended, effective December 2, 2014).

[33] 12 CFR 3.20 (OCC); 12 CFR 217.20 (Board); 12 CFR 324.20 (FDIC).

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

[35] FDIC Call Report data as of December 31, 2017.

• Would more, but shorter, sections be better? If so, which sections should be changed?''

• What other changes can the agencies incorporate to make the regulation easier to understand?

D. OCC Unfunded Mandates Reform Act of 1995

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

E. Riegle Community Development and Regulatory Improvement Act of 1994

The Riegle Community Development and Regulatory Improvement Act of 1994 (RCDRIA) requires that each federal banking agency, in determining the effective date and administrative compliance requirements for new regulations that impose additional reporting, disclosure, or other requirements on insured depository institutions, consider, consistent with principles of safety and soundness and the public interest, any administrative burdens that such regulations would place on depository institutions, including small depository institutions, and customers of depository institutions, as well as the benefits of such regulations. In addition, new regulations and amendments to regulations that impose additional reporting, disclosures, or other new requirements on insured depository institutions generally must 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.[36]

The agencies note that comment on these matters has been solicited in other sections of this Supplementary Information section, and that the requirements of RCDRIA will be considered as part of the overall rulemaking process. In addition, the agencies also invite any other comments that further will inform the agencies' consideration of RCDRIA.

[36] 12 U.S.C. 4802.

List of Subjects

12 CFR Part 1

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

12 CFR Part 3

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

12 CFR Part 5

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

12 CFR Part 23

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

12 CFR Part 24

Affordable housing, Community development, Credit, Investments, Economic development and job creation, Low- and moderate-income areas, Low- and moderate-income housing, National banks, Public welfare investments, Reporting and recordkeeping requirements, Rural areas, Small businesses, Tax credit investments.

12 CFR Part 32

National banks, Reporting and recordkeeping requirements.

12 CFR Part 34

Appraisal, Appraiser, Banks, banking, Consumer protection, Credit, Mortgages, National banks, Reporting and recordkeeping requirements, Savings associations, Truth in lending.

12 CFR Part 46

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

12 CFR Part 208

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

12 CFR Part 211

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

12 CFR Part 215

Credit, Penalties, Reporting and recordkeeping requirements.

12 CFR Part 217

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

12 CFR Part 223

Banks, Banking, Federal Reserve System.

12 CFR Part 225

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

12 CFR Part 252

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

12 CFR Part 324

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

12 CFR Part 325

Banks, banking, Reporting and recordkeeping requirements.

12 CFR Part 327

Bank deposit insurance, Banks, banking, Savings associations.

12 CFR Part 347

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

12 CFR Part 390

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

Office of the Comptroller of the Currency

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

PART 1—INVESTMENT SECURITIES

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

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

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

§ 1.2 Definitions.

(a) * * *

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

* * * * *

PART 3—CAPITAL ADEQUACY STANDARDS

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

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

■ 4. Section 3.2 is amended by:

■ a. Adding the definitions of *Allowance for credit losses (ACL)* in alphabetical order;

■ b. Revising the definition of *Carrying value;*

■ c. Adding the definition of *Current expected credit losses (CECL)* in alphabetical order; and

■ d. Revising the definition of *Eligible credit reserves* and paragraph (2) of the definition of *Standardized total risk-weighted assets.*

The revisions and additions read as follows:

§ 3.2 Definitions.

* * * * *

Allowance for credit losses (ACL) means, with respect to a national bank or Federal savings association that has adopted CECL, valuation allowances that have been established through a charge against earnings or retained earnings for expected credit losses on financial assets measured at amortized cost and a lessor's net investment in leases that have been established to reduce the amortized cost basis of the assets to amounts expected to be collected as determined in accordance with GAAP. For purposes of this part, allowance for credit losses includes allowances for expected credit losses on off-balance sheet credit exposures not accounted for as insurance as determined in accordance with GAAP. Allowance for credit losses excludes ''allocated transfer risk reserves'' and allowances created that reflect credit losses on purchased credit-deteriorated assets and available-for-sale debt securities.

* * * * *

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

* * * * *

Current expected credit losses (CECL) means the current expected credit losses methodology under GAAP.

* * * * *

Eligible credit reserves means:

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

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

* * * * *

Standardized total risk-weighted assets * * *

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

* * * * *

§ 3.10 [Amended]

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

§§ 3.20, 3.22, and 3.124 [Amended]

■ 6. Sections 3.20, 3.22, and 3.124 are amended by removing ''ALLL'' everywhere it appears and adding in its place ''ALLL or ACL, as applicable,'', except the second occurrence in § 3.20(d)(3) where ''ALLL or ACL, as applicable'' is added in its place.

§ 3.63 [Amended]

■ 7. Section 3.63 is amended in Table 5 by removing ''allowance for loan and lease losses,'' and ''allowance for loan and lease losses'' and adding in their place ''allowance for loan and lease losses or allowance for credit losses, as applicable,'' and removing ''ALLL'' and adding in its place ''ALLL or ACL, as applicable''.

§ 3.173 [Amended]

■ 8. Section 3.173 is amended:

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

■ b. In Table 3, by revising paragraph (e), redesignating paragraph (f) as paragraph (g), and adding a new paragraph (f); and

■ c. In Table 5, by:

■ i. Removing ''allowance for loan and lease losses,'' and ''allowance for loan and lease losses'' and adding in their place ''allowance for loan and lease losses or allowance for credit losses, as applicable,''; and

■ ii. Revising paragraph (g).

The additions and revisions read as follows:

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

* * * * *

TABLE 2 TO § 3.173—CAPITAL STRUCTURE

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

TABLE 3 TO § 3.173—CAPITAL ADEQUACY

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

* * * * *

TABLE 5[1] TO § 3.173—CREDIT RISK: GENERAL DISCLOSURES

* * *	* * * *
(g)	Reconciliation of changes in ALLL or ACL, as applicable.[6]
* * *	* * * *

[1] Table 5 to § 3.173 does not cover equity exposures, which should be reported in Table 9.

* * * * * * *

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

* * * * *

■ 9. Section 3.301 is added to read as follows:

§ 3.301 Current expected credit losses (CECL) transition.

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

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

(3) A national bank or Federal savings association that does not elect to use the CECL transition provision as of the first Call Report 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 (twelve quarters) beginning the first day of the fiscal year in which a national bank or Federal savings association adopts CECL.

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

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

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

(5) *Eligible credit reserves transitional amount* means the increase in the amount of a national bank's or Federal savings association's eligible credit reserves as of the beginning of the fiscal year in which the national bank or Federal savings association adopts CECL

from the amount of the national bank's or Federal savings association's eligible credit reserves as of the closing of the fiscal year-end immediately prior to the national bank's or Federal savings association's adoption of CECL.

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

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

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

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

(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 twenty-five percent of its CECL transitional amount during the third year of the transition period.

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

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

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

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

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

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

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

PART 5—RULES, POLICIES, AND PROCEDURES FOR CORPORATE ACTIVITIES

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

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

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

§ 5.3 Definitions.

* * * * *

(e) * * *

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

* * * * *

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

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

* * * * *

(c) * * *

(3) * * *

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

* * * * *

PART 23—LEASING

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

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

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

§ 23.2 Definitions.

* * * * *

(b) * * *

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

* * * * *

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

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

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

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

§ 24.2 Definitions.

* * * * *

(b) * * *

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

* * * * *

PART 32—LENDING LIMITS

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

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

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

§ 32.2 Definitions.

* * * * *

(c) * * *

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

* * * * *

PART 34—REAL ESTATE LENDING AND APPRAISALS

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

Authority: 12 U.S.C. 1 *et seq.,* 25b, 29, 93a, 371, 1462a, 1463, 1464, 1465, 1701j–3, 1828(o), 3331 *et seq.,* 5101 *et seq.,* and 5412(b)(2)(B) and 15 U.S.C. 1639h.

■ 20. Section 34.81 is amended by revising paragraph (a)(2) to read as follows:

§ 34.81 Definitions.

(a) * * *

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

* * * * *

PART 46—ANNUAL STRESS TEST

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

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

§ 46.8 [Amended]

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

Board of Governors of the Federal Reserve System

12 CFR Chapter II

Authority and Issuance

For the reasons set forth in the preamble, chapter II of title 12 of the Code of Federal Regulations is proposed to be amended as follows:

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

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

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

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

§ 208.2 Definitions.

* * * * *

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

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

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

* * * * *

PART 211—INTERNATIONAL BANKING OPERATIONS (REGULATION K)

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

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

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

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

§ 211.2 Definitions.

* * * * *

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

(1) For organizations subject to 12 CFR part 217 (Regulation Q):

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

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

* * * * *

Subpart D—International Lending Supervision

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

§ 211.43 Allocated transfer risk reserve.

* * * * *

(c) * * *

(4) *Alternative accounting treatment.* A banking institution is not required to establish an ATRR if it writes down in the period in which the ATRR is required, or has written down in prior periods, the value of the specified international assets in the requisite amount for each such asset. For purposes of this paragraph (c)(4), international assets may be written down by a charge to the Allowance for Loan and Lease Losses or the allowance for credit losses, as applicable, to the

extent permitted under U.S. generally accepted accounting principles, or a reduction in the principal amount of the asset by application of interest payments or other collections on the asset. However, the Allowance for Loan and Lease Losses or allowance for credit losses, as applicable, must be replenished in such amount necessary to restore it to a level which adequately provides for the estimated losses inherent in the banking institution's loan portfolio.

* * * * *

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

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

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

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

§ 215.2 Definitions.

* * * * *

(i) * * *

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

* * * * *

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

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

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

■ 31. In § 217.2:

■ a. Add the definition of *Allowance for credit losses (ACL)* in alphabetical order;

■ b. Revise the definition of *Carrying value;*

■ c. Add the definition of *Current expected credit losses (CECL)* in alphabetical order; and

■ d. Revise the definition of *Eligible credit reserves* and paragraph (2) of the definition of *Standardized total risk-weighted assets.*

The additions and revisions read as follows:

§ 217.2 Definitions.

* * * * *

Allowance for credit losses (ACL) means, with respect to a Board-regulated institution that has adopted CECL, valuation allowances that have been established through a charge against earnings or retained earnings for expected credit losses on financial assets measured at amortized cost and a lessor's net investment in leases that have been established to reduce the amortized cost basis of the assets to amounts expected to be collected as determined in accordance with GAAP. For purposes of this part, allowance for credit losses includes allowances for expected credit losses on off-balance sheet credit exposures not accounted for as insurance as determined in accordance with GAAP. Allowance for credit losses excludes ''allocated transfer risk reserves'' and allowances created that reflect credit losses on purchased credit-deteriorated assets and available-for-sale debt securities.

* * * * *

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

* * * * *

Current expected credit losses (CECL) means the current expected credit losses methodology under GAAP.

* * * * *

Eligible credit reserves means:

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

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

* * * * *

Standardized total risk-weighted assets * * *

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

* * * * *

§ 217.10 [Amended]

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

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

■ 33. In §§ 217.20, 217.22, and 217.124, remove ''ALLL'' everywhere it appears and add in its place ''ALLL or ACL, as applicable,''.

§ 217.63 [Amended]

■ 34. In Table 5 to § 217.63, remove ''allowance for loan and lease losses,'' and ''allowance for loan and lease losses'' and add in their place ''allowance for loan and lease losses or allowance for credit losses, as applicable,'' and remove ''ALLL'' and add in its place ''ALLL or ACL, as applicable''.

■ 35. Amend § 217.173 as follows:

■ a. In Table 2, add paragraph (e);

■ b. In Table 3, revise paragraph (e), redesignate paragraph (f) as paragraph (g), and add a new paragraph (f); and

■ c. In Table 5, revise paragraphs (a), (e), and (g).

The additions and revisions read as follows:

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

* * * * *

TABLE 2 TO § 217.173—CAPITAL STRUCTURE

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

TABLE 3 TO § 217.173—CAPITAL ADEQUACY

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

* * * * *

TABLE 5 [1] TO § 217.173—CREDIT RISK: GENERAL DISCLOSURES

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

[1] Table 5 to § 217.173 does not cover equity exposures, which should be reported in Table 9.

* * * * * * *

[4] A Board-regulated institution is encouraged also to provide an analysis of the aging of past-due loans.

* * * * * * *

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

* * * * *

■ 36. Add § 217.301 to read as follows:

§ 217.301 Current expected credit losses (CECL) transition.

(a) *CECL transition provision*—(1) A Board-regulated institution may elect to use a CECL transition provision pursuant to this section only if the Board-regulated institution records a reduction in retained earnings due to the adoption of CECL as of the beginning of the fiscal year in which the

Board-regulated institution adopts CECL.

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

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

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

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

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

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

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

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

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

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

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

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

(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 twenty-five percent of its CECL transitional amount during the third year of the transition period.

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

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

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

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

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

(i) 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.

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

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

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

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

Subpart A—Introduction and Definitions

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

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

* * * * *

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

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

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

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

* * * * *

PART 225—BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL (REGULATION Y)

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

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

■ 40. In § 225.127:

■ a. Remove ''225.25(b)(6)'' everywhere it appears and add in its place ''225.28(b)(12)'' and remove ''§ 225.23'' everywhere it appears and add in its place ''§ 225.23 or § 225.24''; and

■ b. Revise paragraph (h).

The revision reads as follows:

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

* * * * *

(h) For purposes of paragraph (f) of this section, five percent of the total consolidated capital stock and surplus of a bank holding company includes its total investment in projects described in paragraph (f) of this section, when aggregated with similar types of investments made by depository institutions controlled by the bank holding company. The term total consolidated capital stock and surplus of the bank holding company means total equity capital and the allowance for loan and lease losses or allowance for credit losses, as applicable, based on the bank holding company's most recent FR Y–9C (Consolidated Financial Statements for Holding Companies) or FR Y–9SP (Parent Company Only Financial Statements for Small Holding Companies).

PART 252—ENHANCED PRUDENTIAL STANDARDS (REGULATION YY)

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

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

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

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

§ 252.12 Definitions.

* * * * *

(m) *Provision for credit losses* means:

(1) Until December 31, 2019:

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

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

(2) Beginning January 1, 2020:

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

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

* * * * *

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

§ 252.15 Methodologies and practices.

(a) * * *

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

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

* * * * *

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

§ 252.16 Reports of stress test results.

* * * * *

(b) * * *

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

* * * * *

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

§ 252.17 Disclosure of stress test results.

* * * * *

(b) * * *

(1) * * *

(iii) * * *

(C) Provision for credit losses;

* * * * *

(3) * * *

(iii) * * *

(C) Provision for credit losses;

* * * * *

(c) * * *

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

* * * * *

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

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

§ 252.42 Definitions.

* * * * *

(l) *Provision for credit losses* means:

(1) Until December 31, 2019:

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

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

(2) Beginning January 1, 2020:

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

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

* * * * *

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

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

* * * * *

(b) * * *

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

* * * * *

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

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

§ 252.52 Definitions.

* * * * *

(m) *Provision for credit losses* means:

(1) Until December 31, 2019:

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

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

(2) Beginning January 1, 2020:

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

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

* * * * *

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

§ 252.56 Methodologies and practices.

(a) * * *

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

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

* * * * *

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

§ 252.58 Disclosure of stress test results.

* * * * *

(b) * * *

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

(3) * * *

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

* * * * *

(c) * * *

(1) * * *

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

* * * * *

Federal Deposit Insurance Corporation

12 CFR Chapter III

Authority and Issuance

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

PART 324—CAPITAL ADEQUACY OF FDIC-SUPERVISED INSTITUTIONS

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

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

■ 52. Section 324.2 is amended by:

■ a. Adding the definition of *Allowance for credit losses (ACL)* in alphabetical order;

■ b. Revising the definitions of *Carrying value;*

■ c. Adding the definition of *Current expected credit losses (CECL)* in alphabetical order; and

■ d. Revising the definitions of *Eligible credit reserves* and *Identified losses* and paragraph (2) of the definition of *Standardized total risk-weighted assets.*

The additions and revisions read as follows:

§ 324.2 Definitions.

* * * * *

Allowance for credit losses (ACL) means, with respect to an FDIC-supervised institution that has adopted CECL, valuation allowances that have been established through a charge against earnings or retained earnings for expected credit losses on financial assets measured at amortized cost and a lessor's net investment in leases that have been established to reduce the amortized cost basis of the assets to amounts expected to be collected as determined in accordance with GAAP. For purposes of this part, allowance for credit losses includes allowances for expected credit losses on off-balance sheet credit exposures not accounted for as insurance as determined in accordance with GAAP. Allowance for credit losses excludes ''allocated transfer risk reserves'' and allowances created that reflect credit losses on purchased credit-deteriorated assets and available-for-sale debt securities.

* * * * *

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

* * * * *

Current expected credit losses (CECL) means the current expected credit losses methodology under GAAP.

* * * * *

Eligible credit reserves means:

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

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

* * * * *

Identified losses means:

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

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

(i) That have been determined—

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

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

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

* * * * *

Standardized total risk-weighted assets * * *

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

* * * * *

§ 324.10 [Amended]

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

§§ 324.20, 324.22, and 324.124 [Amended]

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

§ 324.63 [Amended]

■ 55. Table 5 to § 324.63 is amended by removing ''allowance for loan and lease losses,'' and ''allowance for loan and lease losses'' and adding in their place ''allowance for loan and lease losses or allowance for credit losses, as applicable,'' and removing ''ALLL'' and adding in its place ''ALLL or ACL, as applicable''.

■ 56. Section 324.173 is amended:

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

■ b. In Table 3, by revising paragraph (e), redesignating paragraph (f) as paragraph (g), and adding a new paragraph (f); and

■ c. In Table 5, by revising paragraphs (a), (e), and (g).

The additions and revisions read as follows:

§ 324.173 Disclosures by certain advanced approaches FDIC-supervised institutions.

* * * * *

TABLE 2 TO § 324.173—CAPITAL STRUCTURE

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

TABLE 3 TO § 324.173—CAPITAL ADEQUACY

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

* * * * *

TABLE 5[1] TO § 324.173—CREDIT RISK: GENERAL DISCLOSURES

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

[1] Table 5 to § 324.173 does not cover equity exposures, which should be reported in Table 9 to § 324.173.

* * * * * * *

[4] An FDIC-supervised institution is encouraged also to provide an analysis of the aging of past-due loans.

* * * * * * *

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

* * * * *

■ 57. Add § 324.301 to read as follows:

§ 324.301 Current expected credit losses (CECL) transition.

(a) *CECL transition provision*—(1) An FDIC-supervised institution may elect to use a CECL transition provision pursuant to this section only if the FDIC-supervised institution records a reduction in retained earnings due to the adoption of CECL as of the beginning of the fiscal year in which the

FDIC-supervised institution adopts CECL.

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

(3) An FDIC-supervised institution that does not elect to use the CECL transition provision as of the first Call Report 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 (twelve quarters) beginning the first day of the fiscal year in which an FDIC-supervised institution adopts CECL.

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

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

(4) *ACL transitional amount* means the difference in the amount of an FDIC-supervised institution's ACL as of the beginning of the fiscal year in which the FDIC-supervised institution adopts CECL and the amount of the FDIC-supervised institution's ALLL as of the closing of the fiscal year-end immediately prior to the FDIC-supervised institution's adoption of CECL.

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

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

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

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

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

(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 twenty-five percent of its CECL transitional amount during the third year of the transition period.

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

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

(ii) An advanced approaches FDIC-supervised institution that has completed the parallel run process and has received notification from the FDIC pursuant to § 324.121(d) must decrease amounts of eligible credit reserves by seventy-five percent of its eligible credit reserves transitional amount during the first year of the transition period, decrease amounts of eligible credit reserves by fifty percent of its eligible credit reserves transitional amount during the second year of the transition provision, and decrease amounts of eligible credit reserves by twenty-five percent of its eligible credit reserves transitional amount during the third year of the transition period.

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

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

(i) 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.

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

PART 325—ANNUAL STRESS TEST

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

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

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

§ 325.2 Definitions.

* * * * *

(g) *Provision for credit losses* means:

(1) Until December 31, 2019:

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

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

(2) Beginning January 1, 2020:

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

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

* * * * *

■ 60. Section 325.5(a)(1) and (2) are revised to read as follows:

§ 325.5 Methodologies and practices.

(a) * * *

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

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

* * * * *

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

§ 325.6 Required reports of stress test results to the FDIC and the Board of Governors of the Federal Reserve System.

* * * * *

(b) * * *

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

* * * * *

■ 62. Section 325.7 is amended by revising paragraphs (c)(3) and (d)(1) to read as follows:

§ 325.7 Publication of stress test results.

* * * * *

(c) * * *

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

* * * * *

(d) * * *

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

* * * * *

PART 327—ASSESSMENTS

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

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

Subpart A—In General

§ 327.16 [Amended]

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

PART 347—INTERNATIONAL BANKING

■ 65. The authority citation for part 347 continues to read as follows:

Authority: 12 U.S.C. 1813, 1815, 1817, 1819, 1820, 1828, 3103, 3104, 3105, 3108, 3109; Pub L. 111–203, section 939A, 124 Stat. 1376, 1887 (July 21, 2010) (codified 15 U.S.C. 78o–7 note).

Subpart C—International Lending

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

§ 347.303 Allocated transfer risk reserve.

* * * * *

(c) * * *

(2) *Separate accounting.* A banking institution shall account for an ATRR separately from the Allowance for Loan and Lease Losses or allowance for credit losses, as applicable, and shall deduct the ATRR from ''gross loans and leases'' to arrive at ''net loans and lease.'' The ATRR must be established for each asset subject to the ATRR in the percentage amount specified.

* * * * *

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

inherent in the banking institution's loan and lease portfolio.

* * * * *

PART 390—REGULATIONS TRANSFERRED FROM THE OFFICE OF THRIFT SUPERVISION

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

Authority: 12 U.S.C. 1819.

Subpart T—Accounting Requirements

§ 390.384 [Amended]

■ 68. In the appendix to § 390.384, remove ''provision for loan losses'' everywhere it appears and add in its place ''provision for loan losses or provision for credit losses, as applicable''.

Dated: April 17, 2018.

Joseph M. Otting,

Comptroller of the Currency.

By order of the Board of Governors of the Federal Reserve System, April 16, 2018.

Ann E. Misback,

Secretary of the Board.

Dated at Washington, DC this 17th day of April, 2018.

By order of the Board of Directors.

Federal Deposit Insurance Corporation.

Valerie Best,

Assistant Executive Secretary.

[FR Doc. 2018–08999 Filed 5–11–18; 8:45 am]

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